

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

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

For the fiscal year ended December 31, 1998

OR

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

Commission file number 1-5725

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

Nichols-Homeshield 401(k) Savings Plan - Davenport

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

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

INDEPENDENT AUDITORS' REPORT

The Benefits Committee
Quanex Corporation
Houston, Texas

Re: Nichols Homeshield 401(k) Savings Plan - Davenport

We have audited the accompanying statements of net assets available for benefits of the Nichols Homeshield 401(k) Savings Plan - Davenport (the "Plan") as of December 31, 1998 and 1997 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

June 1, 1999

QUANEX CORPORATION
NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN - DAVENPORT

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | December 31, | |
|--|---------------|---------------|
| | 1998 | 1997 |
| Assets: | | |
| Investments at fair value - | | |
| Mutual fund assets: | | |
| Fidelity Puritan Fund | \$ 195,835 | \$ 179,217 |
| Fidelity Magellan Fund | 3,430,108 | 2,375,863 |
| Fidelity Contrafund | 2,047,947 | 1,600,841 |
| Fidelity Growth and Income Fund | 5,154,650 | 4,034,185 |
| Fidelity Retirement Growth Fund | 390,842 | -- |
| Fidelity Overseas Fund | 174,354 | 162,891 |
| Fidelity Balanced Fund | 973,619 | 860,519 |
| Fidelity Blue Chip Fund | 137,975 | -- |
| Fidelity Asset Manager Fund | 158 | -- |
| Fidelity Low-Priced Stock Fund | 75,896 | -- |
| Fidelity Government Money Market Fund | 2,800,706 | 2,952,770 |
| Templeton Foreign Fund | 78,783 | 41,351 |
| Neuberger & Berman Partners Trust Fund | -- | -- |
| Quanex Corporation common stock | 244,895 | 75,423 |
| Common/commingled trust | 479,821 | 170,695 |
| | 16,185,589 | 12,453,755 |
| Participant loans | 713,260 | 714,210 |
| Total | 16,898,849 | 13,167,965 |
| Employee contributions receivable | 84,292 | 55,672 |
| Employer contributions receivable | 81,314 | 73,098 |
| Total | 165,606 | 128,770 |
| Net assets available for benefits | \$ 17,064,455 | \$ 13,296,735 |

See notes to financial statements

QUANEX CORPORATION
NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN - DAVENPORT

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE
FOR BENEFITS

| | December 31, | |
|--|---------------------------------|---------------------------------|
| | 1998 | 1997 |
| | ----- | ----- |
| Investment income: | | |
| Interest and dividends | \$ 920,405 | \$ 761,522 |
| Net appreciation in fair value of investments | 1,981,110 | 1,199,903 |
| Total | ----- 2,901,515 | ----- 1,961,425 |
| Contributions: | | |
| Employer | 744,683 | 705,375 |
| Less forfeitures | 6,767 | 8,290 |
| | ----- 737,916 | ----- 697,085 |
| Employee | 806,532 | 731,024 |
| Total | ----- 1,544,448 | ----- 1,428,109 |
| Interest on participant loans | 54,515 | 50,003 |
| Total additions | ----- 4,500,478 | ----- 3,439,537 |
| Benefit payments | 729,922 | 251,373 |
| Loan processing fees | 2,836 | 2,633 |
| Total deductions | ----- 732,758 | ----- 254,006 |
| Increase in net assets available for benefits | 3,767,720 | 3,185,531 |
| Net assets available for benefits: | | |
| Beginning of year | 13,296,735 | 10,111,204 |
| End of year | ----- \$ 17,064,455 ===== | ----- \$ 13,296,735 ===== |

See notes to financial statements

QUANEX CORPORATION
NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN - DAVENPORT

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

A. DESCRIPTION OF THE PLAN

The following description of the Nichols-Homeshield 401(k) Savings Plan - Davenport (the "Plan") is provided for general informational purposes only. Participants should refer to the Plan document for more complete information.

