UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2006

OR

o **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 ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ☒ 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 February 22, 2006**
Common Stock, par value $0.50 per share	25,169,482

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2006	October 31, 2005
	(In thousands except share data)	
ASSETS		
Current assets:		
Cash and equivalents	$ 54,762	$ 49,681
Accounts and notes receivable, net of allowance of $4,342 and $7,609	153,465	152,072
Inventories	149,298	133,003
Deferred income taxes	11,467	12,864
Other current assets	8,388	4,669
Current assets of discontinued operations	—	5,504
Total current assets	377,380	357,793
Property, plant and equipment, net	429,730	423,942
Goodwill	196,348	196,341
Cash surrender value insurance policies, net	24,647	24,927
Intangible assets, net	80,591	82,360
Other assets	8,290	9,002
Assets of discontinued operations	—	5,846
Total assets	$ 1,116,986	$ 1,100,211
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 141,624	$ 129,152
Accrued liabilities	58,550	73,616
Income taxes payable	25,122	14,465
Current maturities of long-term debt	2,440	2,459
Current liabilities of discontinued operations	—	4,208
Total current liabilities	227,736	223,900
Long-term debt	133,450	133,462
Deferred pension credits	7,410	8,158
Deferred postretirement welfare benefits	7,560	7,519
Deferred income taxes	59,104	58,836
Non-current environmental reserves	6,046	6,732
Other liabilities	2,639	2,742
Liabilities of discontinued operations	—	2,120
Total liabilities	443,945	443,469
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	—	—
Common stock, $0.50 par value, shares authorized 50,000,000; issued 25,547,781 and 25,465,466	12,768	12,727
Additional paid-in-capital	209,604	204,698
Retained earnings	473,357	445,670
Unearned compensation	(2,176)	(1,388)
Accumulated other comprehensive loss	(3,176)	(3,217)
	690,377	658,490
Less treasury stock, at cost, 308,588 and 0 shares	(15,588)	—
Less common stock held by Rabbi Trust, 86,886 shares	(1,748)	(1,748)
Total stockholders' equity	673,041	656,742
Total liabilities and stockholders' equity	$ 1,116,986	$ 1,100,211

The accompanying notes are an integral part of the financial statements.

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended January 31,

	2006	2005
	(In thousands, except per share amounts)	
Net sales	$ 444,569	$ 465,202
Cost and expenses:		
Cost of sales	352,084	368,004
Selling, general and administrative expense	20,873	22,810
Depreciation and amortization	17,388	14,943
Operating income	54,224	59,445
Interest expense	(1,240)	(2,352)
Other, net	111	(1,917)
Income from continuing operations before income taxes	53,095	55,176
Income tax expense	(19,645)	(21,245)
Income from continuing operations	33,450	33,931
Income (loss) from discontinued operations, net of taxes	(425)	(5,696)
Net income	$ 33,025	$ 28,235
Basic earnings per common share:		
Earnings from continuing operations	$ 1.33	$ 1.36
Income (loss) from discontinued operations	$ (0.02)	$ (0.23)
Basic earnings per share	$ 1.31	$ 1.13
Diluted earnings per common share:		
Earnings from continuing operations	$ 1.27	$ 1.32
Income (loss) from discontinued operations	$ (0.02)	$ (0.22)
Diluted earnings per share	$ 1.25	$ 1.10
Weighted-average common shares outstanding:		
Basic	25,244	24,984
Diluted	26,710	25,770
Cash dividends per share	$ 0.1550	$ 0.1350

The accompanying notes are an integral part of the financial statements.

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Operating activities:		
Net income	$ 33,025	$ 28,235
Loss (income) from discontinued operations	425	5,696
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	17,554	15,089
Deferred income taxes	1,950	—
Deferred pension and postretirement benefits	(708)	(2,131)
Stock-based compensation	886	208
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
(Increase) decrease in accounts and notes receivable	(1,385)	(10,052)
(Increase) decrease in inventory	(16,279)	(17,851)
Increase (decrease) in accounts payable	12,471	(12,411)
Increase (decrease) in accrued liabilities	(15,076)	(7,860)
Increase (decrease) in income taxes payable	10,362	12,273
Other, net	(3,677)	(797)
Cash provided by (used for) operating activities from continuing operations	39,548	10,399
Cash provided by (used for) operating activities from discontinued operations	(761)	16
Cash provided by operating activities	38,787	10,415
Investing activities:		
Acquisitions, net of cash acquired	—	(197,376)
Proceeds from sale of discontinued operations	5,432	11,592
Capital expenditures, net of retirements	(21,405)	(8,734)
Other, net	—	(352)
Cash used for investing activities from continuing operations	(15,973)	(194,870)
Cash used for investing activities from discontinued operations	(14)	(262)
Cash used for investing activities	(15,987)	(195,132)
Financing activities:		

Bank borrowings (repayments), net	(30)	170,077
Common stock dividends paid	(3,964)	(3,473)
Issuance of common stock, net	4,217	4,438
Purchase of treasury stock	(17,906)	—
Other, net	—	166
Cash provided by (used for) financing activities from continuing operations	(17,683)	171,208
Cash used for financing activities from discontinued operations	(56)	(53)
Cash provided by (used for) financing activities	(17,739)	171,155
Effect of exchange rate changes on cash equivalents	20	10
Increase (decrease) in cash and equivalents	5,081	(13,552)
Cash and equivalents at beginning of period	49,681	41,743
Cash and equivalents at end of period	$ 54,762	$ 28,191
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 1,852	$ 2,457
Cash paid during the period for income taxes	$ 5,921	$ 3,955
Cash received during the period for income tax refunds	$ —	$ 31

The accompanying notes are an integral part of the financial statements.

QUANEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The interim unaudited consolidated financial statements of Quanex Corporation and its subsidiaries ("Quanex" or the "Company") include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X.

In January 2006, the Company sold Temroc Metals, Inc. (Temroc). In the first quarter of 2005, the Company sold its Piper Impact business and in the fourth quarter of 2004, sold its Nichols Aluminum – Golden business. Accordingly, the assets and liabilities of Temroc, Piper Impact and Nichols Aluminum – Golden are reported as discontinued operations in the Consolidated Balance Sheets presented, and their operating results are reported as discontinued operations in the Consolidated Statements of Income and Consolidated Statements of Cash Flows (see Note 14).

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition and the Consolidated Financial Statements and notes thereto included in the Quanex Corporation Form 10-K filed with the U.S. Securities and Exchange Commission for the year ended October 31, 2005.

2. New Accounting Pronouncements

Stock–Based Compensation

On November 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "*Share-Based Payment*" (SFAS 123R) issued by the Financial Accounting Standards Board (FASB) in December 2004. SFAS 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the consolidated financial statements. Prior to November 1, 2005, under the disclosure only provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*" (SFAS 123), the Company applied Accounting Principles Board (APB) Opinion No. 25, "*Accounting for Stock Issued to Employees*" (APB 25), and related Interpretations in accounting for its stock option plans. Accordingly, prior to fiscal 2006, the Company recognized zero stock-based compensation expense in its income statement for non-qualified stock options, as the exercise price was equal to the market price of the Company's stock on the date of grant. However, the Company did recognize stock-based compensation expense for its restricted stock plans as discussed in Note 15, Restricted Stock and Stock Option Plans, of the Notes to the Consolidated Financial Statements in its Annual Report on Form 10-K for the fiscal year ended October 31, 2005. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company elected the modified prospective transition method as permitted by the adoption of SFAS 123R. Under this transition method, stock-based compensation expense beginning as of November 1, 2005 includes (i) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of October 31, 2005, based on the grant date fair value estimated in accordance with the original proforma provisions of SFAS 123; and (ii) compensation expense for all stock-based compensation awards granted subsequent to October 31, 2005, based on the grant-date fair value

estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award. As stock-based compensation expense recognized in the income statement beginning November 1, 2005 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, when necessary, in subsequent periods if actual forfeitures differ

from those estimates. Forfeitures were estimated based on historical experience. In the Company's proforma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

As a result of adopting SFAS 123R on November 1, 2005, the Company's operating income and income from continuing operation before income taxes decreased $0.8 million and net income decreased $0.5 million for the three months ended January 31, 2006. Basic and diluted earnings per share for the three months ended January 31, 2006, decreased $0.02 per share as a result of the adoption of SFAS 123R. Total stock-based compensation expense recognized under SFAS 123R for the three months ended January 31, 2006 was $0.9 million and consisted of stock-based compensation expense related to employee stock options and restricted stock plans. Stock-based compensation expense of $0.2 million for the three months ended January 31, 2005 was related to restricted stock plans which the Company had been recognizing under previous accounting standards. In accordance with SFAS 123R, the consolidated statements of cash flows report the excess tax benefits from the stock-based compensation as financing cash inflows. For the three months ended January 31, 2006, $1.4 million of excess tax benefits were reported as financing cash inflows.

Under SFAS 123R, the Company continues to use the Black-Scholes option-pricing model to estimate the fair value of its stock options. However, the Company has applied the expanded guidance under SFAS 123R and SAB 107 for the development of the assumptions used as inputs for the Black-Scholes option pricing model for grants beginning November 1, 2005. The Company's fair value determination of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123R and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

On November 10, 2005, the FASB issued FASB Staff Position No. SFAS 123(R)-3, "*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*" (FSP 123R-3). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R. The Company has until November 2006 to make a one-time election to adopt

the transition method described in FSP 123R-3. The Company is currently evaluating FSP 123R-3; however, the one-time election is not expected to affect operating income or net income.

See Note 11 for additional stock-based compensation disclosures.

Other

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections"* (SFAS 154), which replaces Accounting Principles Board Opinion No. 20, *"Accounting Changes"* and FASB Statement No. 3, *"Reporting Accounting Changes in Interim Financial Statements"*. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005 (the Company's fiscal 2007) and requires retrospective application to prior period financial statements of voluntary changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. The consolidated financial position, results of operations or cash flows will only be impacted by SFAS 154 if the Company implements a voluntary change in accounting principle or corrects accounting errors in future periods.

In March 2005, the FASB issued Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations"* (FIN 47) which is effective no later than the end of fiscal years ending after December 15, 2005 (as of October 31, 2006 for the Company) and is an interpretation of FASB Statement No. 143, "*Accounting for Asset Retirement Obligations*". FIN 47 requires recognition of a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. The Company does not expect the adoption of FIN 47 to have a material impact on the consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, *"Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions"* (SFAS 153), as part of its short-term international convergence project with the International Accounting Standards Board (IASB). Under SFAS 153, nonmonetary exchanges are required to be accounted for at fair value, recognizing any gains or losses, if their fair value is determinable within reasonable limits and the transaction has commercial substance. SFAS 153 is effective for the Company for nonmonetary asset exchanges beginning November 1, 2005. The adoption of SFAS 153 did not have a material impact on the consolidated financial position, results of operations or cash flows.

In October 2004, the President signed into law the American Jobs Creation Act (the AJC Act). The AJC Act allows for a federal income tax deduction for a percentage of income earned from certain domestic production activities. The Company's U.S. production activities will qualify for the deduction. Based on the effective date of this provision of the AJC Act, the Company will be eligible for this deduction beginning in fiscal 2006. Additionally, in December 2004, the FASB issued FASB Staff Position 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109), to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (FSP 109-1). FSP 109-1, which was effective upon issuance, requires the Company to treat the tax deduction as a special deduction instead of a change in tax rate that would have impacted the existing deferred tax balances. The Company has estimated that this special deduction will reduce the Company's effective tax rate in fiscal 2006 by approximately 1%.

In November 2004, the FASB issued SFAS No. 151, "*Inventory Costs, an amendment of ARB No. 43, Chapter 4*" (SFAS 151), which adopts wording from the IASB's International Accounting Standard, "Inventories," in an effort to improve the comparability of cross-border financial reporting. The new standard indicates that abnormal freight, handling costs and wasted materials are required to be

treated as current period charges rather than as a portion of inventory costs. Additionally, the standard clarifies that fixed production overhead should be allocated based on the normal capacity of a production facility. SFAS 151 is effective for the Company for inventory costs incurred beginning as of November 1, 2005. The adoption of SFAS 151 did not have a material impact on the consolidated financial position, results of operations or cash flows.

3. Acquired Intangible Assets

Intangible assets consist of the following (in thousands):

	As of January 31, 2006		As of October 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete agreements	$ 313	$ 260	$ 313	$ 247
Patents	25,877	5,016	25,877	4,149
Trademarks and trade names	37,930	2,436	37,930	2,013
Customer relationships	23,691	2,283	23,691	1,893
Other intangibles	1,201	626	1,201	550
Total	$ 89,012	$ 10,621	$ 89,012	$ 8,852
Unamortized intangible assets:				
Trade name	$ 2,200		$ 2,200	

The aggregate amortization expense for the three month period ended January 31, 2006 was $1.8 million. The aggregate amortization expense for the three month period ended January 31, 2005 was $0.6 million. Estimated amortization expense for the next five years, based upon the amortization of preexisting intangibles follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization
2006 (remaining nine months)	$ 5,307
2007	7,033
2008	5,757
2009	3,874
2010	$ 3,792

4. Inventories

Inventories consist of the following:

	January 31, 2006	October 31, 2005
	(In thousands)	
Raw materials	$ 33,318	$ 32,696
Finished goods and work in process	101,195	86,077
	134,513	118,773
Supplies and other	14,785	14,230
	$ 149,298	$ 133,003

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

	January 31, 2006	October 31, 2005
	(In thousands)	
LIFO	$ 68,316	$ 62,820
FIFO	80,982	70,183
Total	$ 149,298	$ 133,003

For purposes of valuing LIFO inventories, a projection of the year-end LIFO reserve is calculated each quarter. Based on this projection, the Company records an estimate of the LIFO change during the year. At the end of the fiscal year, the actual LIFO inventory change is calculated and recorded. With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $34.3 million as of January 31, 2006 and October 31, 2005.

5. Earnings Per Share

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

	For the Three Months Ended January 31, 2006			For the Three Months Ended January 31, 2005		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount

Basic earnings per share	$ 33,450	25,244	$ 1.33	$ 33,931	24,984	$ 1.36
Effect of dilutive securities						
Common stock equivalents arising from settlement of contingent convertible debentures	492	1,029			326	
Common stock equivalents arising from stock options		316			362	
Restricted stock		34			11	
Common stock held by rabbi trust		87			87	
Diluted earnings per share	$ 33,942	26,710	$ 1.27	$ 33,931	25,770	$ 1.32

The computation of diluted earnings per share excludes outstanding options in periods where inclusion of such options would be anti-dilutive in the periods presented. Options to purchase 0.2 million shares of common stock were outstanding as of January 31, 2006 but were not included in the computation of diluted earnings per share as the options' exercise price was greater than the average market price of the common stock during the quarter.

On January 26, 2005, the Company announced that it had irrevocably elected to settle the principal amount of its 2.50% Convertible Senior Debentures due 2034 (the "Debentures") in cash when they become convertible and are surrendered by the holders thereof. The Company retains its option to satisfy any excess conversion obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. As a result of the Company's election, diluted earnings per share include only the amount of shares it would take to satisfy the excess conversion obligation, assuming that all of the Debentures were surrendered. For calculation purposes, the average closing price

of the Company's common stock for each of the periods presented is used as the basis for determining dilution.

6. Comprehensive Income

Comprehensive income is comprised of net income and all other non-owner changes in equity, including realized and unrealized gains and losses on derivatives, minimum pension liability adjustments and foreign currency translation adjustments. Comprehensive income for the three months ended January 31, 2006 and 2005 was as follows:

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Comprehensive income:		
Net income	$ 33,025	$ 28,235
Foreign currency translation adjustment	41	(15)
Total comprehensive income, net of taxes	$ 33,066	$ 28,220

7. Long-term Debt

Long-term debt consists of the following:

	January 31, 2006	October 31, 2005
	(In thousands)	
"Bank Agreement" Revolver	$ —	$ —
2.50% Convertible Senior Debentures due 2034	125,000	125,000
City of Richmond, Kentucky Industrial Building Revenue Bonds	7,175	7,175
City of Huntington, Indiana Economic Development Revenue Bonds principle due 2010	1,665	1,665
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	1,800	1,800
Capital lease obligations and other	250	281
	$ 135,890	$ 135,921
Less maturities due within one year included in current liabilities	2,440	2,459
	$ 133,450	$ 133,462

Approximately 93% of the total debt had a fixed interest rate at January 31, 2006 and October 31, 2005. See Interest Rate Risk section in Item 3 Quantitative and Qualitative Disclosure About Market Risk of this Form 10-Q for additional discussion.

Bank Agreement

The Company's $310.0 million Revolving Credit Agreement (Bank Agreement) is secured by all Company assets, excluding land and buildings. The Bank Agreement expires February 28, 2007 and provides for up to $25.0 million for standby letters of credit, limited to the undrawn amount available under the Bank Agreement. All borrowings under the Bank Agreement bear interest, at the option of the

Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate.

The Bank Agreement requires maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of January 31, 2006, the Company was in compliance with all current Bank Agreement covenants. The Company had no borrowings under the Bank Agreement as of January 31, 2006 and October 31, 2005. The aggregate availability under the Bank Agreement was $293.8 million at January 31, 2006, which is net of $16.2 million of outstanding letters of credit.

Convertible Senior Debentures

On May 5, 2004, the Company issued $125.0 million of the Convertible Senior Debentures (the Debentures) in a private placement offering. The Debentures were subsequently registered in October 2004 pursuant to the registration rights agreement entered into in connection with the offering. The net proceeds from the offering, totaling approximately $122.0 million, were used to repay a portion of the amounts outstanding under the Bank Agreement. The Debentures are general unsecured senior obligations, ranking equally in right of payment with all existing and future unsecured senior indebtedness, and senior in right of payment to any existing and future subordinated indebtedness. The Debentures are effectively subordinated to all senior secured indebtedness and all indebtedness and liabilities of subsidiaries, including trade creditors. The Debentures are convertible into shares of Quanex common stock, upon the occurrence of certain events, at an adjusted conversion rate of 26.1113 shares of common stock per $1,000 principal amount of notes. This conversion rate is equivalent to an adjusted conversion price of $38.2976 per share of common stock, subject to adjustment in some events such as a common stock dividend or an increase in the cash dividend. Adjustments to the conversion rate are made when the cumulative adjustments exceed 1% of the conversion rate. The three-for-two stock split in the form of a stock dividend authorized by the Board of Directors on February 23, 2006 will most likely result in a reduction in the conversion price and an increase in the conversion rate beginning in the second quarter of fiscal 2006. See Note 15 for further discussion of the stock split in the form of a stock dividend.

