

**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 April 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-5725

**QUANEX CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**38-1872178**

(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

<u>Class</u>	<u>Outstanding at April 30, 2005</u>
Common Stock, par value \$0.50 per share	25,228,278

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

	April 30, 2005	October 31, 2004
(In thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 16,830	\$ 41,743
Accounts and notes receivable, net of allowance of \$9,501 and \$6,882	211,332	176,358
Inventories	139,280	115,367
Deferred income taxes	11,742	10,744
Other current assets	4,223	2,363
Current assets of discontinued operations	280	9,759
Total current assets	383,687	356,334
Property, plant and equipment	950,285	842,147
Less accumulated depreciation and amortization	(519,547)	(491,165)
Property, plant and equipment, net	430,738	350,982
Goodwill	198,957	134,670
Cash surrender value insurance policies, net	23,896	24,439
Intangible assets, net	85,898	27,556
Other assets	9,256	9,391
Assets of discontinued operations	2,678	26,150
Total assets	\$ 1,135,110	\$ 929,522
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 152,843	\$ 161,674
Accrued liabilities	65,545	45,844
Income taxes payable	10,314	4,127
Current maturities of long-term debt	493	456
Current liabilities of discontinued operations	379	4,102
Total current liabilities	229,574	216,203
Long-term debt	247,607	130,496
Deferred pension credits	7,977	8,804
Deferred postretirement welfare benefits	7,597	7,745
Deferred income taxes	47,030	53,983
Non-current environmental reserves	9,019	8,188
Other liabilities	2,989	2,973
Liabilities of discontinued operations	423	423
Total liabilities	552,216	428,815
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 25,325,244 and 24,976,293	12,662	12,486
Additional paid-in-capital	202,792	187,513
Retained earnings	375,905	307,754
Unearned compensation	(1,921)	(824)
Accumulated other comprehensive loss	(4,489)	(4,463)
	584,949	502,466
Less common stock held by rabbi trust, 88,017 and 58,139 shares	(1,790)	(1,759)
Less cost of common stock held in treasury, 8,949 and -0- shares	(265)	—
Total stockholders' equity	582,894	500,707
	\$ 1,135,110	\$ 929,522

**QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)**Three Months Ended  
April 30,Six Months Ended  
April 30,

	2005	2004	2005	2004
	(In thousands, except per share amounts)			
<b>Net sales</b>	\$ 533,758	\$ 372,912	\$ 1,003,941	\$ 624,919
Cost of sales	406,158	324,691	778,960	542,505
Selling, general and administrative expense	24,588	16,411	47,736	28,424
Depreciation and amortization	17,008	13,275	32,127	24,862
Gain on sale of land	—	—	—	(454)
<b>Operating income</b>	86,004	18,535	145,118	29,582
Interest expense	(2,971)	(1,831)	(5,350)	(2,756)
Other, net	581	382	(1,339)	822
Income from continuing operations before income taxes	83,614	17,086	138,429	27,648
Income tax expense	(32,191)	(6,298)	(53,295)	(10,213)
<b>Income from continuing operations</b>	51,423	10,788	85,134	17,435
Income (loss) from discontinued operations, net of tax of \$279, \$(325), \$991 and \$(26)	(438)	756	(1,551)	536
Loss on sale of discontinued operations, net of tax of \$2,325	—	—	(4,363)	—
<b>Net income</b>	\$ 50,985	\$ 11,544	\$ 79,220	\$ 17,971
<b>Basic earnings per common share:</b>				
Earnings from continuing operations	\$ 2.04	\$ 0.44	\$ 3.40	\$ 0.71
Income (loss) from discontinued operations	\$ (0.02)	\$ 0.03	\$ (0.24)	\$ 0.02
Basic earnings per share	\$ 2.02	\$ 0.47	\$ 3.16	\$ 0.73
<b>Diluted earnings per common share:</b>				
Earnings from continuing operations	\$ 1.95	\$ 0.43	\$ 3.29	\$ 0.70
Income (loss) from discontinued operations	\$ (0.02)	\$ 0.03	\$ (0.23)	\$ 0.02
Diluted earnings per share	\$ 1.93	\$ 0.46	\$ 3.06	\$ 0.72
<b>Weighted average common shares outstanding:</b>				
Basic	25,178	24,635	25,080	24,555
Diluted	26,624	25,035	26,235	24,959
Cash dividends per share	\$ 0.1350	\$ 0.1133	\$ 0.2700	\$ 0.2267

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**QUANEX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Unaudited)

	Six Months Ended April 30,	
	2005	2004
	(In thousands)	
<b>Operating activities:</b>		
Net income	\$ 79,220	\$ 17,971
Income (loss) from discontinued operations	5,914	(536)
Income from continuing operations	85,134	17,435
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	—	(454)
Depreciation and amortization	32,427	25,115
Deferred income taxes	(6,704)	4,560
Deferred pension and postretirement benefits	(975)	(5,826)
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
(Increase) decrease in accounts and notes receivable	(23,303)	(50,160)
(Increase) decrease in inventories	(12,613)	(18,536)
Increase (decrease) in accounts payable	(22,299)	31,406
Increase (decrease) in accrued liabilities	2,371	1,999
Increase (decrease) in income taxes payable	21,096	(2,040)
Other, net	(113)	161
Operating cash flow from discontinued operations	(2,129)	1,688
Cash provided by operating activities	72,892	5,348
<b>Investment activities:</b>		
Acquisitions, net of cash acquired	(200,009)	(214,573)
Proceeds from sale of discontinued operations	11,592	—
Proceeds from sale of land	—	637
Capital expenditures, net of retirements	(22,069)	(7,673)
Other, net	(136)	(535)
Cash used for investment activities from discontinued operations	(179)	(615)
Cash used for investment activities	(210,801)	(222,759)
<b>Financing activities:</b>		

Bank borrowings (repayments), net	109,973	200,000
Common stock dividends paid	(6,870)	(5,591)
Issuance of common stock, net	9,623	7,223
Other, net	258	(1,064)
Cash provided by financing activities	112,984	200,568
Effect of exchange rate changes on cash equivalents	12	25
Decrease in cash and equivalents	(24,913)	(16,818)
Cash and equivalents at beginning of period	41,743	22,108
Cash and equivalents at end of period	\$ 16,830	\$ 5,290
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 4,555	\$ 2,031
Cash paid during the period for income taxes	\$ 31,686	\$ 5,720
Cash received during the period for income tax refunds	\$ 82	\$ 284

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## 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.

Certain reclassifications, none of which affected net income attributable to common stockholders, have been made to prior period amounts to conform to the current period presentation.

The Company sold its Nichols Aluminum – Golden business and substantially all of the assets of the Piper Impact business in the fourth quarter of 2004 and first quarter of 2005, respectively. Accordingly, the assets and liabilities of Nichols Aluminum – Golden and Piper Impact are reported as discontinued operations in the Consolidated Balance Sheets presented, and their operating results and cash flows are reported as discontinued operations in the Consolidated Statements of Income and Consolidated Statements of Cash Flow, respectively (see Note 15).

In December 2004, the Company effected a three-for-two stock split in the form of a 50% stock dividend. All prior periods presented have been adjusted on a retroactive basis after giving effect to such stock split.

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 for the fiscal year ended October 31, 2004, filed with the U.S. Securities and Exchange Commission on December 21, 2004.

## 2. New Accounting Pronouncements

In September 2004, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue 04-8, “Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effects on Diluted Earnings Per Share,” that was then ratified by the Financial Accounting Standards Board (“FASB”) in October 2004. The consensus that was reached requires that all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer’s share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market conditions have been met. The consensus should be applied to reporting periods ending after December 15, 2004. The consensus reached should be applied retroactively to instruments outstanding at the date of adoption of this consensus. The Company adopted the consensus reached by the EITF on Issue 04-8 on January 31, 2005. The adoption of the consensus has not had a material impact on the Company’s consolidated financial position or results of operations. See Note 7 for further discussion of the impact of such adoption.

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In December 2004, the FASB issued Statements of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” SFAS No. 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company’s consolidated financial statements. The provisions of SFAS No. 123R are effective for the first annual reporting period that begins after June 15, 2005; therefore, Quanex will adopt the new requirements no later than the beginning of the first quarter of fiscal 2006. Adoption of the expensing requirements will reduce the Company’s reported earnings. Management is currently evaluating the specific impacts of adoption, including which valuation model is most appropriate.

## 3. Stock Based Employee Compensation

In accordance with SFAS No. 123, the Company continues to apply the rules for stock-based compensation contained in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” using the intrinsic value method. The pro forma effect on net income and earnings per share of the fair value based method of accounting for stock-based compensation as required by SFAS No. 123 and SFAS No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure” is presented below:

Three Months Ended		Six Months Ended	
April 30,		April 30,	
2005	2004	2005	2004
(In thousands, except per share amounts)			

Net income, as reported	\$	50,985	\$	11,544	\$	79,220	\$	17,971
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(521)		(543)		(853)		(1,106)
Pro forma net income	\$	50,464	\$	11,001	\$	78,367	\$	16,865

Earnings per common share:								
Basic as reported	\$	2.02	\$	0.47	\$	3.16	\$	0.73
Basic pro forma	\$	2.00	\$	0.45	\$	3.12	\$	0.69
Diluted as reported	\$	1.93	\$	0.46	\$	3.06	\$	0.72
Diluted pro forma	\$	1.91	\$	0.44	\$	3.02	\$	0.68

In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company's consolidated financial statements. The provisions of SFAS No. 123R are effective for the first annual reporting period that begins after June 15, 2005; therefore, Quanex will adopt the new requirements no later than the beginning of the first quarter of fiscal 2006.

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#### 4. Business Acquisitions

On December 9, 2004, the Company completed the acquisition of all of the outstanding stock, through a subsidiary merger, of Mikron Industries, Inc. ("Mikron"), a privately-held Washington corporation. Mikron, an industry-leading manufacturer of engineered vinyl and thermoplastic alloy composite (MikronWood™) window components, window coverings and door components, serves the residential building and remodeling markets. Headquartered in the Seattle suburb of Kent, WA, Mikron operates modern and highly automated extrusion facilities located in the Kent area; Winnebago, IL; and Richmond, KY.

The Mikron acquisition was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations." Accordingly, the estimated fair value of assets acquired and liabilities assumed in the acquisition and the results of operations were included in the Company's consolidated financial statements as of the effective date of the acquisition. Prior to the acquisition, under Subchapter S of the Internal Revenue Code, Mikron was not required to make a provision for Federal income taxes. From the effective date of the acquisition, the Company has been making a provision for Federal income tax with respect to Mikron. Except for the tax provision, there were no other material differences between the Company's accounting policies and those of Mikron.