- (1) General. The Plan, sponsored by Quanex Corporation (the "Company"), was established on October 1, 1987 and was amended and restated in its entirety in January 1993. The Plan is a defined contribution plan, which covers substantially all union hourly employees of the Davenport, Iowa facilities. The Plan permits eligible employees to elect a deferral of compensation under Section 401(k) of the Internal Revenue Code ("Code"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The assets of the Plan are held in trust by Fidelity Management Trust Company ("Fidelity" or the "Trustee"). The Benefits Committee (the "Committee"), appointed by the Company's Board of Directors, serves as the Plan administrator.
- (2) Contributions. Participants may elect to reduce the current level of his/her compensation from 1% to 15% by contributing on a pre-tax basis as defined by the Plan agreement. Participants may also contribute in half percentages. Company contributions are made based on a percentage of the employee's compensation for each individual with at least 1,000 hours of employment service.
- (3) Participant Accounts. Each participant's account is credited with the participant's contribution, the employer's contribution, and the participant's pro rata share of investment earnings. Investment earnings allocations are based on individual participant account balances as of the end of the period in which the income is earned.
- (4) Investment Options. Participants may direct allocations of their contributions to the following funds:

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

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

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

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

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

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

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

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

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

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

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

Templeton Foreign Fund - invests in foreign securities.

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

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

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

- (5) Vesting. Participants are immediately vested in their contributions and earnings thereon. Vesting in the employer contribution is based on years of credited service. A participant is 20% vested for each year of credited service and fully vested after five years. If a participant terminates employment prior to becoming fully vested, the nonvested portion of the employer contributions are immediately forfeited by the participant and utilized to reduce future employer contributions.
- (6) Payment of Benefits. The Plan is intended for long-term savings but provides for early withdrawals and loan arrangements under certain conditions. Upon termination of service, a participant may elect to receive a lump-sum distribution equal to the total amount of vested benefits in his or her account. As of December 31, 1998 and 1997, net assets available for benefits included benefits of \$150,546 and \$155,121, respectively, due to participants who had withdrawn from participation in the Plan.
- (7) Loans. Loans may be granted to a participant of the Plan at the Committee's discretion. Loan terms range up to five years or seven years if used for the purchase of a primary residence. The loans bear a reasonable rate of interest established by the Committee. Interest on the loan is allocated to the borrower's participant account.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Accounting Basis. The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.
- (2) Administrative Expenses. The Company pays administrative expenses of the Plan. The participant pays loan set up and carrying fees to Fidelity.
- (3) Investment Valuation. The Plan recognizes net appreciation or depreciation in the fair value of its investments. Investments are reflected at fair value in the financial statements. Fair value of mutual fund assets is determined using a quoted net asset value. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined using the last recorded sales price. The fair value of the common/commingled trust is at face value.
- (4) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in the net assets available for benefits during the reporting

period. The Plan's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.

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

C. PLAN TERMINATION

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

D. FEDERAL INCOME TAX STATUS

The Plan is subject to specific rules and regulations related to employee benefit plans under the Department of Labor and the Internal Revenue Service ("IRS"). The Plan is a qualified trust under Sections 401(a) and 401(k) of the Code and, as a result, is exempt from taxation under Section 501(a) of the Code. The Plan received a favorable determination letter dated June 18, 1993 from the IRS. The Company believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, it believes the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

E. RELATED PARTY TRANSACTIONS

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

| | 1998 | | | 1997 | | |
|-----------|--------|------------|-------------|--------|-----------|-------------|
| | Shares | Cost | Sales Price | Shares | Cost | Sales Price |
| | ----- | ---- | ----- | ----- | ---- | ----- |
| Purchases | 8,471 | \$ 169,423 | | 2,101 | \$ 60,399 | |
| Sales | 299 | 8,252 | \$ 8,483 | 4,284 | 96,290 | \$ 135,865 |

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

| | 1998 | | | 1997 | | |
|-----------|-----------|---------------|--------------|-----------|--------------|--------------|
| | Shares | Cost | Sales Price | Shares | Cost | Sales Price |
| | ----- | ---- | ----- | ----- | ---- | ----- |
| Purchases | 6,369,513 | \$ 19,687,013 | | 6,215,536 | \$16,876,202 | |
| Sales | 6,481,196 | 18,111,552 | \$18,452,425 | 5,946,135 | 14,851,548 | \$15,003,060 |

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

| | 1998 | | | 1997 | | |
|-----------|-----------|-------------|--------------|-----------|-------------|--------------|
| | Shares | Cost | Sales Price | Shares | Cost | Sales Price |
| | ----- | ---- | ----- | ----- | ---- | ----- |
| Purchases | 4,359,235 | \$4,359,235 | | 1,810,215 | \$1,810,215 | |
| Sales | 4,050,111 | 4,050,111 | \$ 4,050,111 | 1,693,615 | 1,693,615 | \$ 1,693,615 |