The Debentures are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of the Company's common stock on such last trading day; (ii) if the Company calls the Debentures for redemption; or (iii) upon the occurrence of certain corporate transactions, as defined. Upon conversion, the Company has the right to deliver common stock, cash or a combination of cash and common stock. The Company may redeem some or all of the Debentures for cash any time on or after May 15, 2011 at the Debentures' full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require the Company to purchase, in cash, all or a portion of the Debentures on May 15, 2011, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures' full principal amount plus accrued and unpaid interest, if any.

On January 25, 2005, the Company and the trustee for the Debentures executed a supplemental indenture to the indenture governing the Debentures. The indenture previously allowed the Company, on the date the Debentures first become convertible, to make an election to settle the principal amount of its obligation with either common stock, cash or a combination of the two. The amendment effectuated by the supplemental indenture permits the Company to elect the method by which the principal amount of the obligation will be settled in advance of when the Debentures become convertible.

On January 26, 2005, the Company announced that it had irrevocably elected to settle the principal amount of its Debentures in cash when they become convertible and are surrendered by the

holders thereof. The Company retains its option to satisfy any excess conversion obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash.

Effective May 1, 2005, the Debentures became convertible and continue to be convertible through the quarter ending April 30, 2006. For each quarter in this period, the convertibility was triggered when the closing price of the Company's common stock exceeded the contingent conversion threshold price of approximately $45.96 for at least 20 of the last 30 trading days of the previous fiscal quarter.

8. Pension Plans and Other Postretirement Benefits

The components of net pension and other postretirement benefit cost are as follows:

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Pension Benefits:		
Service cost	$ 1,170	$ 856
Interest cost	960	858
Expected return on plan assets	(967)	(718)
Amortization of unrecognized transition asset	(13)	(33)
Amortization of unrecognized prior service cost	53	57
Amortization of unrecognized net loss	249	199
Net periodic pension cost	$ 1,452	$ 1,219

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Postretirement Benefits:		
Service cost	$ 26	$ 36
Interest cost	135	150
Net amortization and deferral	(18)	(56)
Net periodic postretirement benefit cost	$ 143	$ 130

During the three months ended January 31, 2006, the Company has made no contributions to its defined benefit plans. The Company estimates that it will contribute a total of $4.2 million to its defined benefit plans during fiscal 2006.

9. Industry Segment Information

Quanex manages the Company as a market focused enterprise which utilizes its resources for two core markets where its products are sold: the Vehicular Products segment and the Building Products segment. These markets are driven by distinct economic indicators; domestic light vehicle builds and heavy duty truck builds primarily drive the Vehicular Products segment while housing starts and remodeling expenditures primarily drive the Building Products segment. The Vehicular Products segment includes engineered steel bar manufacturing, steel bar and tube heat-treating services, and steel bar and tube corrosion and wear resistant finishing services. The Building Products segment produces mill finished and coated aluminum sheet and various engineered products for the building products markets. Corporate and other includes corporate office charges and assets, intersegment eliminations and consolidated LIFO inventory adjustments.

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Net Sales		
Vehicular products	$ 218,773	$ 269,590
Building products(1)	225,796	195,612
Consolidated	$ 444,569	$ 465,202
Operating Income (Loss)		
Vehicular products	$ 33,249	$ 44,552
Building products(1)	26,707	22,141
Corporate & other	(5,732)	(7,248)
Consolidated	$ 54,224	$ 59,445

	January 31, 2006	October 31, 2005
	(In thousands)	
Identifiable Assets		
Vehicular products	$ 437,333	$ 425,536
Building products(1)	626,714	618,112
Corporate & other	52,939	45,213
Discontinued operations(2)		11,350
Consolidated	$ 1,116,986	$ 1,100,211
Goodwill		
Vehicular products	$ —	$
Building products(1)	196,348	196,341
Consolidated	$ 196,348	$ 196,341

(1) Fiscal 2005 includes Mikron as of December 9, 2004.
(2) Temroc and Piper Impact are included in discontinued operations for all periods presented.

10. Stock Repurchase Program and Treasury Stock

On August 26, 2004, the Company's Board of Directors approved an increase in the number of authorized shares in the Company's existing stock buyback program, up to 1.5 million shares. The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company uses a moving average method on the subsequent reissuance of shares, and any resulting proceeds in excess of cost are credited to additional paid in capital while any deficiency is charged to retained earnings. The Company purchased 354,500 treasury shares for $17.9 million during the three months ended January 31, 2006. As of January 31, 2006, the number of shares in treasury was reduced to 308,588 due to stock option exercises. There were no treasury shares purchased during fiscal 2005.

11. Stock-Based Compensation

In the first quarter of fiscal 2006, the Company adopted SFAS 123R which required the Company to measure all employee stock-based compensation awards using a fair value method and record such expense in the consolidated financial statements beginning as of November 1, 2005. See Note 2 for impact of the adoption.

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees and non-employee directors. Stock-based compensation expense recognized under SFAS 123R for the three months ended January 31, 2006 was $0.9 million and consisted of stock-based compensation expense related to employee stock options and restricted stock plans. Stock-based compensation expense of $0.2 million for the three months ended January 31, 2005 was related to restricted stock plans which the Company had been recognizing under previous accounting standards. The total income tax benefit recognized in the income statement for stock-based compensation arrangements was $0.3 million and $0.1 million for the three months ended January 31, 2006 and 2005, respectively. The Company has not capitalized any stock-based compensation cost as part of inventory or fixed assets during the three months ended January 31, 2006 and 2005.

Cash received from option exercises for the three months ended January 31, 2006 and 2005 was $3.0 million and $2.8 million, respectively. The actual tax benefit realized for the tax deductions from option exercises and lapses on restricted stock totaled $1.4 million for the three months ended January 31, 2006 and 2005. The Company generally issues shares from treasury, if available, to satisfy stock option exercises. If there are no shares in treasury, the Company issues additional shares of common stock.

Restricted Stock Plans

Under the Company's restricted stock plans, common stock may be awarded to key employees, officers and non-employee directors. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The awards vest over a specified time period, but typically either immediately vest or cliff vest over a three-year period with service as the vesting condition. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. There were 8,590 and 39,975 restricted shares granted (net of forfeitures) to certain officers and key employees during the three months ended January 31, 2006 and 2005, respectively. The amount charged to compensation expense during the three months ended January 31, 2006 and 2005 was $0.1 million and $0.2 million, respectively, relating to amortization (net of forfeitures) of restricted stock granted in fiscal 2006 and prior years. Total unrecognized compensation cost related to unamortized restricted stock awards was $2.2 million as of January 31, 2006. That cost is expected to be recognized over a weighted-average period of 1.9 years.

Valuation of Stock Options under SFAS 123R

Under SFAS 123R, the Company continues to use the Black-Scholes option-pricing model to estimate the fair value of its stock options. However, the Company has applied the expanded guidance under SFAS 123R and SAB 107 for the development of its assumptions used as inputs for the Black-Scholes option pricing model for grants beginning November 1, 2005. Expected volatility is determined using historical volatilities based on historical stock prices for a period that matches the expected term. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience. The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the option's vesting and contractual expiration dates. The expected term assumption is developed by using historical exercise data adjusted as appropriate for future expectations. Separate groups of employees that have similar historical exercise behavior are considered separately. Accordingly, the expected term range given below results from certain groups of employees exhibiting different behavior. The risk-free rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option's expected term. The fair value of each option was estimated on the date of grant. The following is a summary of valuation assumptions for grants during the three months ended January 31, 2006 and 2005:

	Grants During The Three Months Ended January 31,	
Valuation assumptions	**2006 (SFAS 123R)**	**2005 (SFAS 123)**
Weighted-average expected volatility	35.00%	35.38%
Expected term (in years)	4.8-5.2	5.0
Risk-free interest rate	4.40%	3.49%
Expected dividend yield over expected term	2.00%	1.53%

Proforma Effect Prior to the Adoption of SFAS 123R

The following table presents the proforma effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation prior to the adoption of SFAS 123R during the three month period ending January 31, 2005 (in thousands except per share amounts).

	Three Months Ended January 31, 2005
Net income, as reported	$ 28,235
Add: Restricted stock amortization, net of forfeitures included in reported net income, net of tax	128
Deduct: Total stock-based employee compensation (restricted stock amortization and stock option expense determined under SFAS 123 fair value based method), net of related tax effects	(612)
Pro forma net income	$ 27,751
Earnings per common share:	
Basic as reported	$ 1.13
Basic pro forma	$ 1.11
Diluted as reported	$ 1.10
Diluted pro forma	$ 1.08

Disclosures for the three months ended January 31, 2006 are not presented as the amounts are recognized in the consolidated financial statements.

Key Employee and Non-Employee Director Stock Option Plans

Under the Company's option plans, options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board of Directors at the time of grant, options become exercisable in

one-third increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. The Company's 1996 Employee Plan (the 1996 Plan) and 1997 Key Employee Plan (the 1997 Plan) provide for the granting of options to employees and non-employee directors of up to an aggregate of 4,425,000 common shares. There were 1,329,541 shares available for granting of options at October 31, 2005. The 1996 Plan expired as of December 31, 2005, and the 1997 Plan was terminated effective December 31, 2005.

A summary of stock option activity under the 1996 Plan and the 1997 Plan during the three months ended January 31, 2006 is presented below:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at October 31, 2005	969,181	$ 28.57		
Granted	153,500	61.42		
Exercised	(119,638)	23.32		
Cancelled	(8,203)	31.22		
Expired	—	—		
Outstanding at January 31, 2006	994,840	$ 34.25	7.5	$ 27,718
Exercisable at January 31, 2006	532,538	$ 25.66	6.7	$ 19,411

The weighted-average grant-date fair value of options granted during the three months ended January 31, 2006 and 2005 was $19.29 and $12.56, respectively. The total intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the three months ended January 31, 2006 and 2005 was $3.9 million and $3.6 million, respectively.

A summary of the nonvested stock option shares under the 1996 Plan and the 1997 Plan during the three months ended January 31, 2006 is presented below:

	Shares	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at October 31, 2005	609,701	$ 11.31
Granted	153,500	19.29
Vested	(293,723)	11.06
Forfeited	(7,176)	11.63
Nonvested at January 31, 2006	462,302	$ 14.11

Total unrecognized compensation cost related to stock options granted under these plans was $5.2 million as of January 31, 2006. That cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of shares vested during the three months ended January 31, 2006 and 2005 was $3.2 million and $2.1 million, respectively.

Non-Employee Director Plans

The Company has various non-employee Director Plans, which are described below:

1989 Non-Employee Directors Plan

The Company's 1989 Non-Employee Directors Stock Option Plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 315,000 shares of common stock. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were no shares available for granting of options at January 31, 2006 or October 31, 2005.

A summary of stock option activity under this plan during the three months ended January 31, 2006 is presented below:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at October 31, 2005	32,500	$ 16.87		
Granted	—	—		
Exercised	—	—		
Cancelled/Expired	—	—		
Outstanding at January 31, 2006	32,500	$ 16.87	2.0	$ 1,470
Exercisable at January 31, 2006	32,500	$ 16.87	2.0	$ 1,470

The total intrinsic value of options exercised during the three months ended January 31, 2005 was $0.3 million. No options were exercised during the three months ended January 31, 2006.

All stock option shares under this plan were vested as of the beginning of the reporting period. Accordingly, there is no unrecognized compensation cost related to stock options granted under this plan.

1997 Non-Employee Directors Plan

The Company's 1997 Non-Employee Director Stock Option Plan provided for the granting of stock options to non-employee Directors to purchase up to an aggregate of 600,000 shares of common stock. Options granted under this plan generally became exercisable immediately or become exercisable in one-third increments maturing cumulatively on each of the first through third anniversaries of the date of grant. Options generally must be exercised no later than 10 years from the date of grant. On December 5, 2002, the Company elected to terminate future grants of options under this plan. There were no shares available for granting of options at January 31, 2006 and October 31, 2005.

A summary of stock option activity under this plan during the three months ended January 31, 2006 is presented below:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at October 31, 2005	49,500	$ 19.51		
Granted	—	—		
Exercised	—	—		
Cancelled/Expired	—	—		
Outstanding at January 31, 2006	49,500	$ 19.51	5.8	$ 2,109
Exercisable at January 31, 2006	49,500	$ 19.51	5.8	$ 2,109

The total intrinsic value of options exercised during the three months ended January 31, 2005 was $0.2 million. No options were exercised during the three months ended January 31, 2006.

All stock options under this plan were vested as of October 31, 2005. Accordingly, there is no unrecognized compensation cost related to stock options granted under this plan. The total fair value of shares vested during the three months ended January 31, 2005 was zero as no shares vested during the period.

2006 Omnibus Incentive Plan

At the Company's annual meeting in February 2006, the Company's stockholders approved the Quanex Corporation 2006 Omnibus Incentive Plan (the 2006 Plan). The 2006 Plan provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock awards, performance unit awards, annual incentive awards, other stock-based awards and cash-based awards. Any officer, key employee and / or non-employee Director of the Company or any of its affiliates is eligible for awards under the 2006 Plan.

12. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book versus tax differences, and tax credits. It also includes the effect of any valuation allowance expected to be necessary during the year. The Company's estimated annual effective tax rate decreased to 37.0% in fiscal 2006 primarily due to the domestic manufacturing income deduction allowed by the passage of the AJC Act. The Company became eligible for this special deduction beginning fiscal 2006 and has estimated that this special deduction will reduce the Company's effective tax rate in fiscal 2006 by approximately 1%.

The Company's tax returns are not currently under audit. The Company has a case in Tax Court regarding the disallowance of a capital loss realized in 1997 and 1998. During fiscal 2004, the Company made a tax payment of $10.0 million related to the case to stop the running of the interest outstanding. Adequate provision has been made for this contingency and the Company believes the outcome of the case will not have a material adverse impact on its financial position or results of operations. See Note 13 for further explanation.

13. Contingencies

Environmental

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. In accruing for environmental remediation liabilities, costs of future expenditures are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the

nature of anticipated response actions, and the nature of the Company's alleged connections. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations, financial condition or cash flows.

During the third quarter of 2005, the United States Department of Justice filed a complaint against the Company for recovery of cleanup costs incurred at the "Jepscor" Superfund site in Dixon, Illinois. The United States Environmental Protection Agency has indicated that it incurred approximately $2.6 million to remove processing residue and other materials from that former metal recovery plant. Of the Jepscor site's former owners, operators, and many customers, the government is asserting liability for cleanup only against the Company. During the fourth fiscal quarter of 2005, the Company and the Department of Justice reached a tentative agreement to settle this matter. If that settlement cannot be finalized, the Company intends to defend itself vigorously against the government's Jepscor allegations.

Total remediation reserves, at January 31, 2006, for Quanex's current plants, former operating locations, and disposal facilities were approximately $8.1 million, which is within $0.8 million of the reserve at October 31, 2005. Of the current remediation reserve, approximately $1.8 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. On the balance sheet, $6.1 million of the remediation reserve is included in non-current liabilities with the remainder in accrued liabilities (current).

Approximately 55% of the total remediation reserve is currently allocated to cleanup work related to Piper Impact. During the first quarter of 2005, the Company sold the operating assets of the Piper Impact business, including its only active plant on Barkley Drive in New Albany, Mississippi. In the fourth fiscal quarter of 2005, the Company sold the location on Highway 15 in New Albany where Piper Impact previously had operated a plant (the Highway 15 location), but as part of the sale retained environmental liability for pre-closing contamination there. At present, the largest component of the Piper Impact remediation reserve is for remediation of soil and groundwater contamination from prior operators of the Highway 15 location. The Company voluntarily implemented a state-approved remedial action plan there that includes natural attenuation together with a groundwater collection and treatment system. The Company continues to monitor conditions at the site and to evaluate performance of that remedy.

Included in the current reserve is the estimated cost of operating the existing groundwater remediation system at the Highway 15 location over the next 20 years, which was discounted to a net present value using an interest rate of 3.0%. The Company has estimated the annual cost of operating the existing system to be approximately $0.2 million and has assumed that the existing system will continue to be effective.

The final remediation costs and the timing of the expenditures at the Highway 15 location and other sites will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences. While actual remediation costs therefore may be more or less than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals because of uncertainties as to the extent of environmental impact, cleanup technologies, and concurrence of governmental authorities. The Company currently expects to pay the accrued remediation reserve through at least fiscal 2025, although some of the same factors discussed earlier could accelerate or extend the timing.

For fiscal 2006, the Company estimates expenses at its facilities will be approximately $3.4 million for continuing environmental compliance. In addition, the Company estimates that capital expenditures for environmental compliance in fiscal 2006 will be approximately $0.2 million, which includes amounts for upgrades related to the coating systems emission compliance standards at two of its Nichols Aluminum facilities. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and its facilities of future regulations and government decisions. Quanex will continue to have expenditures in connection with environmental matters beyond fiscal 2006, but it is not possible at this time to reasonably estimate the amount of those expenditures except as discussed above. Based upon its analysis and experience to date, Quanex does not believe that its compliance with the Clean Air Act or other environmental requirements will have a material adverse effect on its operations or financial condition.