Mikron has been integrated into the Building Products segment. The Company acquired Mikron to further expand the broad range of high quality components and products currently supplied to existing customers and to expand the customers served. Mikron has a broad presence in the vinyl window market, the fastest growing segment of the industry, and increases the Company's diversification within the window market. The Company now has a broad product offering serving all three markets: wood, vinyl and aluminum. As consideration for the acquisition of all of the outstanding capital stock of Mikron, the Company paid \$198.2 million in cash, net of a working capital adjustment of \$0.3 million, and assumed \$7.2 million of debt. The Company also incurred \$0.7 million in transaction fees, including legal, valuation and accounting fees.

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The preliminary allocation of assets and liabilities acquired and assumed is summarized below. The preliminary allocation was based on independent appraisal and management's estimates of fair values. The allocations are not final and are subject to change based on final estimates of fair value and useful lives. Because the allocation below is preliminary, the allocation of certain assets could change materially upon finalization of the purchase price adjustments and transaction fees.

	As of Date of Opening Balance Sheet (In thousands)
Cash and equivalents	\$ 1,485
Accounts receivable, net of allowance for doubtful accounts	13,808
Inventories	9,941
Other current assets	1,040
Total current assets	26,274
Property, plant and equipment	86,571
Goodwill	62,061
Other intangible assets:	
Trade names	29,700
Patents	10,600
Customer relationships	21,200
Total other intangible assets	61,500
Other assets	183
Total assets	\$ 236,589
Accounts payable	\$ 12,920
Accrued liabilities	17,857
Total current liabilities	30,777
Other liabilities	7,175
Total liabilities	37,952
Investment	198,637

The preliminary allocations resulted in goodwill of \$62.1 million, all of which is expected to be deductible for tax purposes. The other intangible assets are being amortized over periods which reflect the pattern in which the economic benefits of the assets are expected to be realized. Specifically, the trade names are being amortized over an average estimated useful life of 25 years, the patents are being amortized over an average of 7 years and the customer relationships are being amortized over an average of 20 years. The weighted average useful life of intangible assets, excluding goodwill, created as a result of the acquisition, is 20 years. No residual value is estimated for the intangible assets.

The acquisition of Mikron resulted in preliminary goodwill of \$62.1 million. The Company previously marketed and sold a wide range of products to the same customer base served by Mikron. With the acquisition, the Company has expanded its product offering and its customer base and can now market more broadly within the entire base of OEM customers in the window and door manufacturing market. The reliability, service levels and synergies established with the Company's base of customers within this segment allow for the potential of improved performance from Mikron. In addition, Mikron has several new products in the early stages of the product life cycle that build upon their existing offerings. The Company believes that the ability to provide customers a suite of complimentary products and the expanded product offerings being rolled out by Mikron are of considerable value.

The following table provides actual results for the three months ended April 30, 2005, and unaudited proforma results of operations for the three months ended April 30, 2004, as well as the six months ended April 30, 2005 and April 30, 2004, as if Mikron had been acquired as of the beginning of each fiscal year presented. The proforma results include certain adjustments including estimated interest impact from the funding of the acquisition, estimated depreciation and amortization of fixed and identifiable intangible assets and estimated income taxes based upon an effective tax rate of 38.5%. However, the proforma results presented do not include any anticipated cost savings or other synergies related to the acquisition. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

	Actual		Pro forma	
	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net sales	\$ 533,758	\$ 419,827	\$ 1,026,508	\$ 713,539
Net income attributable to common stockholders	50,985	11,785	78,840	18,224
Diluted net earnings per common share	\$ 1.93	\$ 0.47	\$ 3.04	\$ 0.73

## 5. Inventories

Inventories consist of the following:

	April 30, 2005	October 31, 2004
	(In thousands)	
Raw materials	\$ 33,161	\$ 24,562
Finished goods and work in process	92,711	78,088
	125,872	102,650
Other	13,408	12,717
	\$ 139,280	\$ 115,367

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

	April 30, 2005	October 31, 2004
	(In thousands)	
LIFO	\$ 61,526	\$ 50,382
FIFO	77,754	64,985
	\$ 139,280	\$ 115,367

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 \$34.4 million as of April 30, 2005 and October 31, 2004.

## 6. Acquired Intangible Assets

Intangible assets, including the preliminary valuation of those acquired as part of Mikron, consist of the following (dollars in thousands):

	As of April 30, 2005			As of October 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortizable Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortizable Life
Amortized intangible assets:						
Non-compete Agreements	\$ 313	\$ 221	2 years	\$ 313	\$ 187	2 years
Patents	25,877	2,411	12	15,277	883	16
Trademarks and Trade Names	37,930	1,167	23	8,230	420	14

Customer Relationships	23,691	1,115	18	2,491	416	5
Other intangibles	1,201	400	3	1,201	250	3
<b>Total</b>	<b>\$ 89,012</b>	<b>\$ 5,314</b>	<b>18 years</b>	<b>\$ 27,512</b>	<b>\$ 2,156</b>	<b>13 years</b>

**Unamortized intangible assets:**

Trade Name	\$ 2,200	\$ 2,200
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The aggregate amortization expense for the three and six month periods ended April 30, 2005 was \$2,569 thousand and \$3,166 thousand, respectively. The aggregate amortization expense for the three and six month periods ended April 30, 2004 was \$565 thousand and \$793 thousand, respectively. Estimated amortization expense for the next five years, based upon the amortization of preexisting intangibles as well as amortization estimates for the intangibles acquired as part of Mikron, follows (in thousands):

<u>Fiscal Years Ending October 31,</u>	<u>Estimated Amortization</u>
2005 (remaining six months)	\$ 3,538
2006	7,075
2007	7,033
2008	5,757
2009	3,874

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**7. Earnings Per Share**

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

	<u>For the Three Months Ended April 30, 2005</u>			<u>For the Three Months Ended April 30, 2004</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>
<b>Basic Earnings Per Share</b>						
Computation	\$ 51,423	25,178	\$ 2.04	\$ 10,788	24,635	\$ 0.44
<b>Effect of Dilutive Securities</b>						
Effect of common stock equivalents arising from stock options	—	394		—	318	
Effect of common stock equivalents arising from settlement of contingent convertible debentures	480	964		—	—	
Effect of common stock held by rabbi trust	—	88		—	82	
<b>Diluted Earnings Per Share</b>						
Computation	\$ 51,903	26,624	\$ 1.95	\$ 10,788	25,035	\$ 0.43
	<u>For the Six Months Ended April 30, 2005</u>			<u>For the Six Months Ended April 30, 2004</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>
<b>Basic Earnings Per Share</b>						
Computation	\$ 85,134	25,080	\$ 3.40	\$ 17,435	24,555	\$ 0.71
<b>Effect of Dilutive Securities</b>						
Effect of common stock equivalents arising from stock options		386		—	324	
Effect of common stock equivalents arising from settlement of contingent convertible debentures	966	681		—	—	
Effect of common stock held by rabbi trust		88		—	80	
<b>Diluted Earnings Per Share</b>						
Computation	\$ 86,100	26,235	\$ 3.29	\$ 17,435	24,959	\$ 0.70

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 premium obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. On January 31, 2005, the Company adopted the consensus reached by the EITF on Issue 04-8 which requires that the Company include in diluted earnings per share all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer’s share price. As a result of the Company’s election, diluted earnings per share includes only the amount of shares it would take to satisfy the premium 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.

## 8. Comprehensive Income

Comprehensive income is defined as the sum 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. Total comprehensive income for the three and six months ended April 30, 2005 is \$51.0 million and \$79.2 million, respectively. Total comprehensive income for the three and six months ended April 30, 2004 is \$11.6 million and \$18.0 million, respectively.

## 9. Long-term Debt

Long-term debt consists of the following:

	April 30, 2005	October 31, 2004
(In thousands)		
“Bank Agreement” Revolver	\$ 110,000	\$ —
2.50% Convertible Senior Debentures due 2034	125,000	125,000
City of Huntington, Indiana Economic Development Refunding Revenue Bonds	1,665	1,665
City of Richmond, Kentucky Industrial Building Revenue Bonds	7,175	—
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,000	2,000
Temroc Industrial Development Revenue Bonds	1,923	2,027
Other	337	260
	<u>\$ 248,100</u>	<u>\$ 130,952</u>
Less maturities due within one year included in current liabilities	493	456
	<u>\$ 247,607</u>	<u>\$ 130,496</u>

### Bank Agreement

In November 2002, the Company entered into a secured \$200 million Revolving Credit Agreement (“Bank Agreement”). The Bank Agreement is secured by all Company assets, excluding land and buildings. The Bank Agreement was originally scheduled to expire on November 15, 2005 and provided up to \$25 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.

On December 19, 2003, the Company executed an agreement with the banks to increase the Bank Agreement revolver from \$200 million to \$310 million to provide funds necessary for acquisitions. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of the Bank Agreement from November 15, 2005 to February 28, 2007. The aggregate availability under the Bank Agreement was \$184.2 million at April 30, 2005, which is net of \$15.8 million of outstanding letters of credit.

The Bank Agreement requires maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of April 30, 2005, the Company was in compliance with all current Bank Agreement covenants.

### Convertible Senior Debentures

On May 5, 2004, the Company issued \$125 million of the Debentures in a private placement to Credit Suisse First Boston, Bear, Stearns & Co. Inc., Robert W. Baird & Co., and KeyBanc Capital Markets as initial purchasers. The Debentures were offered only to “qualified institutional buyers,” in accordance with Rule 144A under the Securities Act of 1933. The Debentures were convertible into shares of Quanex common stock, upon the occurrence of certain events, at an initial conversion rate of 17.3919 shares of common stock per \$1,000 principal amount of notes. This conversion rate was equivalent to an initial conversion price of \$57.50 per share of common stock, subject to adjustment in some events such as a common stock split or 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 December 31, 2004, three-for-two stock split coupled with the dividend increases authorized in September 2004 and December 2004 resulted in the Company having to adjust the conversion rate of the Debentures. The adjusted conversion rate of 26.1113 shares of the Company’s common stock per \$1,000 principal amount of Debentures is equivalent to an adjusted conversion price of \$38.2976 per share of common stock, subject to adjustment in some events.

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

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holders thereof. The Company retains its option to satisfy any premium 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 during the quarter ending July 31, 2005, in accordance with the terms of the indenture. The convertibility was triggered during the quarter ended April 30, 2005, 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 first fiscal quarter.