F. SUPPLEMENTAL FUND INFORMATION

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

| | 1998 | 1997 |
|---------------------------------------|------------|------------|
| | ----- | ----- |
| Employer Contributions: | | |
| Fidelity Puritan Fund | \$ 15,173 | \$ 15,179 |
| Fidelity Magellan Fund | 131,043 | 114,616 |
| Fidelity Contrafund | 82,027 | 80,449 |
| Fidelity Growth and Income Fund | 200,061 | 180,793 |
| Fidelity Retirement Growth Fund | 6,059 | -- |
| Fidelity Overseas Fund | 16,739 | 15,443 |
| Fidelity Balanced Fund | 54,790 | 52,073 |
| Fidelity Blue Chip Fund | 1,553 | -- |
| Fidelity Asset Manager Fund | -- | -- |
| Fidelity Low-Priced Stock Fund | 478 | -- |
| Fidelity Government Money Market Fund | 186,631 | 205,532 |
| Templeton Foreign Fund | 2,931 | 2,083 |
| N & B Partners Trust Fund | 520 | -- |
| Quanex Corporation common stock | 21,699 | 19,083 |
| Common/commingled trust | 18,212 | 11,834 |
| | ----- | ----- |
| | \$ 737,916 | \$ 697,085 |
| | ===== | ===== |

| | 1998 | 1997 |
|---------------------------------------|------------|------------|
| | ----- | ----- |
| Employee Contributions: | | |
| Fidelity Puritan Fund | \$ 19,468 | \$ 18,633 |
| Fidelity Magellan Fund | 160,241 | 143,283 |
| Fidelity Contrafund | 107,134 | 101,205 |
| Fidelity Growth and Income Fund | 223,484 | 190,051 |
| Fidelity Retirement Growth Fund | 4,324 | -- |
| Fidelity Overseas Fund | 19,281 | 15,451 |
| Fidelity Balanced Fund | 57,980 | 54,252 |
| Fidelity Blue Chip Fund | 1,929 | -- |
| Fidelity Asset Manager Fund | 257 | -- |
| Fidelity Low-Priced Stock Fund | 1,093 | -- |
| Fidelity Government Money Market Fund | 152,625 | 168,639 |
| Templeton Foreign Fund | 8,104 | 4,892 |
| N & B Partners Trust Fund | 1,201 | -- |
| Quanex Corporation common stock | 26,791 | 22,566 |
| Common/commingled trust | 22,620 | 12,052 |
| | ----- | ----- |
| | \$ 806,532 | \$ 731,024 |
| | ===== | ===== |

| | 1998 | 1997 |
|---------------------------------------|------------|------------|
| | ----- | ----- |
| Benefit payments: | | |
| Fidelity Puritan Fund | \$ -- | \$ 3,750 |
| Fidelity Magellan Fund | 80,320 | 46,245 |
| Fidelity Contrafund | 58,611 | 4,335 |
| Fidelity Growth and Income Fund | 209,527 | 37,597 |
| Fidelity Retirement Growth Fund | -- | -- |
| Fidelity Overseas Fund | 5,455 | 616 |
| Fidelity Balanced Fund | 170,642 | 32,967 |
| Fidelity Blue Chip Fund | -- | -- |
| Fidelity Asset Manager Fund | -- | -- |
| Fidelity Low-Priced Stock Fund | -- | -- |
| Fidelity Government Money Market Fund | 197,611 | 120,192 |
| Templeton Foreign Fund | -- | -- |
| N & B Partners Trust Fund | -- | -- |
| Quanex Corporation common stock | 7,756 | 5,448 |
| Common/commingled trust | -- | 223 |
| | ----- | ----- |
| | \$ 729,922 | \$ 251,373 |
| | ===== | ===== |

| | 1998 | 1997 |
|---------------------------------------|--------------|--------------|
| | ----- | ----- |
| Investment income: | | |
| Fidelity Puritan Fund | \$ 28,041 | \$ 30,478 |
| Fidelity Magellan Fund | 843,718 | 458,867 |
| Fidelity Contrafund | 483,912 | 290,428 |
| Fidelity Growth and Income Fund | 1,106,932 | 846,425 |
| Fidelity Retirement Growth Fund | 27,283 | -- |
| Fidelity Overseas Fund | 51,513 | 12,335 |
| Fidelity Balanced Fund | 171,167 | 147,765 |
| Fidelity Blue Chip Fund | 17,962 | -- |
| Fidelity Asset Manager Fund | 2,505 | -- |
| Fidelity Low-Priced Stock Fund | (1,368) | -- |
| Fidelity Government Money Market Fund | 144,978 | 149,401 |
| Templeton Foreign Fund | (135) | 33 |
| N & B Partners Trust Fund | 108 | -- |
| Quanex Corporation common stock | 11,849 | 20,355 |
| Common/commingled trust | 13,050 | 5,338 |
| | ----- | ----- |
| | \$ 2,901,515 | \$ 1,961,425 |
| | ===== | ===== |