Tax Liability

As reported in the annual report on Form 10-K for the year ended October 31, 2005, the Company is currently involved in a case in Tax Court regarding the disallowance of a capital loss realized in 1997 and 1998. During 2004, the Company made a tax payment of $10.0 million related to the case to curtail the accumulation of interest on the disputed amounts. The Company has reserves for income tax contingencies primarily associated with this case as of January 31, 2006 and October 31, 2005 of $12.7 million and $12.3 million, respectively. Adequate provision for such payment had been made in prior years and the Company believes the outcome of the case will not have a material impact on its financial position or results of operations.

Other

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Although the ultimate resolution and impact of such litigation on the Company is not presently determinable, the Company's management believes that the eventual outcome of such litigation will not have a material adverse effect on the overall financial condition or results of operations of the Company.

14. Discontinued Operations

In accordance with SFAS No. 144, "*Accounting for the Impairment of Disposal of Long-Lived Assets*," the results of operations, financial position and cash flows of Temroc, Piper Impact and Nichols Aluminum-Golden have been reflected in the consolidated financial statements and notes as discontinued operations for all periods presented. Temroc was sold on January 27, 2006, while Nichols Aluminum-Golden was sold on September 30, 2004 and Piper Impact was sold on January 25, 2005.

Comparative balance sheets of the discontinued operations were as follows:

	January 31,	October 31,

	2006	2005
	(In thousands)	
Current assets:		
Accounts and notes receivable, net	$ —	$ 3,408
Inventories	—	2,078
Income tax receivable	—	—
Other current assets	—	18
Total current assets	—	5,504
Property, plant and equipment, net	—	5,247
Other assets	—	599
Total assets	$ —	$ 11,350
Current liabilities:		
Accounts payable	$ —	$ 2,591
Accrued liabilities	—	750
Other current liabilities	—	867
Total current liabilities	—	4,208
Other liabilities	—	2,120
Total liabilities	$ —	$ 6,328

Operating results of the discontinued operations were as follows:

	Three Months Ended January 31,	
	2006	2005
	(In thousands)	
Net sales	$ 5,230	$ 9,084
Income (loss) from discontinued operations	(184)	(2,186)
Gain (loss) on sale of discontinued operations	(311)	(6,358)
Income tax benefit (expense)	70	2,848
Income (loss) from discontinued operations, net of taxes	$ (425)	$ (5,696)

Net sales and loss from discontinued operations declined in first quarter 2006 compared to first quarter 2005 primarily due to the sale of Piper Impact in January 2005. First quarter 2006 net sales and loss from discontinued operations represent the Temroc operations only. The loss on sale of discontinued operations during the first quarter 2006 represents the loss on Temroc while the loss on sale of discontinued operations during the first quarter 2005 primarily relates to the sale of Piper Impact. The first quarter 2005 income tax benefit relates primarily to Piper Impact.

The sale of Temroc resulted in the disposition of the $0.4 million remaining Temroc goodwill. As Temroc was sold at the end of the first quarter, the working capital-based purchase price adjustment is pending and is expected to be settled later in fiscal 2006.

15. Subsequent Events

On February 23, 2006, the Board of Directors of the Company authorized an annual dividend increase of $0.10 per common share outstanding, increasing the annual dividend from $0.62 to $0.72. In a separate action, the Board of Directors declared a three-for-two stock split in the form of a stock dividend. Both the cash dividend and stock split are effective to shareholders of record on March 15, 2006, and are payable on March 31, 2006. The increase in the annual cash divided to $0.72 per share is prior to giving effect of the three-for-two stock split.

Except for the table below, all references in the accompanying consolidated financial statements to weighted-average numbers of shares outstanding, per share amounts, stock repurchase program, treasury stock, and restricted stock and stock option plans share data are presented without taking into account the impact of such three-for-two stock split. The following table presents the proforma effect of such stock split on earnings per share (in thousands except per share amounts).

	Proforma Three Months Ended January 31,	
	2006	2005
Basic earnings per common share:		
Earnings from continuing operations	$ 0.88	$ 0.91
Income (loss) from discontinued operations	(0.01)	(0.16)
Basic earnings per share	$ 0.87	$ 0.75
Diluted earning per common share:		
Earnings from continuing operations	$ 0.85	$ 0.88
Income (loss) from discontinued operations	(0.01)	(0.15)
Diluted earnings per share	$ 0.84	$ 0.73
Weighted-average common shares outstanding:		
Basic	37,866	37,476
Diluted	40,065	38,655

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, 2006 and October 31, 2005 Consolidated Financial Statements of the Company and the accompanying notes.

Private Securities Litigation Reform Act

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

Factors exist that could cause the Company's actual results to differ materially from the expected results described in or underlying the Company's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, the rate of change in prices for steel and aluminum scrap, availability of steel and aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular, home building and remodeling markets, any material changes in purchases by the Company's principal customers, labor supply and relations, 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 and acquisition strategies, successful integration of recent acquisitions, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

Consolidated Results of Operations

Summary Information

	Three Months Ended January 31,			
	2006	2005(1)	Change	%
	(Dollars in millions)			
Net sales	$ 444.6	$ 465.2	$ (20.6)	(4.4)%
Cost of sales	352.1	368.0	(15.9)	(4.3)
Selling, general and administrative	20.9	22.8	(1.9)	(8.3)
Depreciation and amortization	17.4	15.0	2.4	16.0
Operating income	54.2	59.4	(5.2)	(8.8)
Operating income margin	12.2%	12.8%	(0.6)%	
Interest expense	(1.2)	(2.4)	1.2	50.0
Other, net	0.1	(1.9)	2.0	105.3
Income tax expense	(19.6)	(21.2)	1.6	7.5
Income from continuing operations	$ 33.4	$ 33.9	$ (0.5)	(1.5)%

(1) Fiscal 2005 includes Mikron's results beginning December 9, 2004.

Overview

Net sales and operating income for the three months ended January 31, 2006, were 4.4% and 8.8%, lower than the same period last year, respectively. Improved non-operating items resulted in income from continuing operations being slightly under the previous year's level. In general, the first quarter of 2006 lagged the same period of last year due to a drop in volume versus a 2005 pace that is best characterized as a period of "allocation." While volumes declined versus the comparison quarter, spreads increased either through a reduction in raw material prices greater than average selling prices at some operations or average selling prices increasing more than raw material prices at others.

Business Segments

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment produces engineered steel bars for the light vehicle, heavy duty truck, and off-road and construction equipment. The Vehicular Products segment's primary market drivers are North American light vehicle builds and, to a lesser extent, heavy duty truck builds. The Building Products segment produces engineered products and components serving the window and door industry, and mill finished and coated aluminum sheet serving the broader building products markets. The main market drivers of this segment are residential housing starts and remodeling expenditures.

Three Months Ended January 31, 2006 Compared to Three Months Ended January 31, 2005

Vehicular Products

	Three Months Ended January 31,			
	2006	2005	Change	%
	(Dollars in millions)			
Net sales	$ 218.8	$ 269.6	$ (50.8)	(18.8)%
Cost of sales	173.3	211.1	(37.8)	(17.9)
Selling, general and administrative	4.1	5.6	(1.5)	(26.8)
Depreciation and amortization	8.2	8.3	(0.1)	(1.2)
Operating income	$ 33.2	$ 44.6	$ (11.4)	(25.6)%
Operating income margin	15.2%	16.5%	(1.3)%	

Segment demand was off compared to the allocation environment experienced in the first quarter of last year, and consequently, steel bar tons shipped were down approximately 12%. Customer inventories are at relatively normalized levels following very heavy buying this time last year, and light vehicle builds in the fiscal first quarter were up 3% from the same period last year. Lower material costs and a favorable product mix resulted in slightly higher spread per ton in the segment. The order backlog continues to improve.

Net sales for the first quarter of 2006 were lower than the first quarter of 2005 as a result of a 12.5% decrease in volume, coupled with a 7.3% decrease in average selling prices. The decrease in volume is due to the fact that the first quarter of 2005 was an exceptionally strong period with customers on allocation. The 2006 pricing contracts were completed during the first quarter. While base prices were slightly higher in the first quarter of 2006 compared to the same period of 2005, the quarterly scrap surcharges are lower, which resulted in lower overall average selling prices.

Operating income for the first three months of 2006 decreased 25.6% over the same period last year due primarily to the volume decline. Spread per ton was higher in the first quarter of 2006 compared to the same period last year from lower material costs and favorable product mix. The impact of the lower volume could not be offset by the spread gain and a slight decrease in selling, general and administrative costs and depreciation expense.

The decrease in the operating income margin for the three month period ending January 31, 2006 is a result of lower volumes when compared to the same period last year.

Building Products

	Three Months Ended January 31,			
	2006	2005(1)	Change	%
	(Dollars in millions)			
Net sales	$ 225.8	$ 195.6	$ 30.2	15.4%
Cost of sales	178.8	156.7	22.1	14.1
Selling, general and administrative	11.2	10.2	1.0	9.8
Depreciation and amortization	9.1	6.6	2.5	37.9
Operating income	$ 26.7	$ 22.1	$ 4.6	20.8%
Operating income margin	11.8%	11.3%	0.5%	

(1) Fiscal 2005 includes Mikron's results beginning December 9, 2004.

Overall housing and remodeling activity was seasonally strong during the quarter, in part, due to mild weather conditions across the Midwest and Northeast. Annualized housing starts held firm at the 2 million mark. Customer orders for window and door products remained steady throughout the quarter and exceeded expectations. The aluminum sheet business experienced an 18.7% drop in volume during the quarter associated with customer destocking along with a sharp rise in the London Metal Exchange (LME) which caused buyers to delay ordering in hopes of a correction; however, pounds shipped in January 2006 rebounded to within 8% of last year, and customer backlog continues to improve.

The net sales increase for the three months ended January 31, 2006 is attributable to the addition of Mikron in the middle of the first quarter of last year. The increase for the first quarter of 2006 is comprised of a 19.8% increase in the segment's sales attributable to Mikron partially offset by a 13.1% decrease of aluminum sheet net sales. Aluminum sheet volumes were lower in the first quarter of 2006 by 18.7%, but spread increased compared to the year ago quarter, the result of higher selling prices, relatively lower scrap costs and a better mix of value-added products.

The increase in operating income for the first three months of fiscal 2006 compared to the same period of 2005 is primarily a result of the acquisition of Mikron. Included in the first quarter of 2006 is a $2.0 million gain on the sale of Owens Corning receivables for which the Company had been carrying a reserve for several years. The other operations combined were relatively flat, mainly a function of improved spread offset by lower volume.

During 2006, the average selling price of aluminum sheet has increased more than the cost of aluminum scrap. This, coupled with the segment's continued focus on efficient manufacturing and more value-added sales, resulted in the operating income margin increase.

Corporate and Other

	Three Months Ended January 31,

	2006	2005	Change	%
	(Dollars in millions)			
Cost of sales	$ 0.0	$ 0.2	$ (0.2)	(100.0)%
Selling, general and administrative	5.6	7.0	(1.4)	(20.0)
Depreciation and amortization	0.1	0.1		—
Operating loss	$ (5.7)	$ (7.3)	$ (1.6)	(21.9)%

Corporate and other operating expenses, which are not in the two operating segments mentioned above, include the consolidated LIFO inventory adjustments (calculated on a combined pool basis), corporate office expenses and inter-segment eliminations. The primary cause for the decrease in corporate office expense in the three month period ending January 31, 2006 was higher costs in the first quarter of last year associated with the Company's implementation of Sarbanes-Oxley Section 404.

Interest expense for the three months ended January 31, 2006 decreased $1.2 million from the same period a year ago as a result of the decrease in the average debt outstanding for the comparative periods. During the first quarter of fiscal 2005, the Company borrowed approximately $190 million on its Revolving Credit Agreement to fund the December 2004 acquisition of Mikron. During the first quarter of fiscal 2006, the Company had no amounts outstanding under the Revolving Credit Agreement.

Other, net for the three months ended January 31, 2006 was income of $0.1 million compared to an expense of $1.9 million in the first quarter of 2005. The decline of $2.0 million of expense for the three month period is primarily related to the change in the market value of the Company's Deferred Compensation Plan. Each quarter, the Company values its liability for the Deferred Compensation Plan

based upon the value of the underlying investment units, primarily Quanex common stock. For the three months ended January 31, 2006, the market value of the Deferred Compensation Plan increased $0.8 million, due to deferrals and an 7.3% increase in the Company's common stock price from October 31, 2005, to January 31, 2006. As a comparison, the Company's common stock price increased 56.0% for the same period the previous year, thus highlighting the primary reason for the higher expense in fiscal 2005.

The Company's effective tax rate declined to 37.0% for the three months ended January 31, 2006 compared to 38.5% during the three months ended January 31, 2005. The lower effective rate in the first quarter 2006 resulted from the domestic manufacturing income deduction allowed by the passage of the American Jobs Creation Act of 2004. Fiscal 2006 is the first year the Company could benefit from the deduction.

The year-over-year changes in income (loss) from discontinued operations, net of taxes, for the three months ended January 31, 2006, are the result of several items. The main difference is the loss recognized in the first quarter of fiscal 2005 related to the sale of the Piper Impact business compared to the loss on the sale of the Temroc business during the first quarter of fiscal 2006.

Outlook

Overall demand in the Company's two target markets continues to improve compared to the second half of fiscal 2005 and is bolstered by a healthy economy and historically favorable interest rates. In the Vehicular Products segment, business activity is expected to continue to improve, and bar shipments in 2006 are expected to approach 2005 levels, in part, on the strength of new programs. Light vehicle builds in calendar year 2006 are expected to remain strong at an estimated 15.6 million builds, essentially flat to 2005, while heavy truck builds should remain robust at approximately 340,000 units as producers attempt to sell ahead of new 2007 Environmental Protection Agency mandated engine emission requirements. The segment's steel scrap costs are expected to continue to fluctuate during the year and the segment's surcharge mechanism should maintain margin rates over time.

In the Company's Building Products segment, housing starts in 2006 are expected to slow modestly from 2005's record starts, while remodeling and replacement activity are expected to remain very strong. At the segment's window and door components business, overall order activity is seasonally strong, and the outlook for the year remains excellent. It is estimated that the segment's fast growing vinyl window profile demand will drive the business's top line growth approximately 15% over last year. At the segment's aluminum sheet business, demand continues to rebound. LME aluminum ingot prices have risen to high levels, while aluminum scrap cost increases have been more modest, improving the sheet business's spread.

Taken together, the fiscal 2006 sales and earnings outlook for the Company remains very favorable. Accordingly, for the second quarter and full year, Quanex expects to report diluted earnings per share from continuing operations within a range of $1.30 to $1.40 and $5.40 and $5.80, respectively.

Liquidity and Capital Resources

Sources of Funds

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its secured $310.0 million Revolving Credit Agreement ("Bank Agreement"). The Bank Agreement expires on February 28, 2007. At January 31, 2006 and October 31, 2005, the Company had no borrowings under the Bank Agreement and had $125.0 million outstanding 2.50% Senior

Convertible Debentures due May 15, 2034 (the "Debentures"). The aggregate availability under the Bank Agreement was $293.8 million at January 31, 2006, which is net of $16.2 million of outstanding letters of credit.

On February 23, 2006, the Board of Directors of the Company authorized an annual dividend increase of $0.10 per common share outstanding, or $0.025 increase per quarter. This raised the annual cash dividend from $0.62 to $0.72 and the quarterly dividend from $0.155 to $0.180 per common share outstanding. The cash dividend is effective to shareholders of record on March 15, 2006 and payable on March 31, 2006.

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

The Company's working capital was $149.6 million on January 31, 2006 compared to $133.9 million on October 31, 2005. This $15.7 million working capital increase includes a $1.3 million decline from discontinued operations. The offsetting $17.0 million increase in working capital is attributable to a $16.3 million increase in inventory. The combination of increases to cash, other current assets, accounts payable and income taxes payable along with a decrease in accrued liabilities essentially resulted in no impact on working capital. Inventory increased due to increased volumes on hand coupled with an increase in inventory cost per unit.

Operating Activities

Cash provided by operating activities during the three months ended January 31, 2006, was $38.8 million compared to $10.4 million for the same period of 2005. The increase is largely due to working capital increasing to a lesser extent in the first quarter of 2006 compared to the year ago quarter.

Investment Activities

Net cash used for investment activities during the three months ended January 31, 2006, was $16.0 million compared to $195.1 million for the same period of 2005. Investment activities for the three months ended January 31, 2006, included $5.4 million of proceeds from the sale of Temroc. Capital expenditures increased $12.7 million to $21.4 million in the three months ended January 31, 2006 from $8.7 million in the same period of the previous year. Capital spending in the Vehicular Products segment increased by $11.2 million primarily due to the value added capacity project at Macsteel Monroe. The Company estimates that fiscal 2006 capital expenditures will be approximately $80.0 million. At January 31, 2006, the Company had commitments of approximately $39.4 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures with cash flow from operations.

Financing Activities

Net cash provided by financing activities for the three months ended January 31, 2006, was a use of cash of $17.7 million compared to a source of $171.2 million during the same prior year period. During the first quarter of 2006, the Company purchased 354,500 shares of its common stock for $17.9 million. The Company made no net borrowings on the Bank Agreement in the first three months of 2006 compared to net borrowings of $170.0 million against the Bank Agreement during the same three month period of fiscal 2005. Additionally, the Company received $4.2 million in the three months ended

January 31, 2006, for the issuance of common stock related to the exercise of options, versus $4.4 million in the same period last year. The $0.5 million increase in dividends paid for the three months of 2006, compared to 2005, is a result of the increases to the Company's dividend rate authorized by the Board of Directors in fiscal 2005.

Critical Accounting Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts, inventory, long-lived assets, environmental contingencies, insurance, U.S. pension and other post-employment benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's management believes the critical accounting estimates listed and described in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2005 Annual Report on Form 10-K are the most important to the fair presentation of the Company's financial condition and results. These policies require management's significant judgments and estimates in the preparation of the Company's consolidated financial statements.