## 10. Pension Plans and Other Postretirement Benefits

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
	(In thousands)			
<b>Pension Benefits:</b>				
Service cost	\$ 856	\$ 922	\$ 1,712	\$ 1,785
Interest cost	858	924	1,716	1,790
Expected return on plan assets	(718)	(773)	(1,435)	(1,497)
Amortization of unrecognized transition asset	(33)	(35)	(65)	(68)
Amortization of unrecognized prior service cost	57	61	113	118
Amortization of unrecognized net loss	199	214	398	415
Net periodic pension cost	\$ 1,219	\$ 1,313	\$ 2,439	\$ 2,543
	(In thousands)			
	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
<b>Postretirement Benefits:</b>				
Service cost	\$ 36	\$ 27	\$ 72	\$ 54
Interest cost	151	112	301	223
Net amortization and deferral	(56)	(42)	(112)	(83)
Net periodic postretirement benefit cost	\$ 131	\$ 97	\$ 261	\$ 194

During the six months ended April 30, 2005, the Company made contributions of \$50,000 to its defined benefit pension plans. The Company estimates that it will contribute a total of \$300,000 to its defined benefit plans during fiscal 2005.

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## 11. Industry Segment Information

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment produces engineered steel bar products and extruded products for the light vehicle, heavy duty truck, off-road and agricultural, military, recreational and energy markets. The Building Products segment produces engineered products and aluminum sheet for window and door components used by the residential building and remodeling markets. The presentation of segment disclosure information provided below has been restated for discontinued operations:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
	(In thousands)			
<b>Net Sales</b>				
Vehicular Products(1)	\$ 289,441	\$ 213,482	\$ 564,017	\$ 344,528
Building Products(2)	244,317	159,430	439,924	280,391
Consolidated	\$ 533,758	\$ 372,912	\$ 1,003,941	\$ 624,919
<b>Operating Income (Loss)</b>				
Vehicular Products(1)	\$ 61,004	\$ 12,986	\$ 105,223	\$ 22,578
Building Products(2)	31,321	11,352	53,464	16,312
Corporate & Other(3)	(6,321)	(5,803)	(13,569)	(9,308)
Consolidated	\$ 86,004	\$ 18,535	\$ 145,118	\$ 29,582
	April 30, 2005		October 31, 2004	
	(In thousands)			

<b>Identifiable Assets</b>		
Vehicular Products(1)	\$ 498,615	\$ 475,491
Building Products(2)	620,819	378,688
Corporate & Other(3)	12,718	39,432
Discontinued Operations(4)	2,958	35,911
Consolidated	<u>\$ 1,135,110</u>	<u>\$ 929,522</u>
<b>Goodwill</b>		
Vehicular Products	\$ 13,496	\$ 13,496
Building Products(2)	185,461	121,174
Consolidated	<u>\$ 198,957</u>	<u>\$ 134,670</u>

- (1) Fiscal 2004 includes MACSTEEL Monroe as of January 1, 2004.  
(2) Fiscal 2004 includes TruSeal as of January 1, 2004. Fiscal 2005 includes Mikron as of December 9, 2004.  
(3) Included in "Corporate & Other" are inter-segment eliminations, consolidated LIFO inventory adjustments, corporate expenses and assets.  
(4) Piper Impact and Nichols Aluminum – Golden are included in discontinued operations for all periods presented.

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## 12. Treasury Stock and Stock Option Exercises

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 million shares. No shares were purchased during the six months ended April 30, 2005, nor were any purchased during fiscal 2004. During the three months ended April 30, 2005, 8,949 shares of non-vested restricted stock were cancelled and placed into treasury stock.

The Company has various restricted stock and stock option plans for key employees and directors as described in its Annual Report on Form 10-K for the fiscal year ended October 31, 2004. Below is a table summarizing the stock option activity in all plans since October 31, 2004:

	<u>Shares Exercisable</u>	<u>Shares Under Option</u>	<u>Average Price Per Share</u>
Balance at October 31, 2004	<u>663,693</u>	<u>1,207,670</u>	<u>\$ 21</u>
Granted		317,076	40
Exercised		(325,882)	18
Cancelled / Lapsed		(66,175)	29
Balance at April 30, 2005	<u>544,487</u>	<u>1,132,689</u>	<u>\$ 26</u>

## 13. 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 at the end of the year. The Company's estimated annual effective tax rate increased to 38.5% in fiscal 2004, primarily due to an increase in state tax expense. The Company continues to use an estimated annual effective tax rate of 38.5% in fiscal 2005.

Included in income taxes payable as of April 30, 2005, is \$7.4 million of income tax contingencies primarily associated with the Company's case before the Tax Court. See Note 14 for further explanation.

## 14. 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. Costs of future expenditures for environmental remediation 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

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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 second quarter of 2005, the United States Department of Justice gave notice that it was filing 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 has incurred approximately \$2.6 million to remove processing residue and other materials from a 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. The Company intends to defend itself vigorously against the government's Jepscor allegations.

Total remediation reserves, at April 30, 2005, for Quanex's current plants, former operating locations, and disposal facilities were approximately \$9.4 million. This represents an increase of \$0.7 million from the balance as of October 31, 2004. The difference is primarily attributable to new information received during the first quarter of 2005 about the Company's alleged responsibility for cleanup activities. Of the current remediation reserve, approximately \$2.0 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. On the balance sheet, \$9.0 million of the remediation reserve is included in non-current liabilities with the remainder in accrued liabilities (current).

Approximately 51% of the total remediation reserve is currently allocated to cleanup work related to Piper Impact. During the first quarter of 2005, the Company sold substantially all of the assets of the Piper Impact business, including its sole operating facility on Barkley Drive in New Albany, Mississippi, although the Company retained ownership of the currently non-operational Highway 15 plant site (the "Highway 15 location"). At present, the largest component of the remediation reserve is for remediation of soil and groundwater contamination from prior operators of the Highway 15 location in New Albany. The Company voluntarily implemented a state-approved remedial action plan that includes natural attenuation together with a groundwater collection and treatment system. The Company continues to investigate site conditions and evaluate performance of the 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, management 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 2005, the Company estimates expenses at its facilities will be approximately \$2.9 million for continuing environmental compliance. In addition, the Company estimates that capital expenditures for environmental compliance in fiscal 2005 will be approximately \$2.7 million. 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 2005, 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, 2004, 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. 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 operation.

#### *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.

### **15. Discontinued Operations**

The Company classified Piper Impact and Nichols Aluminum – Golden as held for sale in the third quarter and fourth quarter of fiscal year 2004, respectively. Piper Impact was historically included in the Company's Vehicular Products segment, while Nichols Aluminum – Golden was included in the Building Products segment. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the results of operations, financial position and cash flows of both Piper Impact and Nichols Aluminum – Golden have been reflected in the consolidated financial statements and notes as discontinued operations for all periods presented. Nichols Aluminum – Golden was sold on September 30, 2004, while the Piper Impact business was sold on January 25, 2005.

During the second quarter of fiscal 2005, \$0.7 million of expenses were incurred with respect to the remaining non-operating Highway 15 facility, in addition to some carryover expenses resulting from the sale of the Piper Impact business. Expenses at the remaining Highway 15 facility are being incurred to make the facility ready for sale, which the Company expects to have completed by the end of the third quarter of fiscal 2005.

Comparative balance sheets of the discontinued operations were as follows:

	April 30, 2005	October 31, 2004
	(In thousands)	
Accounts and notes receivable, net	\$ —	\$ 2,658
Inventories	—	2,695
Deferred income taxes	—	492
Other current assets	280	3,914

Total current assets	280	9,759
Property, plant and equipment, net	500	10,796
Other assets	2,178	15,354
	<u>\$ 2,958</u>	<u>\$ 35,909</u>
Accounts payable	\$ —	\$ 1,763
Accrued and other	379	2,339
Total current liabilities	379	4,102
Other liabilities	423	423
Total liabilities	<u>\$ 802</u>	<u>\$ 4,525</u>

Operating results of the discontinued operations were as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
	(In thousands)			
Net sales	\$ —	\$ 33,228	\$ 4,099	\$ 62,442
Income (loss) from discontinued operations	(717)	1,239	(2,542)	878
Loss on sale of discontinued operations	—	—	(6,688)	—
Income tax benefit	279	(483)	3,316	(342)
Net income (loss) from discontinued operations	<u>\$ (438)</u>	<u>\$ 756</u>	<u>\$ (5,914)</u>	<u>\$ 536</u>

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

### General

The discussion and analysis of Quanex Corporation and its subsidiaries' (the "Company's") financial condition and results of operations should be read in conjunction with the April 30, 2005 and October 31, 2004 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, 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.

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## Consolidated Results of Operations

### Summary Information

	Three Months Ended April 30,				Six Months Ended April 30,			
	2005	2004	Change	%	2005(1)	2004(2)	Change	%
	(Dollars in millions)							
Net sales	\$ 533.8	\$ 372.9	\$ 160.9	43.1%	\$ 1,003.9	\$ 624.9	\$ 379.0	60.7%
Cost of sales	406.2	324.7	81.5	25.1	779.0	542.5	236.5	43.6
Selling, general and administrative	24.6	16.4	8.2	50.0	47.7	28.4	19.3	68.0
Depreciation and amortization	17.0	13.3	3.7	27.8	32.1	24.9	7.2	28.9
Gain on sale of land	—	—	—	—	—	(0.5)	0.5	—
Operating income	<u>86.0</u>	<u>18.5</u>	<u>67.5</u>	<u>364.9</u>	<u>145.1</u>	<u>29.6</u>	<u>115.5</u>	<u>390.2</u>
Operating income margin	16.1%	5.0%	11.1%		14.5%	4.7%	9.8%	

Interest expense	(3.0)	(1.8)	(1.2)	66.7	(5.4)	(2.8)	(2.6)	92.9
Other, net	0.6	0.4	0.2	50.0	(1.3)	0.8	(2.1)	(262.5)
Income tax expense	(32.2)	(6.3)	(25.9)	411.1	(53.3)	(10.2)	(43.1)	422.5
Income from continuing operations	\$ 51.4	\$ 10.8	\$ 40.6	375.9%	\$ 85.1	\$ 17.4	\$ 67.7	389.1%

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

(2) Fiscal 2004 includes TruSeal's and MACSTEEL Monroe's results beginning January 1, 2004.

#### Overview

Net sales for the three months ended April 30, 2005, were a record second quarter for Quanex, up 43.1% over a year ago. Operating income was also a record for the second quarter and income from continuing operations was up 375.9% compared to last year's second quarter.

Second quarter 2005 diluted earnings per share from continuing operations of \$1.95 includes the operating results from Mikron of approximately \$0.06 per share. Second quarter 2004 diluted earnings per share from continuing operations of \$0.43 includes a LIFO charge of \$0.05 per share.

#### Business Segments

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment produces engineered steel bars and extruded products for the light vehicle, heavy duty truck, agricultural, defense, recreational and energy markets. 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.