ITEM 27-a SCHEDULE OF ASSETS HELD FOR INVESTMENTS PURPOSES
 EIN: 38-1872178; PN 016

QUANEX CORPORATION
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN - DAVENPORT

SUPPLEMENTAL SCHEDULE OF INVESTMENTS
 DECEMBER 31, 1998

| | Shares/ Par Value | Cost | Current Value |
|---|----------------------|--------------|------------------|
| | ----- | ----- | ----- |
| Fidelity Mutual Fund Assets: | | | |
| Puritan Fund* | 9,758 | 180,825 | 195,835 |
| Magellan* | 28,390 | 2,402,496 | 3,430,108 |
| Contrafund* | 36,062 | 1,497,601 | 2,047,947 |
| Growth and Income Fund* | 112,449 | 3,299,829 | 5,154,650 |
| Retirement Growth Fund* | 19,056 | 382,189 | 390,842 |
| Overseas Fund* | 4,846 | 154,360 | 174,354 |
| Balanced Fund* | 59,512 | 847,180 | 973,619 |
| Blue Chip Fund* | 2,738 | 124,550 | 137,975 |
| Asset Manager Fund* | 9 | 175 | 158 |
| Low-Priced Stock Fund* | 3,321 | 80,538 | 75,896 |
| Government Money Market Fund* | 2,800,706 | 2,800,706 | 2,800,706 |
| Neuberger & Berman Partners Trust Fund | -- | -- | -- |
| Templeton Foreign Fund | 9,390 | 97,677 | 78,783 |
| | | ----- | ----- |
| Total Mutual Fund Assets | | \$11,868,126 | \$15,460,873 |
| Quanex Corporation Common Stock* | 10,854 | 231,381 | 244,895 |
| Common/Commingled Trust* | 479,821 | 479,821 | 479,821 |
| Participant loans (bearing interest rates from 7.85% to 11%) | | 713,260 | 713,260 |
| | | ----- | ----- |
| Total Investments | | \$13,292,588 | \$16,898,849 |
| | | ===== | ===== |

* Party-in-Interest

ITEM 27-d - SCHEDULE OF REPORTABLE (5%) TRANSACTIONS EIN 38-1872178; PN 016

NICHOLS-HOMESHIELD 401(k)SAVINGS PLAN - DAVENPORT

SUPPLEMENTAL SCHEDULE OF 5% REPORTABLE TRANSACTIONS
DECEMBER 31, 1998

Series of Transactions

| Description | Total Number of Purchases During the Plan Year | Purchase Price | Total Number of Sales During the Plan Year | Selling Price | Cost of Asset | Value on Transaction Date | Current Net Gain (Loss) |
|--------------------------|--|----------------|--|---------------|---------------|---------------------------|-------------------------|
| Magellan* | 78 | \$1,603,288 | 42 | \$ 1,234,404 | \$ 1,151,024 | \$ 1,234,404 | \$ 83,380 |
| Contrafund* | 92 | 2,452,717 | 51 | 2,338,304 | 2,288,222 | 2,338,304 | 50,082 |
| Growth & Income* | 122 | 3,399,273 | 75 | 3,104,112 | 2,961,332 | 3,104,112 | 142,780 |
| Retirement Growth* | 46 | 1,906,490 | 17 | 1,514,687 | 1,524,301 | 1,514,687 | (9,614) |
| Overseas* | 66 | 3,439,078 | 30 | 3,475,808 | 3,437,233 | 3,475,808 | 38,575 |
| Templeton Fund | 39 | 1,092,322 | 15 | 1,046,143 | 1,040,566 | 1,046,143 | 5,577 |
| Gov't Money Mkt* | 130 | 5,980,522 | 99 | 6,132,586 | 6,132,586 | 6,132,586 | -- |
| Common/Commingled Trust* | 77 | 4,359,235 | 41 | 4,050,111 | 4,050,111 | 4,050,111 | -- |

* Party-in-Interest

SIGNATURES

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

Nichols-Homeshield 401 (k) Savings Plan - Davenport

Date: June 28, 1999

/s/ Viren M. Parikh

Viren M. Parikh, Benefits Committee

INDEX TO EXHIBITS

23.1 Independents Auditor's Consent

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-54085 of Quanex Corporation on Form S-8 of our report dated June 1, 1999, appearing in the Annual Report of Form 11-K of the Nichols-Homeshield 401(k) Savings Plan - Davenport for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

Houston, Texas
June 28, 1999