New Accounting Pronouncements

Stock–Based Compensation

On November 1, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "*Share-Based Payment*" (SFAS 123R) issued by the Financial Accounting Standards Board (FASB) in December 2004. SFAS 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the consolidated financial statements. Prior to November 1, 2005, under the disclosure only provisions of SFAS No. 123, "*Accounting for Stock-Based Compensation*" (SFAS 123), the Company applied Accounting Principles Board (APB) Opinion No. 25, "*Accounting for Stock Issued to Employees*" (APB 25), and related Interpretations in accounting for its stock option plans. Accordingly, prior to fiscal 2006, the Company recognized zero stock-based compensation expense in its income statement for non-qualified stock options, as the exercise price was equal to the market price of the Company's stock on the date of grant. However, the Company did recognize stock-based compensation expense for its restricted stock plans as discussed in Note 15, Restricted Stock and Stock Option Plans, of the Notes to the Consolidated Financial Statements in its Annual Report on Form 10-K for the fiscal year ended October 31, 2005. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company elected the modified prospective transition method as permitted by the adoption of SFAS 123R. Under this transition method, stock-based compensation expense beginning as of November 1, 2005 includes (i) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of October 31, 2005, based on the grant date fair value estimated in accordance with the

original proforma provisions of SFAS 123; and (ii) compensation expense for all stock-based compensation awards granted subsequent to October 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, the Company's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award. As stock-based compensation expense recognized in the income statement beginning November 1, 2005 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, when necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In the Company's proforma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

As a result of adopting SFAS 123R on November 1, 2005, the Company's operating income and income from continuing operation before income taxes decreased $0.8 million and net income decreased $0.5 million for the three months ended January 31, 2006. Basic and diluted earnings per share for the three months ended January 31, 2006, decreased $0.02 per share as a result of the adoption of SFAS 123R. Total stock-based compensation expense recognized under SFAS 123R for the three months ended January 31, 2006 was $0.9 million and consisted of stock-based compensation expense related to employee stock options and restricted stock plans. Stock-based compensation expense of $0.2 million for the three months ended January 31, 2005 was related to restricted stock plans which the Company had been recognizing under previous accounting standards. In accordance with SFAS 123R, the consolidated statements of cash flows report the excess tax benefits from the stock-based compensation as financing cash inflows. For the three months ended January 31, 2006, $1.4 million of excess tax benefits were reported as financing cash inflows.

Under SFAS 123R, the Company continues to use the Black-Scholes option-pricing model to estimate the fair value of its stock options. However, the Company has applied the expanded guidance under SFAS 123R and SAB 107 to the development of its assumptions used as inputs for the Black-Scholes option pricing model for grants beginning November 1, 2005. The Company's fair value determination of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123R and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

On November 10, 2005, the FASB issued FASB Staff Position No. SFAS 123(R)-3, "*Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*" (FSP 123R-3). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R. The Company has until November 2006 to make a one-time election to adopt

the transition method described in FSP 123R-3. The Company is currently evaluating FSP 123R-3; however, the one-time election is not expected to affect operating income or net income..

See Note 11 in Part I, Item 1 of this Form 10-Q for additional stock-based compensation disclosures.

Other

In October 2004, the President signed into law the American Jobs Creation Act (the AJC Act). The AJC Act allows for a federal income tax deduction for a percentage of income earned from certain domestic production activities. The Company's U.S. production activities will qualify for the deduction. Based on the effective date of this provision of the AJC Act, the Company will be eligible for this deduction beginning in fiscal 2006. Additionally, in December 2004, the FASB issued FASB Staff Position 109-1, "Application of FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109), to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" (FSP 109-1). FSP 109-1, which was effective upon issuance, requires the Company to treat the tax deduction as a special deduction instead of a change in tax rate that would have impacted the existing deferred tax balances. The Company has estimated that this special deduction will reduce the Company's effective tax rate in fiscal 2006 by approximately 1%.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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, foreign currency 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 does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

The Company and its subsidiaries have a Bank Agreement and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates.

At January 31, 2006, the Company had fixed-rate debt totaling $126.9 million or 93.4% of total debt, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. The Company and certain of its subsidiaries' floating-rate obligations totaled $9.0 million, or 6.6% of total debt, at January 31, 2006. Based on the floating-rate obligations outstanding at January 31, 2006, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately $90.0 thousand.

Commodity Price Risk

The Vehicular Products segment has a scrap surcharge program in place, which is a practice that is well established within the engineered steel bar industry. The scrap surcharge is based on a three city, three- or one- month trailing average of #1 bundle scrap prices. The Company's long-term exposure to changes in scrap costs is significantly reduced because of the surcharge program. Over time, the Company recovers the majority of its scrap cost increases, though there is a level of exposure to short-term volatility because of this lag. Historically, the segment's scrap surcharge has been based on a three-month trailing average. However, during the first quarter of 2006, Quanex has moved approximately

85% of the accounts, representing about 70% of shipments, to a one-month cycle. Reducing the adjustment period from three months to one month is expected to reduce the segment's margin volatility in the future.

Within the Building Products segment, the Company uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing processes. The price of raw materials is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, Nichols Aluminum enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*") as well as option contracts on the LME. The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders to the extent not covered by fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect. During the first quarter of 2006, the Company primarily relied upon firm price raw material purchase commitments to protect cost of sales tied to firm price sales commitments. There were no outstanding LME hedges as of January 31, 2006.

Within the Building Products segment, polyvinyl resin (PVC) is the significant raw material consumed during the manufacture of vinyl extrusions. The Company has a monthly resin adjustor in place with its customers that is adjusted based upon published industry resin prices. This adjuster effectively shares Mikron's base pass-through price changes of PVC with its customers commensurate with the market at large. The Company's long-term exposure to changes in PVC prices is thus significantly reduced due to the contractual component of the resin adjustor program.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and acting Principal Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of January 31, 2006. Based on that evaluation, the Chief Executive Officer and acting Principal Financial Officer concluded that, as of January 31, 2006, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

During the last quarter, there have been no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit Number	Description of Exhibits
3.1	Restated Certificate of Incorporation of the Registrant dated as of November 10, 1995, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1995 and incorporated herein by reference.
3.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.3	Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.4	Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.5	Amended and Restated Bylaws of the Registrant, as amended June 1, 2005, filed as Exhibit 3.5 of the Registrant's Quarterly Report on

Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 2005 and incorporated herein by reference.

4.1 Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.

4.2 Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2002. Certain schedules and exhibits to this Revolving Credit Agreement were not filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.

4.3 First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2003.

4.4 Consent and First Amendment to Revolving Credit Agreement dated December 19, 2003, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2003. Certain schedules and exhibits to this Consent and First Amendment to Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.

Exhibit Number	Description of Exhibits
4.5	Waiver and Second Amendment to Revolving Credit Agreement dated March 11, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated January 31, 2004.
4.6	Form of Consent to Requested Extension to Revolving Credit Maturity Date under the Quanex Corporation Revolving Credit Agreement dated April 7, 2004, filed as Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.7	Form of Consent and Third Amendment to Revolving Credit Agreement dated April 9, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.8	Indenture dated as of May 5, 2004 between Quanex Corporation and Union Bank of California, N.A. as trustee relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.9	Registration Rights Agreement dated as of May 5, 2004 among Quanex Corporation, Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated, and KeyBanc Capital Markets relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 4.10 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.10	Third Amended and Restated Rights Agreement dated as of September 15, 2004, between the Registrant and Wells Fargo Bank, N.A. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated September 17, 2004, and incorporated herein by reference.
4.11	Form of Consent and Fourth Amendment to Revolving Credit Agreement dated November 18, 2004 by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.11 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated December 21, 2004.
4.12	Supplemental Indenture dated as of January 25, 2005 by and between the Company and Union Bank of California, N.A., as trustee, to the indenture governing the Company's 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated January 26, 2005.
4.13	Fifth Amendment to Revolving Credit Agreement dated March 11, 2005 by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.12 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated March 11, 2005.2
† * 10.1	Agreement of Merger of the Piper Impact 401(k) Plan into the Quanex Corporation 401(k) Savings Plan, dated November 17, 2005.
† * 10.2	Third Amendment to the Quanex Corporation Employee Savings Plan, dated December 19, 2005.
† * 10.3	Fourth Amendment to the Piper Impact 401(k) Plan, dated December 19, 2005.

Exhibit Number	Description of Exhibits
† * 10.4	Third Amendment to the Quanex Corporation 401(k) Savings Plan for Hourly Employees, dated December 19, 2005.
† * 10.5	Fourth Amendment to the Quanex Corporation Hourly Bargaining Unit Employees Savings Plan, dated December 19, 2005.
† * 10.6	Amendment and Restatement of the Quanex Corporation 401(k) Savings Plan effective January 1, 2005, dated December 19, 2005.

* 31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
* 31.2	Certification by acting principal financial officer pursuant to Rule 13a-14(a)/15d-14(a).
* 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Management Compensation or Incentive Plan
* Filed herewith

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 Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

SIGNATURES

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

QUANEX CORPORATION

/s/ Brent L. Korb
Brent L. Korb
Vice President – Corporate Controller
(Principal Accounting Officer and acting Principal Financial Officer)

Date: March 3, 2006

AGREEMENT OF MERGER OF THE
PIPER IMPACT 401(K) PLAN INTO THE
QUANEX CORPORATION 401(K) SAVINGS PLAN

THIS AGREEMENT by Quanex Corporation (the "*Company*").

W I T N E S S E T H:

WHEREAS, the Company maintains the Piper Impact 401(k) Plan (the "*Piper Plan*") and its related trust (the "*Piper Trust*");

WHEREAS, the Company also maintains the Quanex Corporation 401(k) Savings Plan (the "*Quanex 401(k) Plan*") and its related trust (the "*Quanex 401(k) Trust*");

WHEREAS, the Piper Trust and the Quanex 401(k) Trust are maintained in a master trust (the "*Master Trust*") with Fidelity Management Trust Company ("*Fidelity*") as the trustee;

WHEREAS, the Company desires to merge the Piper Plan into the Quanex 401(k) Plan and to transfer the assets of the Piper Trust into the Quanex 401(k) Trust within the Master Trust (the "*Merger*"), with Fidelity as the trustee, all effective December 1, 2005, or such date as determined by the proper officers of the Company (the "*Merger Date*"); and

WHEREAS, the Board of Directors of the Company has approved resolutions authorizing this Agreement and the transactions contemplated herein;

NOW, THEREFORE, the Company agrees as follows:

(1) Amendment of the Quanex Plan. Effective as of the Merger Date, the Quanex Plan is hereby amended as follows:

(a) Section 1.22 of the Quanex Plan is amended by adding thereto the following new sentence at the end thereof:

Effective December 1, 2005, "*Eligible Employee*" also means an Employee who is employed by the Sponsor in connection with its Piper Impact division.

(b) The final sentence of Section 2.01 of the Quanex Plan is completely amended to provide as follows:

Notwithstanding any other provision of the Plan to the contrary, (1) an Employee of Imperial Products, Inc. who was employed by Imperial Products, Inc. on April 1, 2000, shall be eligible to participate in the Plan on June 1, 2000, (2) an Employee of Colonial Craft, Inc, who was employed by Colonial Craft, Inc. on February 2, 2002 shall be eligible to participate in the Plan on February 2, 2002 and (3) an Employee of the Sponsor employed primarily in connection with its Piper Impact division on December 1, 2005 shall be eligible to participate in the Plan on December 1, 2005.

(c) Article III of the Quanex Plan is amended by adding thereto the following new Section 3.15 to the Quanex Plan:

3.15 **Special Rule for Employees of the Piper Impact Divisions.** Employees eligible to participate in the Plan because they are employed by the Sponsor in connection with its Piper Impact division are not entitled to Supplemental Contributions under Sections 3.04, 3.05 or 3.06.

(d) Section 5.04 of the Quanex Plan is amended by adding thereto the following new paragraph at the end thereof:

Notwithstanding the foregoing, if a Participant is eligible to participate in the Plan because he is employed by the Sponsor in connection with its Piper Impact division, the only distribution method available for such a Participant is a lump sum payment.

(2) **Merger of the Piper Plan.** Effective as of the Merger Date, the Piper Plan and Piper Trust are hereby merged into the Quanex 401(k) Plan and Quanex 401(k) Trust without a gap or lapse in time, coverage or effect so that no participant in either plan is entitled to a distribution of benefits unless and until the person qualifies under the terms of the Quanex 401(k) Plan.

(3) **Section 414(*l*)**. The Merger will comply with section 414(*l*) of the Internal Revenue Code of 1986, as amended (the "*Code*").

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(4) **Transfer and Commingling of Trust Assets**. The Company hereby agrees to direct the transfer of assets from the Piper Trust to the Quanex 401(k) Trust within the Master Trust and further agrees that the Benefits Committee, in its sole discretion, may permit the transferred funds to be commingled for purposes of investment with other funds in the Quanex 401(k) Trust or to be maintained separately.

(5) **Single Plan**. Upon the Merger, the Quanex 401(k) Plan will be a single plan within the meaning of section 414(l) of the Code.

(6) **Vesting and Preservation of Section 411(d)(6) Protected Benefits**. Each Member of the Piper Plan shall vest in his or her account under the terms of the Quanex 401(k) Plan and Quanex 401(k) Trust. All optional forms of benefits and other 411(d)(6) protected benefits (as defined in Treasury Regulation §411(d)-4, Q&A-1) of the Piper Plan, as in effect immediately prior to the Merger, are hereby incorporated into the Quanex 401(k) Plan for use solely with respect to the funds transferred from the Piper Plan into the Quanex 401(k) Plan.

(7) **Conditions Precedent**. The transfer of assets and liabilities from the Piper Plan to the Quanex 401(k) Plan are expressly conditioned on (1) the tax qualified status of the Piper Plan and the Quanex 401(k) Plan, (2) the tax exempt status of the Piper Trust and the Quanex 401(k) Trust, (3) satisfaction of the provisions described herein and (4) the transfer satisfying sections 401(a)(12), 411(d)(6) and 414(l) of the Code and the regulations issued thereunder. Therefore, if the Internal Revenue Service does not approve the Merger or if any of the other conditions are not satisfied, the Piper Plan assets and liabilities that were transferred to the Quanex 401(k) Plan and Quanex 401(k) Trust will revert back to a separate plan and trust established by the Company that are similar to the Piper Plan, as in effect on the Merger Date to be held pursuant to the terms of the new plan, as amended, and the requirements of the law.

(8) **Trustee Acceptance**. Fidelity has agreed to effect the transfer of assets within the Master Trust from the Piper Trust into the Quanex 401(k) Trust.

(9) **Compliance with Section 414(*l*) of the Code**. The merger of the Piper Plan into the Quanex 401(k) Plan will comply with section 414(*l*) of the Code.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed this 17th day of November, 2005, in multiple counterparts, each of which shall be deemed to be an original, to be effective as of the Merger Date.

QUANEX CORPORATION

By: /s/ Kevin P. Delaney
Name: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

Fidelity, in its capacity as trustee of the Master Trust, hereby acknowledges the directions from the Company set forth herein and agrees to transfer from the Piper Trust and to accept into the Quanex 401(k) Trust all of the assets in the Piper Trust, upon execution of an amendment to the Master Trust Agreement.

FIDELITY MANAGEMENT TRUST COMPANY

By: /s/ Rebecca Ethier
Name: Rebecca Ethier
Title: Vice President

Exhibit 10.2

THIRD AMENDMENT TO THE
QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

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

W I T N E S S E T H:

WHEREAS, the Sponsor maintains the Quanex Corporation Employee Savings Plan, as amended and restated effective January 1, 2002 (the "*Plan*");

WHEREAS, pursuant to Section 12.01 of the Plan, the Sponsor has the right to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor agrees that Section 5.04 of the Plan is hereby completely amended and restated, effective for mandatory distributions under the Plan on and after March 28, 2005, to provide as follows:

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 $1,000.00, 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.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on the 19th day of December, 2005.

QUANEX CORPORATION

/s/ Kevin P. Delaney
By: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

Exhibit 10.3

FOURTH AMENDMENT TO
THE PIPER IMPACT 401(K) PLAN

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

W I T N E S S E T H:

WHEREAS, the Sponsor maintains the Piper Impact 401(k) Plan, as amended and restated effective January 1, 2002 (the "*Plan*");

WHEREAS, pursuant to Section 13.01 of the Plan, the Sponsor has the right to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor agrees that Section 5.04 is hereby completely amended and restated, effective for mandatory distributions under the Plan on and after March 28, 2005, to provide as follows:

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 $1,000.00, 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.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on the 19th day of December, 2005.

QUANEX CORPORATION

/s/ Kevin P. Delaney

By: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

Exhibit 10.4

THIRD AMENDMENT TO THE
QUANEX CORPORATION 401(k) SAVINGS PLAN
FOR HOURLY EMPLOYEES

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

W I T N E S S E T H:

WHEREAS, the Sponsor maintains the Quanex Corporation 401(k) Savings Plan for Hourly Employees, as amended and restated effective January 1, 1998 (the "*Plan*");

WHEREAS, pursuant to Section 13.01 of the Plan, the Sponsor has the right to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor agrees that Section 5.05 is hereby completely amended and restated, effective for mandatory distributions under the Plan on and after March 28, 2005, to provide as follows:

5.05 **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 $1,000.00, 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 5.06. 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 have elected and to have received an immediate distribution of his entire Nonforfeitable Interest in his Account balance.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on the 19th day of December, 2005.

QUANEX CORPORATION

/s/ Kevin P. Delaney
By: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

Exhibit 10.5

FOURTH AMENDMENT TO THE
QUANEX CORPORATION HOURLY BARGAINING UNIT
EMPLOYEES SAVINGS PLAN

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

W I T N E S S E T H:

WHEREAS, the Sponsor previously established the Quanex Corporation Hourly Bargaining Unit Employees Savings Plan, as amended and restated effective January 1, 1998 (the "*Plan*");

WHEREAS, the Sponsor reserved the right in Section 12.01 to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor agrees that effective for mandatory distributions under the Plan on and after March 28, 2005, Section 5.04 of the Plan is amended to provide as follows:

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 $1,000.00, 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.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on the 19th day of December, 2005.