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### Three & Six Months Ended April 30, 2005 Compared to Three & Six Months Ended April 30, 2004

#### Vehicular Products

	Three Months Ended April 30,				Six Months Ended April 30,			
	2005	2004	Change	%	2005	2004(1)	Change	%
	(Dollars in millions)							
Net sales	\$ 289.4	\$ 213.5	\$ 75.9	35.6%	\$ 564.0	\$ 344.5	\$ 219.5	63.7%
Cost of sales	213.9	187.5	26.4	14.1	429.8	298.0	131.8	44.2
Selling, general and administrative	6.0	4.6	1.4	30.4	12.0	8.3	3.7	44.6
Depreciation and amortization	8.5	8.4	0.1	1.2	17.0	15.6	1.4	9.0
Operating income	61.0	13.0	48.0	369.2%	105.2	22.6	82.6	365.5%
Operating income margin	21.1%	6.1%	15.0%		18.7%	6.6%	12.1%	

(1) Fiscal 2004 includes MACSTEEL Monroe's results beginning January 1, 2004.

North American light vehicle builds were down approximately 5% in the second quarter of 2005 compared to the same period last year. Light vehicle builds by the domestic "Big 3" manufacturers were down about 12%, while light vehicle builds by the New American Manufacturers (NAMs) increased 12%. Demand from heavy duty truck customers continued to grow, with overall production up approximately 45% over the second quarter of last year. Actual shipments were off from the year ago period because orders were set-back by customers as they adjusted inventories consistent with the reduction in light vehicle build rates initiated by some of the domestic automotive companies.

Net sales for the second quarter of 2005 were higher than the second quarter of 2004 by 35.6% due to a 54.0% increase in price, partially offset by a 12.4% decrease in volume. Net sales for the first six months of 2005 were 63.7% higher than the same period of 2004 due to a 53.1% increase in average prices coupled with a 6.4% increase in volume. Excluding MACSTEEL Monroe, sales volumes for the first half of 2005 actually decreased 9.6% compared to the first half of 2004. The higher selling prices were comprised of increased base prices combined with higher quarterly scrap surcharges, in addition to an improved mix, as the Company continues to focus on increasing sales of the segment's value-added MACPLUS products. As a result of the increased steel scrap costs that occurred over the latter half of calendar 2003 and all of fiscal 2004, surcharges came into effect on January 1, 2004, and have been adjusted quarterly. The highest surcharges were recorded in the second quarter of 2005, even as steel scrap costs have declined because of the Company's lagging surcharge (see further discussion of surcharge lag in "Commodity Price Risk" of Item 3).

Operating income for the second quarter of 2005 and first half of 2005 increased 369.2% and 365.5% over the same periods last year, respectively, as a result of new customer programs, cost improvements, higher selling prices and declining scrap costs. All of the previously mentioned favorable items more than compensated for the smaller increase in selling, general and administrative costs, which are primarily associated with increased incentive costs expected to be incurred as a result of the growth in the segment's operating income.

The increases in the operating income margin for the three and six month periods ending April 30, 2005 are directly attributable to the higher selling prices realized during a period when steel scrap costs declined. The result is an increased spread or operating income margin. It is important to note that while the margin increases as steel scrap costs decline, the opposite is true as steel scrap costs increase, as occurred during 2003 and 2004. As raw material prices rise, the Company experiences short term compression of the operating margin since the surcharges are adjusted on a quarterly basis based upon a raw material index from the previous three months. As raw material prices level off, the Company would

expect the Vehicular Products segment's operating income margin to improve, particularly after a period of rapidly escalating costs. Declines in raw material costs will increase the margin in the short term as the surcharge adjustments always lag by a three-month average. Over time, if raw material pricing remains steady, margins will also display stability.

### Building Products

	Three Months Ended April 30,				Six Months Ended April 30,			
	2005	2004	Change	%	2005(1)	2004(2)	Change	%
	(Dollars in millions)							
Net sales	\$ 244.3	\$ 159.4	\$ 84.9	53.3%	\$ 439.9	\$ 280.4	\$ 159.5	56.9%
Cost of sales	191.9	135.0	56.9	42.1	348.5	241.7	106.8	44.2
Selling, general and administrative	12.7	8.2	4.5	54.9	22.9	13.4	9.5	70.9
Depreciation and amortization	8.4	4.8	3.6	75.0	15.0	9.0	6.0	66.7
Operating income	31.3	11.4	19.9	174.6%	53.5	16.3	37.2	228.2%
Operating income margin	12.8%	7.2%	5.6%		12.2%	5.8%	6.4%	

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

(2) Fiscal 2004 includes TruSeal's results beginning January 1, 2004.

The overall housing outlook remained quite positive during the Company's second quarter, although demand was adversely impacted by severe weather in many regions of the country. The Company's wood window components business was particularly hard hit. Offsetting the seasonal factors, the Company's aluminum sheet business had an exceptionally strong quarter. Aluminum sheet shipments to the Company's traditional building and construction customers remained steady, while sales to capital equipment, service center and transportation customers were more robust than the same period last year. Overall market dynamics allowed for higher selling prices compared to the same period last year and aluminum scrap remained plentiful and reasonably priced. The integration of Mikron continues to go well. The growth of new programs is helping Mikron outgrow the housing market, and with lean practices taking on more emphasis, the Company expects returns to continue to improve.

Excluding the impact of Mikron, net sales for the three and six months ended April 30, 2005 were higher than the same periods last year by 17.5% and 27.7%, respectively. The increase in net sales for the second quarter and first half of 2005 compared to the same periods of 2004 was a result of the increased volume across the entire segment combined with a 24.7% and 26.6% increase in aluminum sheet prices, respectively.

Excluding the impact of Mikron, operating income for the second quarter and first half of 2005 was higher than the same periods of 2004 by 134.8% and 197.7%, respectively, primarily as a result of the increased spreads in the aluminum sheet market. During 2005, 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, resulted in the operating income increases.

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### Corporate and Other

	Three Months Ended April 30,				Six Months Ended April 30,			
	2005	2004	Change	%	2005	2004	Change	%
	(Dollars in millions)							
Cost of sales	\$ 0.4	\$ 2.1	\$ (1.7)	(81.0)%	\$ 0.6	\$ 2.9	\$ (2.3)	(79.3)%
Selling, general and administrative	5.8	3.6	2.2	61.1	12.8	6.8	6.0	88.2
Depreciation and amortization	0.1	0.1	—	—	0.1	0.1	—	—
Gain on sale of land	—	—	—	—	—	(0.5)	0.5	—
Operating loss	\$ (6.3)	\$ (5.8)	\$ (0.5)	8.6%	\$ (13.5)	\$ (9.3)	\$ (4.2)	45.2%

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 increase in both the three month period and six month period ending April 30, 2005, was the costs associated with the Company's Sarbanes-Oxley Section 404 implementation efforts, offset by a \$2.0 million (pre-tax) reduction in the LIFO inventory adjustment that was expensed during 2004. For the six months ended April 30, 2005, the Company incurred \$2.0 million of external consulting fees in an effort to ensure compliance with the Sarbanes-Oxley Act.

Interest expense for the three and six months ended April 30, 2005 increased \$1.2 million and \$2.6 million, respectively, from the same period a year ago. The increase is a result of an increase in the average debt outstanding for the comparative periods primarily associated with the borrowings made to fund the acquisition of Mikron.

Other, net for the three months ended April 30, 2005 was income of \$0.6 million compared to income of \$0.4 million in the second quarter of 2004. Other, net for the six months ended April 30, 2005, was an expense of \$1.3 million compared to income of \$0.8 million for the same period in 2004. The additional \$2.1 million of expense for the six month period is primarily related to the change in the market value of the Company's common stock and other securities in the Deferred Compensation Plan. Each quarter, the Company values its liability for the Deferred Compensation Plan based upon the value of the underlying investment units. For the six months ended April 30, 2005, the market value of the Deferred Compensation Plan increased \$1.8 million, primarily due to a 49.3% increase in the Company's common stock price from October 31, 2004, to April 30, 2005.

The year-over-year changes in income (loss) from discontinued operations, net of taxes, for the three and six months ended April 30, 2005, are directly related to the fact that the 2004 amounts include Nichols Aluminum – Golden, while the 2005 amounts do not.

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## Outlook

Overall customer demand in the Company's two target markets, Vehicular Products and Building Products, is expected to remain healthy through fiscal 2005.

North American light vehicle build rates for the third fiscal quarter are expected to remain in line with last year, although production cuts by the domestic "Big 3" producers, a major customer group of the segment, will reduce demand from a year ago. However, the Company expects new programs, ongoing very strong heavy duty truck builds and the strength in secondary markets including farm and construction equipment, capital goods and defense to keep the segment at respectable operating rates through the third quarter.

Drivers for the Building Products segment remain positive, supported by still favorable interest rates and an improving job outlook. The segment will also benefit from very strong organic growth, a more balanced supply/demand aluminum marketplace and the Mikron acquisition.

Taken together, Quanex expects to report record fiscal 2005 diluted earnings per share from continuing operations in the range of \$5.75 to \$6.00, a significant improvement over fiscal 2004's \$2.30. For the third quarter, the Company expects diluted earnings per share from continuing operations to be in the range of \$1.35 to \$1.45, up from the \$0.82 reported in the third quarter of 2004. The Company cautions that its combination of short cycle businesses and volatile raw material costs, particularly for steel scrap, makes forecasting problematic.

## 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 million Revolving Credit Agreement ("Bank Agreement"). On December 19, 2003, the Company executed an agreement with our credit facility banks to increase the Bank Agreement from \$200 million to \$310 million to provide the funds necessary for acquisitions. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of the Bank Agreement from November 15, 2005, to February 28, 2007.

In December 2004, the Company borrowed \$200.0 million under the Bank Agreement to fund the acquisition of Mikron. Since then, the Company has paid off \$90.0 million of the borrowings. At April 30, 2005, the Company had \$110.0 million borrowed under the Bank Agreement and \$125.0 million outstanding 2.50% Senior Convertible Debentures due May 15, 2034 (the "Debentures"). This represents a \$110.0 million increase from October 31, 2004, borrowing levels. The aggregate availability under the Bank Agreement was \$184.2 million at April 30, 2005, which is net of \$15.8 million of outstanding letters of credit.

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 \$154.1 million on April 30, 2005 compared to \$150.9 million on October 31, 2004. Excluding the impact of the acquisition of Mikron and the sale of

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Piper Impact, working capital increased \$14.6 million from October 31, 2004, to April 30, 2005. The change in working capital was largely a result of the increase in revenues realized during the first six months of the year. Excluding the addition of Mikron, the strong sales during the first half of 2005 resulted in an increase in accounts receivable of \$21.2 million. Inventories increased \$14.0 million as a result of higher inventory volumes offset by generally lower raw material costs on average. The higher inventory levels resulted from holds customers have placed on shipments in the Vehicular Products segment in addition to a buildup in anticipation of planned maintenance shut downs in the third quarter of 2005. Accounts payable and accrued liabilities, combined, declined \$19.6 million, leading to an additional increase in working capital. Approximately \$12.0 million of the accounts payable decrease is attributable to timing while the remainder is related to the decline in average raw material prices. The timing issue is caused by the fact that the Company made approximately \$12.0 million of payments related to steel scrap purchases on the first day of fiscal year 2005. Cash and equivalents declined \$26.4 million, other current assets declined \$9.9 million and income taxes payable increased \$5.9 million.