QUANEX CORPORATION

/s/ Kevin P. Delaney

By: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

QUANEX CORPORATION
401(k) SAVINGS PLAN

Amendment and Restatement
Effective January 1, 2005

QUANEX CORPORATION 401(k) SAVINGS PLAN

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

W I T N E S S E T H:

WHEREAS, effective October 1, 1987, Nichols-Homeshield, Inc. established the Nichols-Homeshield, Inc. Savings Plan (the "Plan");

WHEREAS, the Sponsor assumed sponsorship of the Plan effective January 1, 1992;

WHEREAS, effective January 1, 1999, the name of the Plan was changed to the "Nichols 401(k) Savings Plan";

WHEREAS, effective July 1, 1999, the Decatur Aluminum Corporation Salaried Employees' 401(k) Retirement Plan and Trust was merged into the Plan;

WHEREAS, effective January 1, 2002, the name of the Plan was changed to the "Quanex Corporation 401(k) Savings Plan";

WHEREAS, effective July 1, 2001, the Temroc Metals, Inc. Nonbargaining Unit Employees 401(k) Plan was merged into the Plan;

WHEREAS, effective December 1, 2005, the Piper Impact 401(k) Plan was merged into the Plan;

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

WHEREAS, the pursuant to Section 13.01 of the Plan, the Sponsor retained the right to amend the Plan with respect to itself and all employers that have adopted the Plan; and

WHEREAS, the Sponsor desires to amend and restate the Plan in its entirety;

NOW, THEREFORE, the Plan is hereby amended and restated as follows, effective as of January 1, 2005, except to the extent that an earlier effective date is otherwise specified or required by law.

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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) *Catch-up Salary Deferral Account* – the Participant's before-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 Sections 3.04, 3.05 or 3.06, as applicable.

(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 X.

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 ***"Allocation Period"*** means one of the following calendar quarter periods: January 1 through March 31; April 1 through June 30; July 1 through September 30; or October 1 through December 31.

1.05 "***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 maintained by an Affiliated Employer that are excludable from the Employee's gross income pursuant to section 125 of the Code, elective contributions under a qualified transportation fringe benefit plan maintained by an Affiliated Employer that are excludable from the Employee's gross income pursuant to section 132(f)(4) of the Code and elective contributions made on behalf of the Employee to any plan maintained by an Affiliated Employer that is qualified under or governed by 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, effective for Plan Years commencing on or after January 1, 1994, but prior to January 1, 2002, Annual Compensation in excess of $150,000.00 (as adjusted by the Secretary of Treasury for increases in the cost of living) shall be disregarded. Except for purposes of Section A.4.1 of Appendix A of the Plan, effective for Plan Years commencing on or after January 1, 2002, Annual Compensation in excess of $200,000.00 (as adjusted by the Secretary of Treasury for increases in the cost of living) will be disregarded. If the Plan Year is ever less than twelve months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury for increases in the cost of living) or, for Plan Years that commence on or after January 1, 2002, the $200,000.00 limitation (as adjusted by the Secretary of Treasury for increases in the cost of living) 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 twelve (12). Effective January 1, 1997, the family aggregation rules previously contained in section 401(a)(17) of the Code are disregarded.

1.06 ***"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.

1.07 ***"Applicable Distribution Period"*** means as follows:

(a) *Distributions During the Participant's or former Participant's Life*. For Distribution Calendar Years commencing on or after January 1, 2003, up to and including the Distribution Calendar Year that includes the Participant's or former Participant's death, the "*Applicable Distribution Period*" is the Participant's or former Participant's life expectancy determined using the Uniform Lifetime Table in Regulation section 1.401(a)(9)-9 for his age as of his birthday in the relevant Distribution Calendar Year. However, if the Participant's or former Participant's sole Section 401(a)(9) Beneficiary for the entire Distribution Calendar Year is his Spouse, for distributions during his lifetime, his *"Applicable Distribution Period"* shall not be less than the joint life expectancy of him and his Spouse using his and his Spouse's attained ages as of his and his Spouse's birthdays in the Distribution Calendar Year.

(b) *Distributions after the Participant's or former Participant's Death.* Effective for Distribution Calendar Years commencing on or after January, 1, 2003, if a Participant or former Participant dies on or after his Required Beginning Date, the *"Applicable Distribution Period"* for Distribution Calendar Years after the Distribution Calendar Year containing the Participant's or former Participant's date of death is the longer of the remaining life expectancy of his Section 401(a)(9) Beneficiary (if any) determined in accordance with the Final Section 401(a)(9) Regulations (calculated by using the age of the Section 401(a)(9) Beneficiary in the year following the year of the former Participant's death, reduced by one for each subsequent year) or the remaining life expectancy of the former Participant determined in accordance with the Final Section 401(a)(9) Regulations (calculated by using the age of the former Participant in the year of death, reduced by one or each subsequent year). However, if the former Participant's surviving Spouse is the former Participant's sole Section 401(a)(9) Beneficiary, the remaining life expectancy of the surviving Spouse is calculated for each Distribution Calendar Year after the year of the former Participant's death using the surviving Spouse's age as the surviving Spouse's birthday in that year; and for distribution calendar years after the year of the surviving Spouse's death, the remaining life expectancy of the surviving Spouse is calculated using the age of the surviving Spouse as of the surviving Spouse's birthday in the calendar year of the surviving Spouse's death, reduced by one for each subsequent calendar year.

1.08 "***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.

1.09 "***Board"*** means the board of directors of the Sponsor.

1.10 "***Catch-up Eligible Participant***" means a Participant who is age 50 or who is projected to attain the age of 50 by December 31 of the applicable Plan Year.

1.11 ***"Claimant"*** means a Participant, former Participant or Beneficiary, as applicable.

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

1.13 "***Committee"*** means the committee appointed by the Sponsor to administer the Plan.

1.14 "***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), welfare benefits (such as severance pay). For purposes of Supplemental Contributions and Matching Contributions, Management Incentive Plan compensation, Non-RONA bonuses, and, in the case of Employees who are compensated on a salaried basis, Improshare compensation shall be disregarded. For purposes of Matching Contributions, an Employee's Considered Compensation prior to April 1, 2001, shall be disregarded. 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. Effective for Plan Years commencing on or after January 1, 1994, but prior to January 1, 2002, Considered Compensation in excess of $150,000.00 (as adjusted by the Secretary of Treasury) shall be disregarded. Effective for Plan Years commencing on or after January 1, 2002, Considered Compensation in excess of $200,000.00 (as adjusted by the Secretary of Treasury for increases in the cost of living) will be disregarded. If the Plan Year is ever less than twelve months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury for increases in the cost of living) or, for Plan Years that commence on or after January 1, 2002, the $200,000.00 limitation (as adjusted by the Secretary of Treasury for increases in the cost of living) 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 twelve (12).

1.15 "***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 Section 3.01 and the Employee's salary deferral agreement.

(b) *Catch-up Salary Deferral Contribution* – a contribution made by the Employer pursuant to Section 3.02 and the Participant's salary deferral agreement.

(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 Sections 3.04, 3.05 or 3.06, as applicable.

(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.

1.16 ***"Decatur Plan"*** means the Decatur Aluminum Corporation Salaried Employees' 401(k) Retirement Plan and Trust.

1.17 "***Direct Rollover"*** means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

1.18 ***"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.

1.19 ***"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.

1.20 ***"Distribution Calendar Year"*** means a calendar year for which a minimum distribution is required to be made to a Participant or former Participant under section 401(a)(9) of the Code and Department of Treasury Regulations thereunder. If a Participant's or former Participant's Required Beginning Date is April 1 of the calendar year following the calendar year in which he attains age 70½, his first Distribution Calendar Year is the calendar year in which he attains age 70½. If a Participant's or former Participant's Required Beginning Date is April 1 of the calendar year following the calendar year in which he incurs a Separation From Service, his first Distribution Calendar Year is the calendar year in which he incurs a Separation From Service.

1.21 ***"Earnings Before Interest and Taxes"*** means gross margin minus selling expenses and general administrative expenses but before interest income or expense and income taxes determined on a consolidated basis of the Sponsor's aluminum facilities and Quanex Metals, Inc. However, Earnings Before Interest and Taxes shall not be reduced for contributions made under the Plan.

1.22 ***"Eligible Employee"*** means an Employee who is employed by the Sponsor at its plant in Lincolnshire, Illinois, or primarily in connection with its Nichols Aluminum or HOMESHIELD division. Effective July 1, 1999, *"Eligible Employee"* also means an Employee who is employed by Nichols Aluminum Alabama, Inc., a Delaware corporation. Effective June 1, 2000, *"Eligible Employee"* also means an Employee who is employed by Imperial Products, Inc., a Delaware corporation. Effective July 1, 2001, *"Eligible Employee"* also means an Employee who is employed by Temroc Metals, Inc., a Minnesota corporation. Effective February 13, 2002, "*Eligible Employee*" also means an Employee who is employed by Colonial Craft, Inc., a Delaware

corporation. Effective December 1, 2005, "*Eligible Employee*" also means an Employee who is employed by the Sponsor in connection with its Piper Impact division.

1.23 ***"Eligible Retirement Plan"*** means (a) an individual retirement account described in section 408(a) of the Code, (b) an individual retirement annuity described in section 408(b) of the Code (other than an endowment contract), (c) an annuity plan described in section 403(a) of the Code, (d) a qualified plan described in section 401(a) of the Code that is a defined contribution plan that accepts the Distributee's Eligible Rollover Distribution, (e) effective for a distribution on or after January 1, 2002, an eligible deferred compensation plan described in section 457(b) of the Code that is maintained by an eligible employer described in section 457(e)(1)(A) of the Code but only if the plan agrees to separately account for amounts rolled into such plan, or (f) effective for a distribution on or after January 1, 2002, an annuity contract described in section 403(b) of the Code. However, in the case of an Eligible Rollover Distribution made prior to January 1, 2002, and after the death of a Participant to a Distributee who is the Participant's surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

1.24 ***"Eligible Rollover Distribution"*** 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) unless, for a distribution made on or after January 1, 2002, the Eligible Retirement Plan to which the distribution is transferred (a) agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is not includable in gross income or (b) is an individual retirement account described in section 408(a) of the Code or an individual retirement annuity described in section 408(b) of the Code (other than an endowment contract); and, (d) effective for distributions after December 31, 1998, and prior to January 1, 2002, 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) and (e) effective for a distribution made after December 31, 2001, a distribution from any of the Participant's Accounts due to a financial hardship of the Participant.

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

1.26 ***"Employer" or "Employers"*** means the Sponsor, Nichols Aluminum-Alabama, Inc., a Delaware corporation (previously named Decatur Aluminum Corp.), a Delaware corporation, Imperial Products, Inc., a Delaware corporation, Temroc Metals, Inc., a Minnesota corporation, Colonial Craft, Inc., a Delaware corporation and any other business organization that adopts the Plan.

1.27 ***"Entry Date"*** means the first day of each calendar quarter, January 1, April 1, July 1, and October 1.

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

1.29 "**Final Section 401(a)(9) Regulations"** means the final Regulations issued by the Department of Treasury under section 401(a)(9) of the Code which are effective for the purposes of determining required minimum distributions for calendar years beginning on or after January 1, 2003. The final Regulations, other than section 1.401(a)(9)-6, were published in the Federal Register on April 17, 2002. Section 1.401(a)(9)-6 was finalized and published in the Federal Register on June 15, 2004.

1.30 ***"Five Percent Owner"*** means an Employee who is a five percent owner as defined in section 416(i) of the Code.

1.31 ***"Highly Compensated Employee"*** means, effective January 1, 1997, 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.

1.32 ***"Hour of Service"*** means each hour that an Employee is paid or entitled to payment by an Affiliated Employer for the performance of duties.

1.33 ***"Leased Employee"*** means, effective January 1, 1997, 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.

1.34 ***"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.

1.35 ***"Nonforfeitable Interest"*** means a Participant's nonforfeitable interest in amounts credited to his Account determined in accordance with Article VIII.

1.36 ***"Non-Highly Compensated Employee"*** means an Employee who is not a Highly Compensated Employee.

1.37 "***Participant***" means an Employee who is eligible to participate in the Plan under the provisions of Article II.

1.38 ***"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 after he Severs Service, whichever is applicable, and ends on the date the

Employee subsequently Severs Service.

1.39 ***"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.

1.40 ***"Plan"*** means the Quanex Corporation 401(k) Savings Plan, as amended from time to time.

1.41 ***"Plan Year"*** means the calendar year.

1.42 ***"QJSA"*** means a qualified joint and survivor annuity which is purchased with the Participant's or former Participant's Nonforfeitable Interest in his Account balance to provide equal monthly payments for the life of the Participant or former Participant, 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.

1.43 ***"QPSA"*** means a qualified preretirement survivor annuity which is purchased with the Participant's or former Participant's Nonforfeitable Interest in his Account balance to provide equal monthly payments for the life of his surviving Spouse.

1.44 ***"Qualified Domestic Relations Order"*** means a qualified domestic relations order as defined in section 414(p) of the Code.

1.45 ***"Regulation"*** means the Department of Treasury regulation specified, as it may be changed from time to time.

1.46 ***"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 70½, 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 70½, or (2) the calendar year in which the individual incurs a Separation From 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 70½, the Required Beginning Date is April 1 of the calendar year following the calendar year in which he attains age 70½.

1.47 ***"Retirement Age"*** means age 65.

1.48 ***"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 other than an amount that is not includable in the Participant's gross income.

1.49 ***"Section 401(a)(9) Beneficiary"*** means an individual who is a Participant's or former Participant's Beneficiary on the date of the Participant's or former Participant's death and (unless the Beneficiary dies after the date of the Participant's or former Participant's death and before September 30 of the following calendar year without disclaiming benefits under the Plan)

who remains a Beneficiary as of September 30 of the calendar year following the calendar year of the Participant's or former Participant's death. If the Participant's or former Participant's Beneficiary is a trust, an individual beneficiary of the trust may be a Section 401(a)(9) Beneficiary of the Participant or former Participant if the requirements of Regulation Section 1.401(a)(9)-4 are satisfied.

1.50 ***"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, (b) effective for distributions prior to January 1, 2002, 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.

1.51 ***"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.

1.52 ***"Severs Service"*** means the occurrence of a Participant's Severance From Service Date.

1.53 ***"Sponsor"*** means Quanex Corporation, a Delaware corporation.

1.54 ***"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.

1.55 ***"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. For purposes of Section 5.06, a former Spouse to whom all or a portion of a Participant's or former Participant's Plan benefit is payable under a Qualified Domestic Order shall, to that extent, be treated as a Spouse or surviving Spouse regardless of whether the Qualified Domestic Relations Order specifically provides that the former Spouse is to be treated as the Spouse for purposes of Sections 401(a)(11) and 417 of the Code.

1.56 ***"Temroc Plan"*** means the Temroc Metals, Inc. Nonbargaining Unit Employees 401(k) Plan.

1.57 ***"Trust"*** means the trust estate created to fund the Plan.

1.58 ***"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.

1.59 ***"Valuation Date"*** means each business day of the Plan Year.

ARTICLE II

ELIGIBILITY

2.01 **Eligibility Requirements**. Except as specified below, each Eligible 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 one year of Active Service. However, unless the Employee is employed by the Sponsor at its plant in Lincolnshire, Illinois, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer is not eligible to participate in the Plan 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. 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). During any period in which an individual is classified by an Employer as an intern or student with respect to such Employer, the individual is not eligible to participate in the Plan. 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. Notwithstanding any other provision of the Plan to the contrary, (1) an Employee of Imperial Products, Inc. who was employed by Imperial Products, Inc. on April 1, 2000, shall be eligible to participate in the Plan on June 1, 2000, (2) an Employee of Colonial Craft, Inc, who was employed by Colonial Craft, Inc. on February 2, 2002 shall be eligible to participate in the Plan on February 2, 2002 and (3) an Employee of the Sponsor employed primarily in connection with its Piper Impact division on December 1, 2005 shall be eligible to participate in the Plan on December 1, 2005.

2.02 **Early Participation for Some Purposes.** An Employee who satisfies the eligibility requirements specified in Section 2.01 other than the service requirement shall be eligible to participate in the cash or deferred arrangement portion of the Plan for all purposes relating to Salary Deferral Contributions and he shall be eligible to make Rollover Contributions to the Plan, in both cases, 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 (excluding amounts of

Considered Compensation deferred pursuant to Section 3.02 that are properly characterized as Catch-up Salary Deferral Contributions). 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 **Catch-up Salary Deferral Contributions.** The Employer shall make a Catch-up Salary Deferral Contribution in an amount equal to the amounts by which its Catch-up Eligible Participants' Considered Compensation was reduced as a result of salary deferral agreements authorizing Catch-up Salary Deferral Contributions (to the extent that their deferrals are properly characterized as Catch-up Salary Deferral Contributions). 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 behalf of the Catch-up Eligible Participant. Further, 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 Catch-up Eligible Participant of the amount required to be contributed to the Trust. A Catch-up Eligible Participant's right to benefits derived from Catch-up Salary Deferral Contributions made to the Plan on his behalf shall be nonforfeitable.

Catch-up Salary Deferral Contributions on behalf of a Catch-up Eligible Participant shall be permitted to the extent that the Catch-up Salary Deferral Contributions do not exceed the lesser of (a) the "applicable dollar amount" under section 414(v) of the Code for the Plan Year (as adjusted from time to time by the Secretary of Treasury), or (b) an amount equal to the Catch-up Eligible Participant's Annual Compensation for the Plan Year minus the Catch-up Eligible Participant's Salary Deferral Contributions for the Plan Year.

A final determination as to whether amounts deferred under the Plan by a Catch-up Eligible Participant are properly characterized as Salary Deferral Contributions or Catch-up Salary Deferral Contributions for a Plan Year shall be made as of the end of the Plan Year. To the extent that amounts deferred under the Plan on a pre-tax basis at the election of a Catch-up Eligible Participant exceed the least of (a) the lowest statutory limit on Salary Deferral Contributions (including limits imposed under sections 401(a)(30) and 415 of the Code), (b) the maximum limitation on Salary Deferral Contributions, if any, imposed by the Committee pursuant to Section 3.01, or (c) the highest amount of Salary Deferral Contributions on behalf of the Catch-up Eligible Participant that may be retained in the Plan under the rules of section 401(k)(8)(C) of the Code, the amounts deferred shall be characterized as Catch-up Salary Deferral Contributions. Any amounts deferred under the Plan on a pre-tax basis at the election of a Catch-up Eligible Participant that are not properly characterized as Catch-up Salary Deferral Contributions pursuant to the rules of the preceding sentence shall be characterized as Salary Deferral Contributions for all purposes under the Plan.

3.03 **Matching Contributions.** Except with respect to Employees who are included in a unit of employees covered by a collective bargaining agreement between the Employers' representative and the Sponsor and are employed at the Sponsor's plant in Lincolnshire, Illinois, 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 for periods after March 31, 2001 contributed to the Plan pursuant to such Participant's Salary Deferral Contributions and Catch-up Salary Deferral Contributions.

3.04 **Supplemental Contributions for Hourly Employees Other Than Employees of Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc.** Each Employer other than Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc. may contribute for an Allocation Period a Supplemental Contribution to be allocated among Employees who receive hourly remuneration and are eligible to participate in the Plan 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. Unless the Employer determines otherwise by a resolution of its board of directors, the Employer shall not make a Supplemental Contribution to the Plan for an Allocation Period on behalf of its Employees who are compensated on an hourly basis and are eligible to participate in the Plan unless during the fiscal year of the Sponsor immediately preceding the Allocation Period the Sponsor had positive Earnings Before Interest and Taxes.

3.05 **Supplemental Contributions for Salaried Employees Other Than Employees of Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc.** If during the fiscal year of the Sponsor immediately preceding an Allocation Period the Sponsor had positive Earnings Before Interest and Taxes, each Employer other than Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc. shall contribute for such Allocation Period on behalf of its Employees who are compensated on a salaried basis and are eligible to participate in the Plan an amount equal to 6½ percent of such Participants or former Participants' Considered Compensation for the Allocation Period.

3.06 **Supplemental Contributions for Employees of Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc.** Notwithstanding Sections 3.04 or 3.05, Nichols Aluminum-Alabama, Inc., Temroc Metals, Inc., Imperial Products, Inc. and Colonial Craft, Inc. may contribute for an Allocation Period a Supplemental Contribution to be allocated among its Employees who are Participants in such amount, if any, as shall be determined by it.

3.07 **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.

3.08 **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.

3.09 **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 9.02 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 9.03, after the application of all forfeitures available for such restoration.

3.10 **Restorative Payments.** If due to an oversight or inadvertent error an Employer fails to make a Contribution to the Plan on behalf of an Employee, as soon as administratively practicable following the Employee's discovery of the error, the Employer shall make a restorative payment to the Plan on behalf of the Employee in an amount equal to the amount of required Contributions the Employer should have made to the Plan on behalf of the Employee plus interest thereon (both determined in a manner that is consistent with then current guidance from the Department of Treasury concerning such restorative payments) after the application of forfeitures available for such restoration.

3.11 **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.

3.12 **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.

3.13 **Deadline for Payment of Contributions**. Salary Deferral Contributions and Catch-up 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. 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.

3.14 **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.

3.15 **Special Rule for Employees of the Piper Impact Divisions.** Employees eligible to participate in the Plan because they are employed by the Sponsor in connection with its Piper Impact division are not entitled to Supplemental Contributions under Sections 3.04, 3.05 or 3.06.

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 Catch-up Salary Deferral Contribution**. The Committee shall allocate the Catch-up 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

under Section 3.02 and shall credit each such Participant's share to his Catch-up Salary Deferral 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 Catch-up Salary Deferral Contributions of each such Participant bear to the total matched Salary Deferral Contributions and matched Catch-up Salary Deferral 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 Allocation Period, the Committee shall allocate the Supplemental Contribution, if any, made by an Employer on behalf of Participants or former Participants who receive hourly remuneration from the Employer (or in connection with a division specified by the Employer) for the Allocation Period among the Participants or former Participants who (1) are eligible to participate in the Plan, (2) receive hourly remuneration, (3) are employed by the Employer (or in connection with a division specified by the Employer) with respect to which the Supplemental Contribution is made, (4) are entitled to a Supplemental Contribution under Section 3.4 and (5) are employed by the Employer (or in connection with a division specified by the Employer) during the Allocation Period based upon each such Participant's or former Participant's Considered Compensation paid by the Employer as compared to the Considered Compensation for all such Participants or former Participants employed by the Employer and eligible for the allocation applicable to that division of the Employer under Section 3.04.

For each Allocation Period, the Committee shall allocate the Supplemental Contribution, if any, made by Employers on behalf of Participants or former Participants who receive salaried remuneration in accordance with Section 3.05 for the Allocation Period among the Participants or former Participants who (1) are eligible to participate in the Plan, (2) receive salaried remuneration, (3) are entitled to a Supplemental Contribution under Section 3.05 and (4) are employed by an Employer during the Allocation Period based upon each such Participant's or former Participant's Considered Compensation paid by the Employer as compared to the Considered Compensation for all such Participants or former Participants employed by the Employer and eligible for the allocation under Section 3.05.

For each Allocation Period, the Committee shall allocate the Supplemental Contribution, if any, made by the Employers specified in Section 3.06 on behalf of Participants or former Participants of those Employers for the Allocation Period among the Participants or former Participants who (1) are eligible to participate in the Plan, (2) are employed at the Employer with respect to which the Supplemental Contribution is made, (3) are entitled to a Supplemental Contribution under Section 3.06 and (5) are employed by the Employer during the Allocation Period based upon each such Participant's or former Participant's Considered Compensation paid by the Employer as compared to the Considered Compensation for all such Participants or former Participants employed by the Employer and eligible for the allocation applicable to that Employer under Section 3.06.

This Section 4.05 shall not apply to Participants or former Participants who are not entitled to Supplemental Contributions under Section 3.15 or any other provision of the Plan.

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, Section A.3.2 of Appendix A or Section A.3.3 of Appendix A, the amount forfeited will first be used to reinstate any Account required to be reinstated under Article IX, and any remaining amount will be applied to reduce the Employer's obligation to make future Matching Contributions or Supplemental Contributions. However, in no event will amounts forfeited pursuant to Section A.3.2 or Section A.3.3 of Appendix A be allocated to the Accounts of Participants whose Matching Contributions are forfeited pursuant to Section A.3.2 or Section A.3.3 of Appendix A.

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 Participant's 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 **Form of Distribution.** Any distribution under the Plan shall be made in the form of a cash lump sum. However, a Participant who accrued any benefits under the Decatur Plan has the right to elect to receive payments in the form of property instead of cash, but only with respect to his Decatur Plan account balances that were transferred to the Plan.

5.04 **Distribution Methods.** Subject to Sections 5.05 and 5.11, the distribution methods available under the Plan are (a) a lump sum payment and (b) periodic installment payments.

If a Participant or former Participant elects periodic installments payments, his Account balances shall be paid in substantially equal monthly, quarterly, semi-annual or annual periodic installments (as elected by him) for a specified number of years which may not exceed his life expectancy or the joint and last survivor life expectancy of him and his Beneficiary. Life expectancies will be determined, under Regulations issued under section 79 of the Code, as of the time payments commence. If installments are elected, the Committee may direct that the Participant's or former Participant's interest in the Plan be segregated and invested separately. Upon the death of a Participant or former Participant prior to the complete distribution of his Account balances, his Beneficiary may elect to receive the Beneficiary's interest in the Account in (a) an immediate lump sum cash payment or (b) installment payments for any period not in excess of the period (if any) selected by the Participant or former Participant.

Notwithstanding the foregoing, until July 1, 2001, the only distribution method available for a Participant who was a participant in the Temroc Plan is a lump sum payment.

Notwithstanding the foregoing, if a Participant is only eligible to participate in the Plan because he is employed by the Sponsor in connection with its Piper Impact division, the only distribution method available for such a Participant is a lump sum payment.

5.05 **Immediate Payment of Small Amount Upon Separation From Service**. Effective as of March 28, 2005, 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 $1,000.00, 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 5.06. 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 have elected and to have received an immediate distribution of his entire Nonforfeitable Interest in his Account balance.

5.06 **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.

5.07 **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 5.05. 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 5.10(a).

5.08 **QJSA Requirements.** On and after the date on which the Sponsor 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 5.08 will apply. Except for small benefits payable under Section 5.05, each Participant or former Participant 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 5.05, each other Participant 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 Participant'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 Participant's or former Participant'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 Participant or former Participant to receive Plan benefits, (4) consent to the particular optional form of benefit selected by the Participant or former Participant, (5) acknowledge the effect of the Spouse's consent to the Participant's or former Participant'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 Participant's or former Participant's waiver of the QJSA, (3) specify that the Participant or former Participant can change the Beneficiary designated by him to receive Plan benefits, without any requirement of further consent by the Spouse, (4) specify that the Participant or former Participant can change the optional form of benefit elected by the Participant or former Participant, 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 Participant's or former Participant's waiver of the QJSA, and (7) be witnessed by a notary public or a Plan representative. However, a Participant's or former Participant'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 Participant's or former Participant's Spouse (or establishment that the consent of the Participant's or former Participant's Spouse may not be obtained) shall be effective only with respect to such Spouse.

5.09 **QPSA Requirements**.

(a) *General Rules*. On and after the date on which the Sponsor 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 5.09 will apply. Except for small benefits payable under Section 5.05, the death benefit of a Participant or former Participant 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 5.12, the surviving Spouse of such a Participant or former Participant 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 Participant or former Participant and consented to by the Participant's or former Participant'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 Participant or former Participant (or permit future changes in designations by the Participant or former Participant provided that general consent requirements similar to those described in Section 5.08 are satisfied). However, if the Participant or former Participant 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 Participant or former Participant 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 Participant or former Participant remarries after executing a waiver, the Participant's or former Participant's new Spouse must execute a new consent. The Participant or former Participant 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 Participant or former Participant attains age 35 and before the Participant's or former Participant's death.

(c) *Pre-Age 35 Waivers*. A Participant or former Participant 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 5.10(e)) 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 Participant or former Participant attains age 35.

5.10 **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) *QJSA Notice and Notice of Right to Defer Receipt of Distribution***.** Except as otherwise provided in paragraph (c), the Sponsor shall provide a Participant or former Participant a written notice explaining the terms and conditions of each retirement option and the Participant's or former Participant's right to defer receipt of the Participant's or former Participant's 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, the Sponsor shall also provide a Participant or former Participant a written notice explaining (1) the QJSA requirements under Section 5.08 (including: (i) the Participant or former Participant's right to make, and the effect of, a waiver of the QJSA, (ii) the right of the Participant or former Participant's Spouse to consent or not to consent to such a waiver and (iii) the right to make, and the effect of, a revocation of a previous waiver or election) and (2) the eligibility conditions and other material features of the optional forms of benefit. The notice shall also either contain (1) a description, that is specific to the Participant or former Participant, of the financial effect of the Participant or former Participant selecting an optional form of benefit or (2) a general description of the financial effect of the election that complies with the requirements of Department of Treasury Regulations issued under section 417 of the Code. If a general description of the financial effect of the election is included in the notice, the notice must also be accompanied by a statement that includes an offer to provide, upon the Participant or former Participant's request, a statement of financial effect and a description of how the Participant or former Participant may obtain this additional information. The notice shall also either contain (1) a description, that is specific to the Participant or former Participant, of the relative values of the optional forms of benefit compared to the value of the QJSA or (2) a general description of the relative values that complies with the requirements of Department of Treasury Regulations issued under section 417 of the Code. If a general description of the relative values is included in the notice, the notice must also be accompanied by a statement that includes an offer to provide, upon the Participant or former Participant's request, a comparison of relative values that is specific to the Participant or former Participant for any presently available optional form of benefit and a description of how the Participant or former Participant may obtain this additional information. The notice requirements set forth in this paragraph (a) are collectively referred to as the "*QJSA Notice*".

(b) *Time for Giving Notice*. Except as specified below in this paragraph (b) or as permitted under paragraph (d), the QJSA Notice shall be provided to a Participant or former Participant no less than thirty days and no more than ninety days before his Annuity Starting Date. If the Participant or former Participant, after having received the QJSA Notice, affirmatively elects a form of distribution with the consent of the Participant or former Participant's Spouse (if necessary), the thirty-day timing requirement of this paragraph (b) will not apply if all of the following conditions are satisfied: (1) the Sponsor informs the Participant or former Participant in writing that the Participant or former Participant has a right to at least thirty days to consider whether to waive the QJSA and consent to a form of distribution other than a QJSA, (2) the

Participant or former Participant is permitted to revoke an affirmative distribution election at least until the Annuity Starting Date, or, if later, at any time prior to the expiration of the seven-day period that begins the day after the QJSA Notice is provided to the Participant or former Participant, (3) the Annuity Starting Date is after the date the QJSA Notice is provided to the Participant or former Participant, and (4) a distribution of the Participant or former Participant's benefit in accordance with the Participant or former Participant's affirmative election does not commence before the expiration of the seven-day period that begins the day after the QJSA Notice is provided to the Participant or former Participant. The ninety-day timing requirement of this paragraph (b) will not be failed merely because, due solely to administrative delay, a distribution commences more than ninety days after the QJSA Notice is provided to the Participant or former Participant.

(c) *Exception for Participants with Small Benefit Amounts*. Notwithstanding the preceding provisions of this Section, no QJSA Notice shall be provided to the Participant or former Participant if his benefit is payable in a lump sum under Section 5.05.

(d) *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 Participant or former Participant who is subject to Section 5.09 a written explanation of: (a) the terms and conditions of the QPSA, (b) the Participant's or former

Participant's right to waive the QPSA and the effect of the waiver, (c) the rights of the Participant's or former Participant'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 Participant or former Participant attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Participant or former Participant attains age 35, (b) ending one year after the individual becomes a Participant, or (c) ending one year after the QPSA rules first become effective with respect to the Participant or former Participant.

5.11 **Optional Forms of Distribution**. On and after the date on which the Sponsor 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 E hereto) will be available under the Plan.

5.12 **Required 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) **Required Distributions for Certain Persons Who are 70½ or Older**. Unless a Participant's or former Participant's entire nonforfeitable interest in his Plan benefit is distributed to him in a single sum no later than his Required Beginning Date or in the form of an annuity purchased from an insurance company, the Participant's or former Participant's nonforfeitable interest in his Plan benefit must begin to be

distributed, not later than his Required Beginning Date, over the life of the Participant or former Participant, or the joint lives of the Participant or former Participant and his Section 401(a)(9) Beneficiary, or over a period not extending beyond the life expectancy of the Participant or former Participant or the joint and last survivor expectancy of the Participant or former Participant and his Section 401(a)(9) Beneficiary. The distribution required to be made on or before the Participant's or former Participant's Required Beginning Date shall be the distribution required for his first Distribution Calendar Year. The minimum required distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's or former Participant's Required Beginning Date occurs must be made on or before December 31 of that Distribution Calendar Year. In the case of a benefit payable in a form other than a single sum or an annuity purchased from an insurance company, the amount that must be distributed for a Distribution Calendar Year is an amount equal to the amount specified in Paragraph (b) of this Section 5.12.

(b) **Required Minimum Distributions.** If a Participant's or former Participant's Required Beginning Date is before the date on which he incurs a Separation From Service, the Participant or former Participant (if he is then alive) must be paid either the entire amount credited to his Account or annual distributions from the Plan in the amounts required under section 401(a)(9) of the Code and Regulations thereunder commencing no later than his Required Beginning Date until his entire interest under the Plan has been distributed under this Article V. The distribution required to be made on or before the Participant's or former Participant's Required Beginning Date shall be the distribution required for his first Distribution Calendar Year. The minimum required distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's or former Participant's Required Beginning Date occurs must be made on or before December 31 of that Distribution Calendar Year. The amount that must be distributed for a Distribution Calendar Year is an amount equal to (1) the Participant's or former Participant's Account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year, increased by any contributions or forfeitures allocated and made to the Account during such immediately preceding calendar year after the Valuation Date, and decreased by distributions made during such immediately preceding calendar year after the Valuation Date, divided by (2) the Participant's or former Participant's Applicable Distribution Period.

(c) **Distribution Deadline for Death Benefit When Participant or Former Participant Dies Before His Distributions Begin.** If a Participant or former Participant dies before the date distribution of his nonforfeitable interest in his Plan benefit begins, his entire nonforfeitable interest in his Plan benefit will be distributed, or begin to be distributed, to his Section 401(a)(9) Beneficiary no later than as follows:

(1) If the Participant's or former Participant's surviving Spouse is the Participant's or former Participant's sole Section 401(a)(9) Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant or former

Participant died, or by December 31 of the calendar year in which the Participant or former Participant would have attained age 70 1/2 , if later.

(2) If the Participant's or former Participant's surviving Spouse is not the Participant's or former Participant's sole Section 401(a)(9) Beneficiary and the payment of Plan death benefits to the Section 401(a)(9) Beneficiary will not be in the form of a single sum or a commercial annuity, then distributions to the Section 401(a)(9) Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant or former Participant died.

(3) If the Participant's or former Participant's surviving Spouse is the Participant's or former Participant's sole Section 401(a)(9) Beneficiary, and the payment of a Plan death benefit to the Section 401(a)(9) Beneficiary will be in the form of a single sum, then the Participant's or former Participant's entire nonforfeitable interest in his Plan benefit will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's or former Participant's death.

(4) If there is no Section 401(a)(9) Beneficiary as of September 30 of the calendar year following the calendar year of the Participant's or former Participant's death, then the Participant's or former Participant's entire nonforfeitable interest in his Plan benefit will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's or former Participant's death.