### Operating Activities

Cash provided by operating activities during the six months ended April 30, 2005, was \$72.2 million compared to \$5.3 million for the same period of 2004. The increase is largely due to the increase in operating income, partially offset by the increase in working capital discussed above.

### Investment Activities

Net cash used for investment activities during the six months ended April 30, 2005, was \$210.0 million compared to \$222.8 million for the same period of 2004. Investment activities for the six months ended April 30, 2005, included the acquisition and related costs for Mikron of \$197.2 million, net of cash acquired. Capital expenditures increased \$14.3 million to \$22.0 million in the six months ended April 30, 2005 from \$7.7 million in the same period of the previous year. This increase was all related to the Building Products segment, primarily due to \$6.8 million of capital expenditures at the recently acquired Mikron operation coupled with \$4.5 million of increases at the aluminum sheet business and \$4.3 million of additional spending at the Company's window and door component businesses. The Company estimates that fiscal 2005 capital expenditures will be approximately \$65.8 million. At April 30, 2005, the Company had commitments of approximately \$36.6 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 six months ended April 30, 2005, was \$113.0 million compared to \$200.6 million during the same prior year period. The Company made net borrowings of \$110.0 million on the Bank Agreement in the first half of 2005 compared to net borrowings of \$200.0 million against the Bank Agreement during the same six month period of fiscal 2004. Additionally, Quanex received \$9.6 million in the six months

ended April 30, 2005, for the issuance of common stock related to the exercise of options, versus \$7.2 million in the same period last year. The \$1.3 million increase in dividends paid for the six months of 2005, compared to 2004, is a result of the increases to the Company's dividend rate authorized by the Board of Directors in fiscal 2004.

### **Critical Accounting Estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting estimates used in the preparation of the Company's consolidated financial statements as well as the significant judgments and uncertainties affecting the application of these estimates.

#### ***Revenue Recognition and Allowance for Doubtful Accounts***

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Inherent in the Company's revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

#### ***Inventory***

The Company records inventory valued at the lower of cost or market value. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

#### ***Environmental Contingencies***

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. Costs of future expenditures for environmental remediation 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. Discovery in future assessments of unanticipated conditions or the establishment of new legal requirements could result in an increase in actual cash required to remediate contamination and in expenses being incurred in future periods.

### **Long-Lived Assets**

#### ***Property, Plant and Equipment***

The Company makes judgments and estimates in conjunction with the carrying value of property, plant and equipment, other intangibles, and other assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are periodically reviewed for impairment and further reviewed whenever events or changes in circumstances indicate that carrying value may be impaired. The carrying values are compared with the fair value of such assets calculated based on the anticipated future cash flows related to those assets. If the carrying value of a long-lived asset exceeds its fair value, an impairment charge is recorded in the period in which such review is performed. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

#### ***Goodwill***

The purchase method of accounting for business combinations requires the Company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. The Company performs a goodwill impairment test annually as of August 31. In addition, goodwill would be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. The impairment test requires the Company to compare the fair value of business reporting units to carrying value including assigned goodwill. The Company primarily uses the present value of future cash flows to determine fair value and validates the result against the cost and market approaches. Future cash flows are typically based upon a five-year future period for the businesses and an estimated residual value. Management judgment is required in the estimation of future operating results and to determine the appropriate residual values. The residual values are determined from comparable industry transactions. Future operating results and residual values could reasonably differ from the estimates and could require a provision for impairment in a future period.



The Company tests for possible impairment of intangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If indicators exist, the Company compares the undiscounted cash flows related to the asset to the carrying value of the asset. If the carrying value is greater than the undiscounted cash flow amount, an impairment charge is recorded for the amount necessary to reduce the carrying value of the asset to fair value. The estimate of fair value is primarily based on the present value of future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

### ***Income Taxes***

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's consolidated balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax liability reflects the Company's assumption that the Company will be able to generate sufficient future taxable

income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the consolidated statement of income.

### ***Insurance***

The Company manages its costs for portions of workers' compensation, group medical, general liability and vehicle liability exposure through a combination of retentions and insurance coverage. The amounts in excess of the retention levels are fully insured by third party insurers. Liabilities associated with the Company's portion of these exposures are estimated in part by considering historical claims experience, severity factors and other assumptions. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

### ***Retirement and Pension Plans***

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

### ***Discontinued Operations***

In accordance with Statements of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company presents the results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for "held for sale accounting" as discontinued operations. At the time an operation qualifies for held for sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held for sale accounting. Management judgment is required to (1) assess the criteria required to meet held for sale accounting, and (2) estimate fair value. Changes to the operation could cause it to no longer qualify for held for sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

### ***New Accounting Pronouncements***

In September 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effects on Diluted Earnings Per Share," that was then ratified by the Financial Accounting Standards Board ("FASB") in October 2004. The consensus that was reached requires that all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market conditions have been met. The consensus should be applied to reporting periods ending after December 15, 2004. The consensus reached should be applied retroactively to instruments outstanding at the date of adoption of this consensus. The Company adopted the consensus reached by the EITF on Issue 04-8 on April 30, 2005. The adoption of the consensus has not had a material impact on the Company's consolidated financial position or results of operations. See Item 1 "Financial Statements" Note 7 for further discussion of the impact of such adoption.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company's consolidated financial statements. The provisions of SFAS No. 123R are effective for the first interim or annual reporting period that begins after June 15, 2005; therefore, Quanex will adopt the new requirements no later than the beginning of the fourth quarter of fiscal 2005. Adoption of the expensing requirements will reduce the Company's reported earnings. Management is currently evaluating the specific impacts of adoption, including which valuation model is most appropriate.

### **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. The Company and certain of its subsidiaries' floating-rate obligations total \$119.1 million, or 48% of total debt, at April 30, 2005.

At April 30, 2005, the Company had fixed-rate debt totaling \$129.0 million or 52% of total debt, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. The aggregate availability under the Bank Agreement was \$184.2 million at April 30, 2005, which is net of \$15.8 million of outstanding letters of credit. Based on the outstanding balance of the Bank Agreement of \$110.0 million at April 30, 2005, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately \$1.1 million on an annualized basis.

### **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 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 the three month lag.

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 London Metal Exchange ("LME"). The Company's risk management policy as it relates

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to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of 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 second quarter of 2005, 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 April 30, 2005.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, Quanex management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

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## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

During the second quarter of 2005, the United States Department of Justice gave notice that it was filing 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 has incurred approximately \$2.6 million to remove processing residue and other materials from a 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. The Company intends to defend itself vigorously against the government's Jepscor allegations.

### **Item 4. Submission of Matters to a Vote of Security Holders**

The registrant held its Annual Meeting of Shareholders on February 24, 2005. Proxies for the meeting were solicited and there was no solicitation in opposition to management's nominees for directors as listed in the Proxy Statement, and all such nominees (Susan F. Davis and Russell M. Flaum) were elected. Of the 17,315,679 shares voted, at least 16,986,644 shares granted authority to vote for these directors and no more than 329,035 shares withheld such authority.

### **Item 5. Other Information**

On May 26, 2005, the Company's Board of Directors approved the Company's Amended and Restated By-Laws effective June 1, 2005. The impact of the approved Amended and Restated By-Laws was to establish mandatory retirement for Company officers and to set out who should preside at meetings of the stockholders and at meetings of the directors in the absence of the Chairman of the Board. Further, the terms of the Amended and Restated By-Laws were updated to be consistent with current provisions of the Delaware General Corporation Law.

The by-laws as amended provide that officers of the Corporation shall hold office until they resign or until their successors are chosen and qualified provided, however, that no person shall serve as an officer of the Corporation beyond the date of the Annual Meeting of Stockholders immediately following the fiscal year of the Corporation during which such person reaches age 65.

The by-laws as amended also provide that in the absence of the Chairman of the Board, the Chairman of the Nominating and Corporate Governance Committee shall preside at all meetings of the stockholders and at all meetings of the directors.

## 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.

Exhibit Number	Description Of Exhibits
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.
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.

<b>Exhibit Number</b>	<b>Description Of Exhibits</b>
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.
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.
*† 10.1	Quanex Corporation Long Term Incentive Plan, as amended December 2, 2004.
* 31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
* 31.2	Certification by chief 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

Date: June 1, 2005

/s/ Terry M. Murphy  
Terry M. Murphy  
Senior Vice President – Finance and Chief Financial Officer  
(Principal Financial Officer)

Date: June 1, 2005

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

## AMENDED AND RESTATED (June 1, 2005)

## BY-LAWS

of

QUANEX CORPORATION  
(a Delaware Corporation)

## ARTICLE I

## Offices

1.1. **Registered Office.** The Corporation shall at all times maintain a registered office in the State of Delaware.

1.2. **Other Offices.** The Corporation may also have offices at such other places within or outside of the State of Delaware as the Board of Directors shall from time to time appoint or the business of the Corporation require.

## ARTICLE II

## Capital Stock

2.1. **Issuance of Stock.** The Board of Directors may authorize the issuance of the capital stock of the Corporation at such times, for such consideration, and on such terms and conditions as the Board may deem advisable, subject to any restrictions and provisions of law, the Certificate of Incorporation of the Corporation (as amended and restated from time to time (the "Certificate of Incorporation")) or any other provisions of these By-laws.

2.2. **Certificates for Shares.** The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. The certificates shall otherwise be in such form as may be determined by the Board of Directors, shall be issued in numerical order, shall be entered in the

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books of the Corporation as they are issued and shall exhibit the holder's name and number of shares.

2.3. **Transfer of Shares.** The shares of the capital stock of the Corporation are transferable only on the books of the Corporation upon surrender, in the case of certificated shares, of the certificates therefor properly endorsed for transfer, or otherwise properly assigned, and upon the presentation of such evidences of ownership of the shares and validity of the assignment as the Corporation may require.

2.4. **Registered Stockholders.** The Corporation shall be entitled to treat the person in whose name any share of stock is registered as the owner thereof for purposes of dividends and other distributions in the course of business or in the course of recapitalization, consolidation, merger, reorganization, liquidation, or otherwise, and for the purpose of votes, approvals and consents by stockholders, and for the purpose of notices to stockholders, and for all other purposes whatsoever, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not the Corporation shall have notice thereof, save as expressly required by the laws of the State of Delaware.