(5) If the Participant's or former Participant's surviving Spouse is the Participant's or former Participant's sole Section 401(a)(9) Beneficiary and the surviving Spouse dies after the Participant or former Participant but before distributions to the surviving Spouse begin, this Section 5.12(e), other than Section 5.12(e)(1), will apply as if the surviving Spouse were the Participant.

Unless the Participant's or former Participant's interest is distributed in the form of an annuity or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Paragraph (b) of this Section 5.12.

(d) **Distribution of Death Benefit When Participant or Former Participant Dies On or After His Required Beginning Date**. If a Participant or former Participant dies on or after his Required Beginning Date, his Plan benefit must be distributed to his Section 401(a)(9) Beneficiary at least as rapidly as the method of payment of minimum required distributions being used as of the date of his death.

(e) **Limitations on Death Benefits.** Benefits payable under the Plan shall not be provided in any form that would cause a Participant's or former 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.

(f) **Requirements in the Case of a Commercial Annuity.** If a Participant's or former Participant's nonforfeitable interest in his Plan benefit is distributed in the form of an annuity purchased from an insurance company, distributions under the annuity contract will be made in accordance with the requirements of section 401(a)(9) of the Code and Department of Treasury Regulations.

(g) **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, including, effective January 1, 2003, the Final Section 401(a)(9) Regulations, including sections 1.401(a)(9)-1 through 1.401(a)(9)-9 of the Final Section 401(a)(9) Regulations. The provisions of the Plan reflecting section 401(a)(9) of the Code override any distribution options in the Plan inconsistent with section 401(a)(9) of the Code.

(h) **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.

5.13 **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.

5.14 **Distributions to Minors and Incapacitated Persons**. If the Committee determines that any person to whom a payment is due is a minor or 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.

5.15 **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.

5.16 **Claims Review Procedures; Claims Appeal Procedures**.

(a) **Claims Review Procedures.** When a benefit is due, the Claimant should submit a claim to the Committee. Under normal circumstances, the Committee will make a final decision 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 indicate 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, and the written notice must set forth in a manner calculated to be understood by the Claimant:

(1) the specific reason or reasons for denial;

(2) specific reference to the Plan provisions on which the denial is based;

(3) a description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary; and

(4) an explanation of the Plan claims review procedures and time limits, including a statement of the Claimant's right to bring a civil action under section 502(a) of ERISA.

If a decision is not given to the Claimant within the claims review period, the claim is treated as if it were denied on the last day of the claims review period.

(b) **Claims Appeals Procedures.** If a Claimant's claim made pursuant to Section 5.16(a) is denied and he wants a review, he must apply to the Committee in writing. That application can include any arguments, written comments, documents,

records, and other information relating to the claim for benefits. In addition, the Claimant is entitled to receive on request and free of charge reasonable access to and copies of all information relevant to the claim. For this purpose, "relevant" means information that was relied on in making the benefit determination or that was submitted, considered or generated in the course of making the determination, without regard to whether it was relied on, and information that demonstrates compliance with the Plan's administrative procedures and safeguards for assuring and verifying that Plan provisions are applied consistently in making benefit determinations. The Committee must take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether the information was submitted or considered in the initial benefit determination. 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 can schedule any meeting with the Claimant or his representative that it finds necessary or appropriate to complete its review.

(c) This Section 5.16 does not apply in connection with determinations as to whether a Participant or former Participant has incurred a Disability. Rather, such determinations shall be subject to the procedures specified in Section 5.17.

5.17 **Disability Benefit Claims Procedure**.

(a) **Disability Benefit Initial Determination Procedure**. In the case of a claim for Disability benefits, the Claimant should submit a claim to the office designated by the Committee to receive claims. Under normal circumstances, the Committee shall notify the Claimant of any Disability claims denial (wholly or partially) within 45 days after receipt of the claim.

The Committee retains the authority to unilaterally extend the initial 45 day Disability claims determination period by a period not to exceed an additional 30 days, if the Committee determines that such extension is necessary due to matters beyond the control of the Committee. If the initial Disability claims determination period is extended by the unilateral action of the Committee, the Committee shall, prior to the expiration of the initial 45 day Disability claims determination period, notify the Claimant in writing of the extension and of the circumstances requiring the extension of the Disability claims determination period.

If, prior to the end of the first 30-day extension, the Committee determines that, due to matters beyond the control of the Plan, a decision cannot be rendered within the extension period, the Disability claims determination period may be extended for an additional 30 days, provided the Committee, prior to the expiration of the first 30-day extension period, notifies the Claimant in writing of the circumstances requiring the extension and the date on which the Plan expects to render a decision. In the case of any notice extending the Disability claims determination period, the notice must be in writing and shall specifically explain the standards on which the entitlement to a benefit is based; the unresolved issues that prevent a determination on a claim; additional information that is needed to resolve those issues; and, if additional information is required from the

Claimant, a statement as to the amount of time the Claimant has to supply that information.

Calculation of Time Periods. The period of time within which a Disability benefit determination is required to be made shall begin on that date the claim is filed in accordance with this Section, without regard to whether all the information necessary to make the Disability benefits determination accompanies the filing. In the event the Disability claims determination period is extended due to the Claimant's failure to submit information necessary to such determination, the Disability claims determination period shall be tolled from the date on which the notification of the extension is sent to the Claimant until the date on which the Claimant responds to the request for additional information. The Claimant shall be afforded at least 45 days from receipt of the notice of extension to provide the specified information. If the Claimant fails to supply the specified information within the 45-day period, the claim determination process shall continue and the specified information shall be deemed not to exist.

(b) **Disability Claims Appeal Procedure**. If a Claimant's claim for a Disability benefit is denied (in whole or in part), he is entitled to a full and fair review of that denial. A full and fair review of a Disability benefit claim denial shall provide the Claimant with 180 days from the receipt of any adverse claim determination to appeal the denial. If the Claimant does not file an appeal within 180 days of the adverse claim determination, such denial becomes final.

Under the full and fair review, the Claimant shall be afforded an opportunity to submit written comments, documents, records, and other information relating to the claim for benefits to the reviewing fiduciary. The Claimant shall be entitled to receive upon request and free of charge reasonable access to and copies of all information relevant to the claim. For purposes of a Disability benefit claim denial, the term "relevant" shall mean information that was relied on in making the benefit determination or that was submitted, considered or generated in the course of making the determination, without regard to whether it was relied on, and information that demonstrates compliance with the Plan's administrative procedures and safeguards for assuring and verifying that Plan provisions are applied consistently in making benefit determinations. For this purpose, the term "relevant" shall also include a statement of policy or guidance with respect to the Plan concerning the Disability benefit for the diagnoses of the Claimant, without regard to whether such advice or statement was relied upon in making the claims determination. The review of a benefit claim denial shall not afford any deference to the initial adverse claim determination.

The review of the Disability claims denial shall be conducted by the appropriate named fiduciary who is *neither* the named fiduciary who made the initial adverse claim determination *nor* subordinate to such individual.

In reviewing a denial of a claim for a Disability benefit, in which the denial was based in whole or in part on medical judgment, the appropriate named fiduciary shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The health care professional

consulted upon review of an adverse benefit claim denial shall be *neither* the health care professional that was consulted in connection with the adverse benefit determination that is the subject of the appeal *nor* a subordinate of any such individual. The reviewing fiduciary shall provide the identification of the medical or vocational experts whose advice was obtained on behalf of the Plan in connection with Claimant's Disability benefit claim denial, without regard as to whether the advice was relied upon in making the benefit determination.

The appropriate reviewing fiduciary must take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard as to whether the information was submitted or considered in the initial benefit determination. 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 reviewing fiduciary can schedule any meeting with the Claimant or his representative that it finds necessary or appropriate to complete its review.

If a timely request is made, the reviewing fiduciary shall notify the Claimant of the determination upon appeal within 45 days after receipt of the request for review (without regard to whether all the information necessary to make the benefit determination accompanies the filing). The reviewing fiduciary retains the authority to unilaterally extend the initial 45-day review period by a period not to exceed an additional 45 days, if the fiduciary determines that special circumstances exist requiring additional time for reviewing the claim. If the initial review period is extended by the unilateral action of the appropriate reviewing fiduciary, the fiduciary shall, prior to the expiration of the initial 45 day review period, notify the Claimant in writing of the extension. The written notice of extension shall identify the special circumstances necessitating the extension and provide the anticipated date by which the Plan expects to render the determination on review.

Calculation of Time Periods Upon Appeal. The period of time within which a determination on a Disability claims appeal is required to be made shall begin on that date the appeal is filed in accordance with this Section, without regard to whether all the information necessary to make the Disability benefits determination accompanies the filing. In the event the Disability claims review period is extended due to the Claimant's failure to submit information necessary to such determination, the Disability claims review period shall be tolled from the date on which the notification of the extension is sent to the Claimant until the date on which the Claimant responds to the request for additional information. The Claimant shall be afforded at least 45 days from receipt of the notice of extension to provide the requested information. If the Claimant fails to supply the requested information within the 45-day period, the claims review process shall continue and the specified information shall be deemed not to exist.

The reviewing fiduciary shall provide the Claimant with a written notice of the Plan's benefit determination upon review. The notice shall set forth the specific reasons for its action, the Plan provisions on which its decision is based, and a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and

copies of, all documents, records, and other information relevant to the Claimant's claim for benefits, and a statement of the Claimant's right to bring an action under section 502(a) of ERISA. The notice shall also include the following statement,

"*You and the Plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency.*"

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.

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 reviewing fiduciary must make its decision, under normal circumstances, within 60 days of the receipt of the request for review. However, if the reviewing fiduciary 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. The written notice must indicate the circumstances necessitating the extension and the anticipated date for the final decision. All decisions of the reviewing fiduciary must be in writing and must include the specific reasons for its action, the Plan provisions on which its decision is based, and a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits, and a statement of the Claimant's right to bring an action under section 502(a) of ERISA. 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 Catch-up Salary Deferral Contribution Account (except for income credited to his Catch-up Salary Deferral Contribution Account), his Rollover 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 (1) the lapse of 12 months following the hardship distribution, and (2) 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*. Effective for Plan Years that commence prior to January 1, 2002, 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 Rollover Contribution Account, then from his Matching Contribution Account, then from his Supplemental Contribution Account, then from his Salary Deferral Contribution Account, and finally, from his Catch-up 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 Distributions for Certain Participants Who Have Attained Age 59½.** Prior to his Separation From Service, a Participant who is at least age 59½ is entitled to withdraw all or any portion of his Nonforfeitable Interest in amounts credited to his Accounts.

6.03 **Form of Payment.** Any distribution made pursuant to this Article VI, will be paid in the form of cash.

6.04 **Method of Payment.** Distributions pursuant to this Article VI will normally be paid in lump sums. However, the QJSA requirements of Section 5.08 will apply to any distributions made under this Article VI on or after the date as of which the Sponsor 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. Until July 1, 1999, the preceding sentence shall not apply to Participants who were participants in the Decatur Plan.

6.05 **Transition Rule for Temroc Metals, Inc. Employees.** Until July 1, 2001, this Article VI shall not apply to Participants who were in the Temroc Plan.

ARTICLE VII

LOANS

Except as specified below, the Committee may direct the Trustees to make loans to Participants (and Beneficiaries who are "parties in interest" within the meaning of ERISA) who have Nonforfeitable Interests in their Account balances. 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 Participant'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 Participants.

(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 person's Nonforfeitable Interest in his 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 Article 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 Participant 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 Nonforfeitable Interest in his Account balance. No more than 50 percent of the person's Nonforfeitable Interest in his 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 terms of each Plan loan agreement will require substantially level amortization of the loan (with payments not less frequently than quarterly) over the term of the loan. However, the level amortization requirement will not apply for a period, not longer than one year (or such longer period as may apply under the Uniformed Services Employment and Reemployment Rights Act of 1994) that an eligible borrower is on a bona fide leave of absence, either without pay from the District or at a rate of pay (after income and employment tax withholding) that is less than the amount of the installment payments required under the terms of the loan. However, the loan (including interest that accrues during the leave of absence) must be repaid by the five-year loan maturity deadline specified in paragraph (h) above (unless the loan was a home loan described in paragraph (h) above), and the amount of the installments due after the leave ends (or, if earlier, after the first anniversary of the leave or such longer period as may apply under the Uniformed Services Employment and Reemployment Rights Act of 1994) must not be less than the amount required under the terms of the original loan.

(j) A Participant's loan agreement will require that loan repayments be made through payroll deductions.

(k) 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.

(l) If a Participant or former Participant 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 Participant or former Participant will have the right to immediately pay the Trustee that amount. If the Participant or former Participant fails to repay the loan, the Trustee will foreclose on the loan and the Participant will be deemed to have received a Plan distribution of the amount foreclosed upon. The Trustee will not foreclose upon a Participant's or former Participant's Salary Deferral Contribution Account or Catch-up Salary Deferral Contributions Account until the Participant's Separation From Service.

(m) 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.

(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) The Spouse of a Participant must consent to any loan from the Plan that is made, extended or renewed after the date on which the Sponsor 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 Participant's borrowing from the Plan, and (4) be witnessed by a notary public or a Plan representative.

(p) 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 Participants.

ARTICLE VIII

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, his Catch-up Salary Deferral Contribution Account, his QNEC Account, and his Rollover 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 13.05, 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 IX

FORFEITURES AND RESTORATIONS

9.01 **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 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 9.02) 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.

9.02 **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 9.02 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 9.01.

9.03 **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.

9.04 **Transition Rule for Decatur Plan Participants.** Any Plan forfeitures occurring during or prior to the 1999 Plan Year that are attributable to persons who are or were employed by Nichols Aluminum-Alabama, Inc. will be allocated to the Supplemental Contribution Accounts of Members who are Employees of Nichols Aluminum-Alabama, Inc. in the manner specified in the provisions of the Decatur Plan as in effect immediately prior to January 1, 1999. Any forfeitures that occur during the 2000 Plan Year or subsequent Plan Years will be applied as specified in the other provisions of this Article IX.

ARTICLE X

ACTIVE SERVICE

10.01 **General Rules.** 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 date he first performs an Hour of Service and ending on his Severance From Service Date. If such an Employee Severs Service, he shall recommence earning Active Service when he again performs an Hour of Service. If such 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 such an Employee's Active Service, all Periods of Service, whether or not completed consecutively, shall be aggregated on a per-day basis. In aggregating service for purposes of determining such an Employee's Nonforfeitable Interest in amounts credited to his Account, 365 days shall be counted as one year of Active Service. Except to the extent expressly provided otherwise in the Plan, such an Employee shall be granted credit for all Periods of Service with Affiliated Employers (including Periods of Service performed while the Employee is not eligible to participate in the Plan because he does not satisfy the requirements of Section 2.01).

10.02 **Disregard of Certain Service.** If such an Employee incurs a Separation From Service at a time when he does not have a Nonforfeitable Interest in a portion of 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.

10.03 **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.

10.04 **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 such 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.

10.05 **Employment Records Conclusive.** The employment records of the Employer shall be conclusive for all determinations of Active Service.

10.06 **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 to the extent required under federal law. An Employee will be granted credit for Active Service for

services performed for a predecessor employer to the extent required by section 414(a) of the Code and Regulations issued thereunder.

10.07 **Credit for Service With Alumi-Brite Corporation.** For purposes of determining an Employee's Active Service for eligibility to participate and vesting, his service with Alumi-Brite Corporation, an Illinois corporation, will be counted as Active Service under the Plan.

10.08 **Credit for Service With Fruehauf Trailer Corporation.** For purposes of determining an Employee's Active Service for eligibility to participate and vesting, his service with Fruehauf Trailer Corporation, a Delaware corporation, will be counted as Active Service under the Plan.

10.09 **Credit for Service With Decatur Aluminum Holdings Corp. and its Subsidiaries.** For purposes of determining an Employee's Active Service for eligibility to participate and for purposes of determining an Employee's Nonforfeitable Interest in amounts credited to his Account, his service with Decatur Aluminum Holdings Corp., a Delaware corporation, and its wholly-owned subsidiaries will be counted as Active Service under the Plan.

10.10 **Credit for Service With Temroc Metals, Inc.** For purposes of determining an Employee's Active Service for eligibility to participate and for purposes of determining an Employee's Nonforfeitable Interest in amounts credited to his Account, his service with Temroc Metals, Inc., a Minnesota corporation, will be counted as Active Service under the Plan.

10.11 **Credit for Service With Imperial Products, Inc.** For purposes of determining an Employee's Active Service for eligibility to participate and for purposes of determining an Employee's Nonforfeitable Interest in amounts credited to his Account, his service with Imperial Products, Inc., a Delaware corporation, will be counted as Active Service under the Plan.

10.12 **Credit for Service With Alcoa, Inc. and Golden Aluminum Company.** For purposes of determining an Employee's Active Service for eligibility to participate and for purposes of determining an Employee's Nonforfeitable Interest in amounts credited to his Account, his service with Alcoa, Inc., a Pennsylvania corporation, and Golden Aluminum Company, while owned by ACX Technologies, Inc. or Crown, Cork & Seal Company, Inc., will be counted as Active Service under the Plan.

10.13 **Special Transitional Rules.** Any Employee of the Sponsor who was an Employee prior to January 20, 1995, shall have his Active Service for all purposes calculated under the provisions of the Plan in effect before January 20, 1995, if that method of calculating his Active Service is more beneficial for him than the method otherwise set out in this Article X. In addition, any Employee of Nichols Aluminum-Alabama who was a participant in the Decatur Plan shall have his Active Service for all purposes calculated under the provisions of the Decatur Plan in effect before July 1, 1999, if that method of calculating his Active Service is more beneficial for him than the method otherwise set out in this Article X.

ARTICLE XI

INVESTMENT ELECTIONS

11.01 **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.

11.02 **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 XII

ADOPTION OF PLAN BY OTHER EMPLOYERS

12.01 **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.