2.5. **Transfer Agent and Registrar.** The Board of Directors may appoint one or more transfer agents and registrars, and may require certificates for shares to bear the signature of such transfer agent(s) and registrar(s).

2.6. **Replacement Certificates.** Upon the presentation to the Corporation of a proper affidavit attesting the loss, destruction or mutilation of any certificate for shares of stock of the Corporation, the Board of Directors may direct the issuance of a new certificate or uncertificated shares in lieu of and to replace the certificate so alleged to be lost, destroyed or mutilated. The Board of Directors may require as a condition precedent to the issuance of a new certificate or uncertificated shares any or all of the following: (a) additional evidence of the loss, destruction or mutilation claimed; (b) advertisement of the loss in such manner as the Board of Directors may direct or approve; (c) a bond or agreement of indemnity, in such form and amount and with such surety (or without surety) as the Board of Directors may direct or approve; and (d) the order of approval of a court.

## ARTICLE III

## Stockholders and Meetings of Stockholders

3.1. **Places of Meetings.** All meetings of stockholders shall be held at such place within or outside of the State of Delaware, including by means of remote communication, as shall be fixed by the Board of Directors and stated in the notice of meeting.

**3.2 Annual Meeting.** The Annual Meeting of Stockholders of the Corporation shall be held on such date and at such time as is fixed by the Board of Directors and stated in the notice of meeting. Directors shall be elected in accordance with the provisions of the Certificate of Incorporation and these By-laws and such other business shall be transacted as may properly come before the meeting.

**3.3 Adjournment of Annual Meeting.** The Annual Meeting of Stockholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from time to time and place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

**3.4 Conduct of Business at Annual Meeting.** At an Annual Meeting of the Stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an Annual Meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (c) otherwise properly brought before the meeting by a stockholder of the Corporation. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 180 days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the date of the annual meeting is more than 45 days later than the anniversary date of the immediately preceding annual meeting, notice by the stockholder to be timely must be received not later than the close of business on the tenth day following the earlier of the date on which a written statement setting forth the date of the annual meeting was mailed to stockholders or the date on which it is first disclosed to the public. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such proposal, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. In addition, if the stockholder's ownership of shares of the Corporation, as set forth in the notice, is solely beneficial, documentary evidence of such ownership must accompany the notice. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 3.4. The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that any business which was not properly brought before the meeting is out of order and shall not be transacted at the meeting.

**3.5 Special Meetings.** Except as otherwise required by law and subject to the rights of the holders of any claim or series of stock having a preference over the common stock of the Corporation (the "Common Stock") as to dividends or on liquidation, a special meeting of stockholders may be called only by the Chairman of the Board or the President or by the Secretary at the written request of a majority of the directors, provided that, if as of the date of

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the request for such special meeting there is a Related Holder as defined in Article FOURTEENTH of the Certificate of Incorporation, such majority shall include a majority of the Continuing Directors, as defined in Article FOURTEENTH of the Certificate of Incorporation or by the holders of four-fifths (80%) of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of directors. The request shall state the purpose or purposes for which the meeting is to be called. The notice of every special meeting of stockholders shall state the purpose for which it is called. At any special meeting of stockholders, only such business shall be conducted as shall be provided for in the resolution or resolutions calling the special meeting or, where no such resolution or resolutions have been adopted, only such business shall be conducted as shall be provided in the notice to stockholders of the special meeting. Any special meeting of stockholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from time to time and from place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

**3.6 Notice of Meetings.** Written notice of each meeting of stockholders shall be mailed to each stockholder of record at his last address as it appears on the books of the Corporation at least ten days, but no more than 60 days prior to the date of the meeting.

**3.7 Record Date.** The Board of Directors shall have power to close the stock transfer books of the Corporation for a period not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect; provided, however, that in lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for any payment of dividends, or the date for allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to vote at any such meeting or entitled to receive payment of any such dividend or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such cases only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. This By-law shall in no way affect the rights of a stockholder and his transferee or transferor as between themselves.

**3.8 Stockholder List.** The officer who has charge of the stock ledger of the Corporation shall make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information received to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of

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business of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

**3.9 Quorum.** The holders of a majority of the outstanding shares of stock of the Corporation having voting power with respect to a subject matter (excluding shares held by the Corporation for its own account) present or represented by proxy shall constitute a quorum at the meeting of

stockholders for the transaction of business with respect to such subject matter; provided, however, that if the subject matter is one as to which a higher vote is required (as contemplated by the Certificate of Incorporation or the laws of the State of Delaware, then the holders of that number of shares equal to at least that higher number of outstanding shares of stock of the Corporation having voting power with respect to such subject matter (excluding shares held by the Corporation for its own account) present or represented by proxy shall constitute a quorum at the meeting of stockholders solely for the transaction of business with respect to such subject matter. In the absence of a quorum with respect to a particular subject, the presiding officer of the meeting shall have power to adjourn the meeting from time to time, without notice other than an announcement at the meeting stating the time, place, if any, thereof, and the means of remote communication if any, until a quorum is present with respect to that subject matter. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally notified.

**3.10 Majority Vote.** When a quorum is present or represented at any meeting of stockholders, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders in all matters, unless the matter is one upon which, by express provision of the corporation laws of the State of Delaware, of the Certificate of Incorporation or of these By-laws, a different vote is required, in which case such express provision shall govern and control the decision of that matter. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors.

**3.11 Proxies.** Every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder (which for purposes of this Section may include a signature and form of proxy pursuant to a facsimile or telegraphic form of proxy or any other instruments acceptable to the Judge of Election), bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation before, or at the time of, the meeting. If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide to the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting thereby conferred, or if only one be present, then such powers may be exercised by that one; or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the same portion of the shares as he is of the proxies representing such shares.

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**3.12 One Vote Per Share.** Unless otherwise provided by the Certificate of Incorporation or by the corporation laws of the State of Delaware, each stockholder of the Corporation shall, at every meeting of stockholders, be entitled to one vote in person or by proxy for each share of capital stock of the Corporation registered in his name.

**3.13 Shares Held by Certain Holders.** Any other corporation owning voting shares in this Corporation may vote the same by its President or by proxy appointed by him, unless some other person shall be appointed to vote such shares by resolution of the Board of Directors of such stockholder corporation. A partnership holding shares of this Corporation may vote such shares by any general partner or by proxy appointed by any general partner. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no such fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

**3.14 Conduct of Business.** The order of business and all other matters of procedure at every meeting of the stockholders may be determined by the presiding officer of the meeting, who shall be the Chairman of the Board of Directors, the President or such other officer of the Corporation as designated by the Board. The presiding officer of the meeting shall have all the powers and authority vested in a presiding officer by law or practice without restriction, including, without limitation, the authority, in order to conduct an orderly meeting, to impose reasonable limits on the amount of time at the meeting taken up in remarks by any one stockholder and to declare any business not properly brought before the meeting to be out of order.

**3.15 Judge of Election.** The Board shall appoint one or more Judges of Election to serve at every meeting of the stockholders.

## ARTICLE IV

### Directors and Meetings of Directors

**4.1 General Powers.** The business and affairs of the Corporation shall be managed by a Board of Directors (herein the "Board of Directors" or the "Board") who may exercise all the powers of the Corporation not reserved to or conferred on the stockholders by statute, the Certificate of Incorporation or the By-laws of the Corporation.

**4.2 Number of Directors.** Except as otherwise fixed pursuant to the provisions of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors shall be as fixed from time to time by resolution of the Board, provided the number shall be not less than three. The

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directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. The term of office of each director shall expire at the third Annual Meeting after election of the class to which he belongs. During the intervals between Annual Meetings of Stockholders, any vacancy occurring in the Board of Directors caused by resignation, removal, death or other incapacity, and any newly-created directorships resulting from an increase in the number of directors, shall be filled by a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurs. Each director chosen to fill a newly-created directorship shall hold office until the next election of the class for which such director shall have been chosen. Directors are not required to be residents of Delaware or stockholders of the Corporation.

**4.3 Maximum Age of Directors.** No person may be elected or re-elected a director of the Corporation if at the time of his election or reelection he shall have attained the age of 70 years, provided however, that a director who shall attain the age of 70 years while serving as a director shall continue in office until the expiration of the term for which he was elected and, provided further that with respect to any person who was a director on November 1, 1996, the reference to "70 years" shall be changed to "72 years."

**4.4 Nomination.** Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. However, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice of such stockholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than (i) with respect to an election to be held at an Annual Meeting of Stockholders, not later than 90 days nor more than 180 days prior to the anniversary date of the date of the immediately preceding annual meeting, and (ii) with respect to an election to be held at a special meeting of stockholders for the election of directors, the close of business on the tenth day following the date on which a written statement setting forth the date of such meeting is first mailed to stockholders provided that such statement is mailed no earlier than 120 days prior to the date of such meeting. Notwithstanding the foregoing if an existing director is not standing for reelection to a directorship which is the subject of an election at such meeting or if a vacancy exists as to a directorship which is the subject an election, whether as a result of resignation, death, an increase in the number of directors, or otherwise, then a stockholder may make a nomination with respect to such directorship at anytime not later than the close of business on the tenth day following the date on which a written statement setting forth the fact that such directorship is to be elected and the name of the nominee proposed by the Board of Directors is first mailed to stockholders. Each notice of a nomination from a stockholder shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or

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understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations); and (e) the consent of each nominee to serve as a director of the Corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

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

**4.6 Regular Meetings.** Regular meetings of the Board of Directors shall be held at such times and at such place or places as the directors shall, from time to time, determine at a prior meeting. Special meetings of the Board may be called by the Chairman of the Board or President of the Corporation and shall be called by either of said officers upon the written request of any two directors. Special meetings shall be held at the office of the Corporation or at such place as is stated in the notice of the meeting. No notice shall be required for regular meetings of the Board. Notices of special meetings shall be given by mail at least five days before the meeting or by telephone, teletype or telegram at least 24 hours before the meeting. Notices may be waived. Notices need not include any statement of the purpose of the meeting.

**4.7 Unanimous Action; Telephonic and Other Participation.** When all of the directors shall be present at any meeting, however called or notified, they may act upon any business that might lawfully be transacted at regular meetings of the Board, or at special meetings duly called, and action taken at such meetings shall be as valid and binding as if legally called and notified. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment to the full extent and with the same effect as authorized and permitted by the laws of the State of Delaware.

**4.8 Quorum.** One-third of the total number of the members of the Board of Directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at any meeting at which there is a quorum present shall be the acts of the Board; provided, however, that the directors may act in such other manner, with or without a meeting, as may be permitted by the laws of the State of Delaware and provided further, that if all of the directors shall consent in writing to any action taken by the Corporation, such action shall be as valid as though it had been authorized at a meeting of the Board.