12.02 **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.

12.03 **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.

12.04 **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 XIII

AMENDMENT AND TERMINATION

13.01 **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 3.13;

(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.

13.02 **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.

13.03 **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.

13.04 **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.

13.05 **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 XIV

MISCELLANEOUS

14.01 **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.

14.02 **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.

14.03 **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, effective for judgments, orders and decrees issued, and settlement agreements entered into, on or after August 5, 1997, 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.

14.04 **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).

14.05 **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.

14.06 **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.

14.07 **Reemployed Veterans**. Effective January 12, 1994, 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.

14.08 **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 5.16. Further, no person may bring an action pertaining to a claim for benefits under the Plan or the Trust following 180 days after the Committee's final denial of his claim for benefits.

14.09 **Transition Rule Relating to Mergers of Decatur Plan and Temroc Plan Into the Plan**. The provisions of the Decatur Plan and the Temroc Plan relating to eligibility to participate, service credit for vesting purposes (solely in the case of persons who were participants in the Decatur Plan), allocations of contributions, distributions and loans that were in effect prior to the mergers of such plans into the Plan shall remain in effect until the effective dates of the mergers. However, as the Decatur Plan and the Temroc Plan are amended, restated and continued in the form of the Plan, to the extent required by law, the provisions of the Plan, as amended and restated in the form of the Agreement shall apply to the Decatur Plan and the Temroc Plan, as merged into the Plan, on a retroactive basis.

14.10 **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.

14.11 **Special Provisions Applicable to Nichols Aluminum-Golden, Inc. Employees**.

(a) *Cessation of Participation*. Upon the closing of the sale by the Sponsor of the stock of Nichols Aluminum-Golden, Inc., (the "*NAG Sale*"), an individual who is employed by Nichols Aluminum-Golden, Inc. shall cease to be eligible to participate in the Plan.

(b) *Sale is Distribution Event*. An individual who continues to be employed by Nichols Aluminum-Golden, Inc. following the NAG Sale shall be deemed to have incurred a "Separation From Service" for all purposes under the Plan.

(c) *Vesting*. Notwithstanding any other provision of the Plan to the contrary, an individual who continues to be employed by Nichols Aluminum-Golden, Inc. immediately following the NAG Sale shall have a fully nonforfeitable interest in his Account balance upon the Sale.

(d) *Loans.* Notwithstanding any other provision of the Plan to the contrary, an individual who on the date of the NAG Sale (i) has an outstanding loan from the Plan and (ii) is deemed to incur a Separation From Service as a result of the Sale, will be allowed to repay to the Trustee the outstanding loan principal balance and any accrued but unpaid interest over the remaining term of the loan in accordance with the amortization schedule provided in his loan agreement as if he had not incurred a Separation From Service. The individual's loan repayments will not be required to be made on a payroll deduction basis; but rather may be made utilizing a loan coupon procedure established by the Loan Committee.

IN WITNESS WHEREOF, Quanex Corporation has caused this Agreement to be executed this 19th day of December, 2005, in multiple counterparts, each of which shall be deemed to be an original, to be effective the 1st day of January, 2005, 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

/s/ Kevin P. Delaney
By: Kevin P. Delaney
Title: Senior Vice President – General Counsel and Secretary

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 excluding Catch-up Salary Deferral Contributions and including Salary Deferral Contributions, (b) Employee after-tax contributions, and (c) forfeitures. For this purpose, Employee contributions are determined without regard to any rollover contributions (as defined in sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3) and 457(e)(16) of the Code without regard to employee contributions to a simplified employee pension which are excludable from gross income under section 408(k)(6) of the Code). 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 or Section A.2.3.B as applicable.

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"*** means, for Limitation Years that commence prior to January 1, 2002, the lesser of (1) $30,000.00 as adjusted by the Secretary of Treasury for increases in the cost of living, or (2) 25 percent of the Participant's Annual Compensation for the Limitation Year. "*Maximum Permissible Amount*" means, for Limitation Years that commence on or after January 1, 2001, the lesser of (1) $40,000.00 as adjusted by the Secretary of Treasury for increases in the cost of living or (2) 100 percent of the Participant's Annual Compensation for the Limitation Year. The Annual Compensation limitation referred to in clauses (2) of the immediately preceding sentences shall not apply to any contribution for medical benefits (within the

meaning of section 401(h) or section 419A(f)(2) of the Code) that is otherwise treated as an Annual Addition under section 415(*l*)(1) or section 419A(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 Matching 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, effective for Plan Years that commence prior to January 1, 2002, 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 a calendar year may not, when added to his elective deferrals under other plans or arrangements which are both (1) described in sections 401(k), 403(b), 408(k) and 408(p)(2) of the Code and (2) maintained by the Employer or an Affiliated Employer, exceed the amount of the limitation in effect under section 402(g)(1) of the Code for the Participant's taxable year beginning in such calendar year. 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.A. **Limitation Based upon Actual Deferral Percentage for Employees Other Than Certain Persons Working In Lincolnshire, Illinois.** The following rules of this Section A.2.3.A are applicable for Employees other than Employees who are working in Lincolnshire, Illinois and are included in a unit of employees covered by a collective bargaining agreement between the Sponsor and the employees' representative. Effective for Plan Years commencing on or after January 1, 1997, 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 (1) the *preceding* Plan Year in the case of testing for the 1997 Plan Year and Plan Years commencing on or after January 1, 2001, or (2) the *current* Plan Year in the case of testing for Plan Years commencing prior to January 1, 2001, other than the 1997 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, effective for Plan Years commencing on or after January 1, 1998, an individual who is not a Highly Compensated Employee and who has not satisfied the minimum age and service requirements of section 410(a)(1)(A) of the Code will *not* be treated as an eligible Employee for purposes of this Section A.2.3.A if the Sponsor elects to apply section 410(b)(4)(3) 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 2½ 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 2½ months after the close of the Plan Year for which they were made.

For the Plan Year that commences on January 1, 2001, the Actual Deferral Percentage of persons who are not Highly Compensated Employees will be determined by taking into account only (1) Salary Deferral Contributions for such persons that were taken into account for purposes of the actual deferral

percentage test set forth in section 401(k) of the Code and this Section A.2.3.A for the Plan Year that commenced on January 1, 2000 and (2) QNECS that were allocated to the Accounts of such persons for the Plan Year that commenced on January 1, 2000 but that were not used to satisfy the actual deferral percentage test set forth in section 401(k) of the Code and this Section A.2.3.A or the actual contribution percentage test set forth in section 401(m) of the Code and Section A.2.4 for the Plan Year that commenced on January 1, 2000.

A.2.3.B. **Limitation Based upon Actual Deferral Percentage for Certain Employees Working In Lincolnshire, Illinois.** The following rules of this Section A.2.3.B are applicable for Employees other than Employees who are working in Lincolnshire, Illinois and are included in a unit of employees covered by a collective bargaining agreement between the Sponsor and the employees' representative. Effective for Plan Years

commencing on or after January 1, 1997, 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:

(c) 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

(d) 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, effective for Plan Years commencing on or after January 1, 1998, an individual who is not a Highly Compensated Employee and who has not satisfied the minimum age and service requirements of section 410(a)(1)(A) of the Code will *not* be treated as an eligible Employee for purposes of this Section A.2.3.B if the Sponsor elects to apply section 410(b)(4)(3) 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 2½ 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 2½ months after the close of the Plan Year for which they were made.

For the Plan Year that commences on January 1, 1997, the Actual Deferral Percentage of persons who are not Highly Compensated Employees will be determined by taking into account only (1) Salary Deferral Contributions for such persons that were taken into account for purposes of the actual deferral percentage test set forth in section 401(k) of the Code and this Section A.2.3.A for the Plan Year that commenced on January 1, 1996 and (2) QNECS that were allocated to the Accounts of such persons for the Plan Year that commenced on January 1, 1996 but that were not used to satisfy the actual deferral percentage test set forth in section 401(k) of the Code and this Section A.2.3.B.

A.2.4 **Limitation Based upon Contribution Percentage**. The following rules are applicable for Employees other than Employees who are working in Lincolnshire, Illinois and are included in a unit of employees covered by a collective bargaining agreement between the Sponsor and the employees' representative. Effective for Plan Years commencing on or after January 1, 1997, the Contribution Percentage for eligible Highly Compensated Employees for any Plan Year must bear a relationship to the Actual Contribution Percentage for all other eligible Employees for (1) the *preceding* Plan Year in the case of testing for Plan Years commencing on or after January 1, 2001, or (2) the *current* Plan Year in the case of testing for Plan Years commencing prior to January 1, 2001, which meets either of the following tests:

(e) the Contribution Percentage for all other eligible Employees multiplied by 1.25; or

(f) the lesser of the Contribution Percentage for all other eligible Employees multiplied by two, or the Contribution Percentage for all other eligible Employees 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 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 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 Contributions but for the limitations on his Annual Additions imposed by section 415 of the Code is an eligible Employee.

Notwithstanding the foregoing, effective for Plan Years commencing on or after January 1, 1998, an individual who is not a Highly Compensated Employee and who has not satisfied the minimum age and service requirements of section 410(a)(1)(A) of the Code will *not* be treated as an eligible Employee for purposes of this Section A.2.4 if the Sponsor elects to apply section 410(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.

A 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 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 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 2½ months after the close of the Plan Year for which they were made.

For the Plan Year that commences on January 1, 2001, the Contribution Percentage of persons who are not Highly Compensated Employees will be determined by taking into account only Matching Contributions made on behalf of such persons that were taken into account for purposes of the actual contribution percentage test set forth in section 401(m) of the Code and this Section A.2.4 for the Plan Year that commenced on January 1, 2000 and QNECS that were allocated to the Accounts of such persons for the Plan Year that commenced on January 1, 2000 but that were not used to satisfy the actual deferral percentage test set forth in section 401(k) of the Code and Section A.2.3 or the actual contribution percentage that set forth in section 401(m) of the Code and this Section A.2.4 for the Plan Year that commenced on January 1, 2000.

A.2.5 **Additional Test in the Event of Multiple Use of the Alternative Limitation**. Effective for Plan Years that commence prior to January 1, 2002, 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

(g) 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

(h) 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.

Notwithstanding the foregoing, the references in this Section A.2.5 to "the preceding Plan Year" shall be deemed to be references to "the current Plan Year" in the case of testing for Plan Years commencing prior to January 1, 2001.

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 QNEC which it elects to have treated as a Section 401(k) Contribution. However, in the case of testing for any Plan Year that commences on or after January 1, 2001, a QNEC shall not be taken into account for purposes of the test set forth in section 401(k) of the Code and Section A.2.3 for such Plan Year unless it is made and allocated by the close of such Plan Year.

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, effective for Plan Years that commence on or after January 1, 1997, 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.

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.

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. To the extent that Excess Section 401(k) Contributions are distributed pursuant to this Section A.3.2, the Matching Contributions made with respect to those Excess Section 401(k) Contributions shall be forfeited.

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 forfeited or (b) the Employer may make a QNEC which it elects to have treated as a Section 401(m) Contribution. However, in the case of testing for any Plan Year that commences on or after January 1, 2001, a QNEC shall not be taken into account for purposes of the test set forth in section 401(m) of the Code and Section A.2.4 for such Plan Year unless it is made and allocated by the close of such 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, effective for the Plan Years that commence on or after January 1, 1997, the total amount of Excess Aggregate 401(m) Contributions shall be forfeited on the basis of the respective amounts attributable to each Highly Compensated Employee. The Highly Compensated Employees subject to the forfeitures are determined using the "dollar leveling method." The Matching Contributions of the Highly Compensated Employee with the greatest dollar amount of 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 Matching Contributions and other contributions treated as Section 401(m) Contributions for the Plan Year to equal the

dollar amount of the 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 forfeited from the Account of the Highly Compensated Employee with the highest dollar amount. However, if a lesser reduction, when added to the total dollar amount already forfeited under this Section A.3.3, would equal the total Excess Aggregate 401(m) Contributions, the lesser reduction amount shall be forfeited. This process shall be continued until the amount of the Excess Aggregate 401(m) Contributions have been forfeited.

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. Effective as of January 1, 1987, until January 1, 2000 (the effective date of the repeal of section 415(e) of the Code) a permanent adjustment shall be made to the defined contribution fraction for purposes of applying the limitation of section 415(e) of the Code to the Plan. The adjustment is to permanently subtract from the defined contribution numerator an amount equal to the product of (1) the sum of the defined contribution fraction plus the defined benefit fraction as of the determination date minus one, times (2) the denominator of the defined contribution fraction as of the determination date. For this purpose, the determination date is December 31, 1986. Both fractions in clauses (1) and (2) above are computed in accordance with section 415 of the Code as amended by the Tax Reform Act of 1986 and section 1106(i)(3) of the Tax Reform Act of 1986.

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.

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, for Plan Years commencing prior to January 1, 2002, an Employee or former Employee (including a 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.

"*Key Employee****"*** means for Plan Years commencing on or after January 1, 2002, an Employee or former Employee (including a deceased Employee) who at any time during the Plan Year is (a) an officer of any Affiliated Employer having Annual Compensation greater than $130,000.00 (as adjusted by the Secretary of Treasury from time to time for increases in the cost of living), (b) a Five Percent Owner of any Affiliated Employer, treated separately, or (c) a One Percent Owner of any Affiliated Employer, treated separately, having Annual Compensation greater than $150,000.00. For this purpose no more than fifty (50) employees or, if lesser, the greater of three (3) employees or ten percent (10%) of the employees shall be treated as officers.

For purposes of determining the number of officers taken into account, the following employees shall be excluded: (1) employees who have not completed six (6) months of Vesting Service, (2) employees who normally work less than seventeen and one-half (17-1/2) hours per week, (3) employees who normally work not more than six (6) months during any year, (4) employees who have not attained the age of twenty-one (21), and (5) except to the extent provided in Regulations, employees who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and an Affiliated Employer. Section 416(i) of the Code shall be used to determine percentage of ownership.

The determination of who is a Key Employee will be made in accordance with section 416(i) of the Code and applicable Regulations.

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) effective for Plan Years that begin on or after January 1, 2002, 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 after his Separation From Service and during the one-year period ending on the Determination Date;

(b) effective for Plan Years that begin on or after January 1, 2002, 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 prior to his Separation From Service and during the five-year period ending on the Determination Date;

(c) effective for Plan Years that begin prior to January 1, 2002, 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;

(d) all rollover contributions made by the Employee to the Plan shall not be considered by the Plan for either test;

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

(f) effective for Plan Years that begin on or after January 1, 2002, notwithstanding any other provision of the Plan, 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 one-year period ending upon the Determination Date; and

(g) effective for Plan Years that begin prior to January 1, 2002, notwithstanding any other provision of the Plan, 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. For purposes of this Section B.2.3 Years of Active Service shall be determined under the rules of section 411(a)(4), (5) and (6) of the Code except that Years of Active Service beginning prior to January 1, 1984 and Years of Active Service for any Plan Year for which the Plan was not top-heavy shall be disregarded. Also, any Year of Active Service shall be disregarded to the extent that such Year of Active Service occurs during a Plan Year when the Plan benefits (within the meaning of section 410(b) of the Code) no Key Employee or former Key Employee.

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 five 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 Non-Key Employees and who are in the employ of the Employer at the end of the Plan Year in proportion to each such Participant's Annual Compensation until each Non-Key Employee Participant has had an amount equal to five 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. 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 participation (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 **Modification of the Section 415(e) Limit if Plan Becomes Top-Heavy**. For Plan Years beginning before January 1, 2000, in any Plan Year that the Plan is a Top-Heavy Plan the limitations in section 415(e) 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 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, 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, are 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.

APPENDIX E

OPTIONAL FORMS OF DISTRIBUTION

Subject to Sections 5.04, 5.07 and 5.08 of the Plan, in addition to the forms of distribution available under Section 5.03 of the Plan, the optional forms of distributions set forth below shall be available on and after the date on which the Sponsor 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 Participant or former Participant shall receive equal monthly payments for his lifetime.

2. **Option B**. A last survivor pension under which the Participant or former Participant shall receive 85 percent of the monthly pension benefit otherwise payable under Option A, and upon the death of the Participant or former Participant, the Beneficiary shall receive ½ of the monthly pension benefit paid to the Participant or former Participant prior to this death, provided however, that if the Beneficiary is younger than the Participant or former Participant, the 85 percent factor shall be reduced by one percent for each full year's difference in the age of the Participant or former Participant and the Beneficiary, and if the Beneficiary is older than the Participant or former Participant, the 85 percent factor shall be increased by one percent for each full years difference in the age of the Participant or former Participant and the Beneficiary (up to a maximum of 100 percent).

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

4. **Option D**. A reduced monthly pension payable to the Participant or former Participant during his lifetime, provided that, if the Participant or former Participant 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 Participant dies prior to his receipt of all of such 120 payments without having designated a Beneficiary, of if the Beneficiary predeceases the former Participant, the then-present value of any remaining payments shall be paid in a lump sum to the former Participant's estate. If the designated Beneficiary dies after the former Participant 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 Participant 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 Participant or former Participant or Beneficiary dies before the Participant's or former Participant's Annuity Starting Date.

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

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

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Raymond A. Jean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 3, 2006

/s/ Raymond A. Jean

Raymond A. Jean
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

ACTING PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Brent L. Korb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 3, 2006

/s/ Brent L. Korb

Brent L. Korb
Vice President – Corporate Controller
(Principal Accounting Officer and acting Principal Financial Officer)

Exhibit 32.1

Certification Pursuant To Section 906
of the Sarbanes-Oxley Act of 2002

We hereby certify that the accompanying Quarterly Report of Quanex Corporation on Form 10-Q for the quarter ended January 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Corporation.

March 3, 2006

/s/ Raymond A. Jean	/s/ Brent L. Korb
Raymond A. Jean	Brent L. Korb
Chairman of the Board, President and Chief Executive Officer	*Vice President—Corporate Controller (Principal Accounting Officer and acting Principal Financial Officer)*