**4.9 Compensation.** Directors shall receive such compensation and such fees for attendance at meetings of the Board or of committees thereof and such other compensation as shall be fixed by a majority of the entire Board.

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## ARTICLE V

### Committees of Directors

**5.1 Designation.** The Board of Directors may designate from among its members an executive committee and/or one or more other committees, each consisting of one or more directors. The designation of a committee, and the delegation of authority to it, shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. No member of any committee shall continue to be a member thereof after ceasing to be a director of the Corporation. The Board of Directors shall have the power at any time to increase or decrease the number of members of any committee, to fill vacancies thereon, to change any member thereof and to change the functions or terminate the existence thereof.

**5.2 Powers.** Any such committee, to the extent provided by resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation;



adopting an agreement of merger or consolidation; recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets; recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution; or amending the By-laws of the Corporation; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger with respect to the merger into the Corporation of a subsidiary of which at least 90 percent of the outstanding shares of each class are owned by the Corporation.

### 5.3 Procedures; Meetings; Quorum.

(a) The Board of Directors shall appoint a chairman from among the members of the committee and shall appoint a secretary who may, but need not, be a member of the committee. The chairman shall preside at all committee meetings and the secretary of the committee shall keep a record of its acts and proceedings.

(b) Regular meetings of a committee, of which no notice shall be necessary, shall be held on such days and at such places as shall be fixed by resolution adopted by the committee. Special meetings of a committee shall be called at the request of the Chief Executive Officer or of any member of the committee, and shall be held upon such notice as is required by these By-laws for special meetings of the Board of Directors, provided that notice by word of mouth or telephone shall be sufficient if received in the city where the meeting is to be held not later than the day immediately preceding the day of the meeting. A waiver of notice of a meeting, signed by the person or persons entitled to such notice, whether before or after the event stated therein, shall be deemed equivalent to the giving of such notice.

(c) Attendance of any member of a committee at a meeting shall constitute a waiver of notice of the meeting. A majority of a committee, from time to time, shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee. Members of a committee may hold a meeting of such committee by means of conference telephone or similar

communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at the meeting.

(d) Any action which may be taken at a meeting of a committee may be taken without a meeting if a consent in writing- setting forth the actions so taken shall be signed by all members of the committee entitled to vote with respect to the subject matter thereof. The consent shall have the same effect as a unanimous vote of the committee.

(e) The Board of Directors may vote to the members of any committee a reasonable fee as compensation for attendance at meetings of the committee.

## ARTICLE 6

### Officers

**6.1 Number.** The Board of Directors shall elect a Chief Executive Officer, a President, who may also be the Chief Executive Officer, and a Secretary, and may elect a Chairman, a Treasurer, one or more vice presidents, including an Executive Vice President and a Vice President-Finance, a Controller, a Controller-Operations, and one or more assistant secretaries and assistant treasurers. The Chief Executive Officer of the Corporation and the Chairman shall be directors of the Corporation; other officers need not be directors. Any two of the above offices, except those of President and Vice President, may be held by the same person but no officers shall execute, acknowledge or verify any instrument in more than one capacity.

**6.2 Election and Term of Office.** Officers of the Corporation shall hold office until they resign or until their successors are chosen and qualified provided, however, that no person shall serve as an officer of the Corporation beyond the date of the Annual Meeting of Stockholders immediately following the fiscal year of the Corporation during which such person reaches age 65. Any officer, agent or employee may be removed at any time, with or without cause, by the Board but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Vacancy occurring in any office or position at any time may be filled by the Board. All officers, agents and employees of the Corporation shall respectively have such authority and perform such duties in the conduct and management of the Corporation as may be delegated by the Board of Directors or by these By-laws.

**6.3 Compensation.** Officers shall receive such compensation as may from time to time be determined by the Board of Directors, and no officer shall be prevented from receiving such compensation by reason of such officer also being a director. Agents and employees shall receive such compensation as may from time to time be determined by the President of the Corporation or, if the Board of Directors has elected a Chairman of the Board and has designated such Chairman of the Board to be the Chief Executive Officer of the Corporation, by the Chairman of the Board.

**6.4 Chairman of the Board.** The Chairman of the Board shall preside at all meetings of the stockholders and at all meetings of the directors. In the absence of the Chairman of the Board, the Chairman of the Nominating and Corporate Governance Committee shall so preside.

**6.5 Chief Executive Officer and President.** The Board of Directors shall designate either the Chairman of the Board or the President as the Chief Executive Officer of the Corporation. The Chief Executive Officer of the Corporation shall supervise and direct the operations of the business in accordance with the policies determined by the Board of Directors. If the President is not designated the Chief Executive Officer, the President shall be the Chief Operating Officer of the Corporation and shall be responsible for the general supervision and control of the business and the affairs of the Corporation subject to the directions of the Chairman of the Board and the Board of Directors. The Chief Operating Officer, in the absence or incapacity of the Chief Executive Officer, shall perform the duties of that office.

**6.6 Vice President.** The Vice President, in the absence or incapacity of the President, shall perform the duties of the President. If there be an executive vice president, he shall perform the duties of the President in the event of his absence or incapacity. If there be more than one vice president, and no executive vice president, the Board of Directors may designate the Vice President who is to perform the duties of the President in the event of his absence or incapacity. Each Vice President shall have such other duties and authority as shall be assigned by the President or may be delegated by the Board of Directors. The Vice President-Finance shall be responsible for and direct the Treasurer, Controller, and Director of Data Processing of the Corporation in all treasury, accounting, cost and budgeting, and data collection functions. He will report directly to the President with a report and policy relationship to the Chairman of the Board and the Board of Directors.

**6.7 Secretary.** The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and shall record all votes and minutes from all proceedings in a book to be kept for that purpose. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary; provided, however, that the affixing of the seal of the Corporation to any document or instrument specifically shall not be required in order for such document or instrument to be binding on or the official act of the Corporation, and the signature of any authorized officer, without the seal of the Corporation, shall be sufficient for such purposes. The Secretary shall perform such other duties and have such other authorities as are delegated to him by the Board of Directors.

**6.8 Treasurer.** The Treasurer shall be responsible for the care and custody of all funds and other financial assets, taxes, corporate debt, order entry and sales invoicing including credit memos, credit and collection of accounts receivable, cash receipts, and the banking and insurance functions of the Corporation. He shall report directly to and perform such other duties as shall be assigned by the Vice President-Finance.

**6.9 Controller.** The Controller shall be responsible for the installation and supervision of all general accounting records of the Corporation, preparation of financial statements and the annual and operating budgets and profit plans, continuous audit of accounts and records of the Corporation, preparation and interpretation of statistical records and reports, taking and costing of all physical inventories and administering the inventory levels, supervision of accounts payable and cash disbursements function and hourly and salary payrolls. He shall

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report directly to and perform such other functions as shall be assigned him by the Vice President-Finance.

## ARTICLE VII

### Notice

**7.1 Methods of Giving Notice.** Whenever, under the provisions of applicable statutes, the Certificate of Incorporation or these By-laws, notice is required to be given to any director, member of any committee or stockholder, such notice may be given in writing and delivered personally or mailed to such director, member or stockholder; provided that in the case of a director or a member of any committee such notice may be given orally or by telephone. If mailed, notice to a director, member of a committee or stockholder shall be deemed to be given when deposited in the United States mail first class in a sealed envelope, with postage thereon prepaid, addressed, in the case of a stockholder, to the stockholder at the stockholder's address as it appears on the records of the Corporation or, in the case of a director or member of a committee, to such a persons at his business address. Notice to directors and stockholders may also be given by facsimile telecommunication. Notice may also be given to any director, member of any committee or stockholder by a form of electronic transmission as that term is defined in Section 232 of the Delaware General Corporation Law.

**7.2 Written Waiver.** Whenever any notice is required to be given under the provisions of an applicable statute, the Certificate of Incorporation or these By-laws, a waiver thereof in writing signed by the person or persons entitled to such notice, or a waiver by electronic transmission by the person or persons entitled to such notice, in each case either before or after the time stated therein, shall be deemed equivalent to the required notice.

## ARTICLE VIII

### Banking, Checks and Other Instruments

**8.1 Banks.** The Board of Directors shall by resolution designate the bank or banks in which the funds of the Corporation shall be deposited, and such funds shall be deposited in the name of the Corporation and shall be subject to checks drawn as authorized by resolution of the Board of Directors.

**8.2 Contracts and Other Instruments.** The Board of Directors may in any instance designate the officers and agents who shall have authority to execute any contract, conveyance, or other instrument on behalf of the Corporation; or may ratify or confirm any execution. When the execution of any instrument has been authorized without specification of the executing officer or agents, the Chairman of the Board, if designated as the Chief Executive Officer of the Corporation, President or any Vice President, and the Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may execute the same in the name and on behalf of the Corporation and may affix the corporate seal thereto.

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## ARTICLE IX

### Fiscal Year

The fiscal year of the Corporation shall begin on the first day of November and end on the thirty-first day of October.

## ARTICLE X

### Books and Records

The proper officers and agents of the Corporation shall keep and maintain such books, records and accounts of the Corporation's business and affairs and such stock ledgers and lists of stockholders as the Board of Directors shall deem advisable and as shall be required by the laws of the State of Delaware or other states or jurisdictions empowered to impose such requirements.

## ARTICLE XI

### Indemnification

**11.1 Indemnification and Advancement of Expenses.** Each director or officer of the Corporation or a subsidiary of the Corporation who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or a subsidiary of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the laws of the State of Delaware (but, in the case of any amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expenses, (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the laws of the State of Delaware require, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under the applicable provisions of the laws of the State of Delaware. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation or a subsidiary of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

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**11.2 Non-Exclusivity.** The indemnification and advancement of expenses provided in Section 11.1 of these By-laws shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders, vote of disinterested directors, insurance arrangement or otherwise, both as to action in his or her official capacity and as to action in another capacity.

## ARTICLE XII

### Other Matters

**12.1 Severability.** Any determination that any provision of these By-laws is for any reason inapplicable, invalid, illegal or otherwise ineffective shall not affect or invalidate any other provision of these By-laws.

**12.2 Evidence of Authority.** A certificate by the Secretary or an Assistant Secretary as to any action taken by the stockholders, directors, any committee or any officer or representative of the Corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

## ARTICLE XIII

### Amendments

These By-laws may be altered, amended or repealed and new by-laws may be adopted at any regular meeting of the stockholders or Board of Directors; or at any special meeting of the stockholders or Board of Directors; provided that notice of such proposed making, alteration or repeal be included in the notice of such special meeting. The Board of Directors may take such action by the vote of a majority of those Directors present and voting at a meeting where a quorum is present, provided that if there is a Related Holder as defined in Article FOURTEENTH of the Certificate of Incorporation, such majority shall include a majority of the Continuing Directors, as defined in Article FOURTEENTH of the Certificate of Incorporation. In accordance with the provisions of the Certificate of Incorporation, the stockholders may make new by-laws, or adopt, alter, amend, or repeal by-laws adopted by either the stockholders or the Board of Directors by the affirmative vote of the holders of not less than four-fifths of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally for the election of directors. The power of the stockholders and the Board shall include the fixing and appointing of the number of directors in accordance with the provisions of the Certificate of Incorporation.

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## QUANEX CORPORATION

## LONG-TERM INCENTIVE PLAN

*Amended and Restated  
Effective December 2, 2004*

Amended December 2, 2004

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QUANEX CORPORATION  
LONG-TERM INCENTIVE PLAN

**WHEREAS**, Quanex Corporation, A Delaware corporation (“Quanex”), originally established the Quanex Corporation Long-Term Incentive Plan (the “Plan”) effective November 1, 2001 to advance the best interests of Quanex by providing key executives of Quanex who have substantial responsibility for the management and growth of Quanex an additional incentive to remain in the employ of Quanex and to contribute materially to the continued growth, development and financial success of Quanex; and

**WHEREAS**, it is intended that the Plan shall constitute a bonus program within the meaning of Department of Labor Regulation section 2510.3-2(c) that is exempt from coverage under the Employee Retirement Income Security Act of 1974, as amended; and

WHEREAS, the Board of Directors desires to amend the Plan;

**NOW, THEREFORE**, the Plan is amended with respect to Performance Awards granted under the Plan on and after December 2, 2004 as follows:

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QUANEX CORPORATION  
LONG-TERM INCENTIVE PLAN

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## ARTICLE I

### PLAN PURPOSE AND TERM

1.1 **Purpose.** The Plan is intended to provide those executives who have substantial responsibility for the management and growth of Quanex with additional incentives to remain in the employ of Quanex and to contribute materially to the continued growth, development and financial success of Quanex.

1.2 **Term of Plan.** The Plan is effective November 1, 2001. The Plan shall remain in effect until all amounts due under the terms of the Plan have been paid.

## ARTICLE II

### DEFINITIONS

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

2.1 **“Affiliate”** means an entity that is treated as a single employer together with Quanex for certain employee benefit purposes under section 414 of the Code.

2.2 **“Award Agreement”** means the written agreement between Quanex and a Grantee that sets forth the terms of a Performance Award.

2.3 **“Board”** means the board of directors of Quanex.

2.4 **“Cause”** means (a) the willful and continued failure by the Grantee to substantially perform his duties with Quanex or its Affiliates (other than such failure resulting from his incapacity due to physical or mental illness) after demand for substantial performance is delivered to him by Quanex which specifically identifies the manner in which Quanex believes the Grantee has not substantially performed his duties; (b) the willful engaging by the Grantee in gross misconduct materially and demonstrably injurious to the property or business of Quanex or any of its Affiliates; or (c) the willful material violation of any Quanex policies regarding the protection of confidential and/or proprietary information or the material violation of any non-compete agreement between the Grantee and Quanex. For purposes of this definition, no act or failure to act on the Grantee’s part will be considered willful unless done or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interests of Quanex or its Affiliates or not opposed to the interests of Quanex or its Affiliates.

2.5 **“Change of Control”** means the occurrence of one or more of the following events after November 1, 2001:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Covered Person”) of beneficial ownership (within the meaning of rule 13d-3 promulgated under the Exchange Act) of 20 percent or more of either

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(i) the then outstanding shares of the common stock of Quanex (the “Outstanding Quanex Common Stock”), or (ii) the combined voting power of the then outstanding voting securities of Quanex entitled to vote generally in the election of directors (the “Outstanding Quanex Voting Securities”); *provided, however,* that for purposes of this subsection (a) of this Section, the following acquisitions shall not constitute a Change of Control of Quanex: (i) any acquisition directly from Quanex, (ii) any acquisition by Quanex, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Quanex or any entity controlled by Quanex, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section;

(b) individuals who, as of November 1, 2001, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however,* that any individual becoming a director subsequent to June 1, 1999, whose election, or nomination for election by Quanex’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Covered Person other than the Board;

(c) the consummation of (xx) a reorganization, merger or consolidation or sale of Quanex or (yy) a disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Quanex Common Stock and Outstanding Quanex Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80 percent of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns Quanex or all or substantially all of Quanex’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Quanex Common Stock and Outstanding Quanex Voting Securities, as the case may be, (ii) no Covered Person (excluding any employee benefit plan (or related trust) of Quanex or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20 percent or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination, were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(d) the approval of the stockholders of Quanex of a complete liquidation or dissolution of Quanex.

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2.6 **“Code”** means the Internal Revenue Code of 1986, as amended.

2.7 **“Committee”** means members of the Compensation Committee of the Board.

2.8 **“Common Stock”** means Quanex’s common stock, \$.50 par value.

2.9 **“Disability”** means the Separation From Service of a Grantee due to a medically determinable mental or physical impairment which, in the opinion of a physician selected by the Committee, shall prevent the Grantee from engaging in any substantial gainful activity and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve months and which (a) was not contracted, suffered or incurred while the Grantee was engaged in, or did not result from having engaged in, a felonious criminal enterprise; (b) did not result from addiction to narcotics; (c) did not result from an injury incurred while a member of the Armed Forces of the United States for which the Grantee receives a military pension; and (d) did not result from an intentionally self-inflicted injury.

2.10 **“Fiscal Year”** means November 1 through October 31.

2.11 **“Grantee”** means a person who has been granted a Performance Award under the Plan.

2.12 **“Maximum Performance Level”** means the most stringent Performance Standard established by the Committee with respect to a Performance Award.

2.13 **“Performance Award”** means an incentive compensation opportunity granted under the Plan.

2.14 **“Performance Objectives”** means the criteria established by the Committee for a Fiscal year as the basis for determining the amount payable to a Grantee under a Performance Award.

2.15 **“Performance Objective Percentage”** has the meaning specified in Section 4.2.

2.16 **“Performance Period”** means the period that commences on the first day of a Fiscal Year and ends on the day before the third anniversary of such first day of a Fiscal Year.

2.17 **“Performance Standard”** means a level of performance established by the Committee with respect to a Performance Award.

2.18 **“Performance Unit”** means a unit that is awarded under the Plan pursuant to an Award Agreement for the purpose of determining the incentive compensation payable under the Plan.

2.19 **“Performance Unit Value”** means, with respect to any Performance Objective, \$0 if the Threshold Performance Level is not attained; \$75.00 if the Threshold Performance Level is attained but the Target Performance Level is not attained; \$100.00 if the Target

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Performance Level is attained but the Maximum Performance Level is not attained; and \$200.00 if the Maximum Performance Level is attained.

2.20 **“Plan”** means the Quanex Corporation Long-Term Incentive Plan, as set forth in this document and as it may be amended from time to time.

2.21 **“Quanex”** means Quanex Corporation, a Delaware Corporation.

2.22 **“Retirement”** means the Grantee’s Separation From Service at a time when he is eligible to commence receiving retirement benefits under either the Quanex Corporation Salaried Employees’ Pension Plan or the Quanex Corporation Supplemental Benefit Plan.

2.23 **“Separation From Service”** means the termination of the employment relationship between the Grantee and Quanex and all Affiliates.

2.24 **“Spouse”** means the person to whom the Grantee is married under applicable local law.

2.25 **“Target Performance Level”** means the normal Performance Standard established by the Committee with respect to a Performance Award.

2.26 **“Threshold Performance Level”** means the least stringent Performance Standard established by the Committee with respect to a Performance Award.

2.27 **“Vested Interest”** means a Grantee’s nonforfeitable interest in the benefits payable under his Performance Award pursuant to Article IV determined under the terms of Article VI.

### ARTICLE III

#### ELIGIBILITY

The individuals who shall be eligible to receive Performance Awards under the Plan during a Fiscal Year shall be those Quanex executives as the Committee shall determine.

### ARTICLE IV

#### PERFORMANCE AWARDS

4.1 **Grants of Performance Awards.** Quanex may grant a Performance Award to each Grantee selected by the Committee. The potential amount payable under a Performance Award shall be based upon the attainment of Performance Objectives established by the Committee. Performance Awards may vary among Grantees. The terms of a Performance Award that are established by the Committee shall be specified in an Award Agreement. The fact that a Grantee is granted a Performance Award during a Fiscal Year shall not prevent Grantee from being entitled to have another Performance Award granted to him during any other Fiscal Year the basis and terms of any subsequent Performance Award being solely within the

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absolute discretion of the Committee. The Committee shall retain documentation relating to all Performance Awards and the applicable Performance Objectives.

4.2 **Establishment of Performance Objectives and Performance Standards.** The Committee shall establish the Performance Objectives that apply to a Performance Award. The Committee shall assign a percentage weight of importance (a "Performance Objective Percentage") for each Performance Objective taken into account under a Performance Award. The total of the Performance Objective Percentages for all of the Performance Objectives applicable to a Performance Award shall be 100 percent. For each Performance Objective that the Committee establishes under a Performance Award, the Committee shall specify three Performance Standards which shall be referred to as the Threshold Performance Level, the Target Performance Level and the Maximum Performance Level.

4.3 **Special Ledger.** The Committee shall establish or cause to be established an appropriate record that will reflect the name of each Grantee and all other information necessary to properly reflect each Grantee's Performance Awards made by the Committee.

## ARTICLE V

### CALCULATION AND PAYMENT OF BENEFITS

5.1 **Determination of Amounts Payable Under Performance Awards.** As soon as administratively practicable after the end of a Fiscal Year, the Committee shall ascertain the extent to which the Performance Objectives applicable to Performance Awards made for that Fiscal Year have been achieved. The Committee shall retain with the records of the Committee documentation of its conclusions, and the basis for its conclusions, concerning the extent to which Performance Objectives were achieved. Subject to Sections 5.2 and 5.3, if a Grantee achieves a performance standard (Maximum Performance Level, Target Performance Level or Threshold Performance Level) for a Performance Objective the Grantee shall be entitled to receive, and Quanex shall pay the Grantee (or the Grantee's Spouse or estate, if applicable), an incentive payment with respect to such Performance Objective in an amount equal to the product of (1) the Grantee's Vested Interest, (2) the number of Performance Units awarded to the Grantee under the Performance Award, (3) the applicable Performance Objective Percentage for such Performance Objective and (4) the applicable Performance Unit Value (\$75.00 for achieving the Threshold Performance Level; \$100.00 for achieving the Target Performance Level; and \$200.00 for achieving the Maximum Performance Level). If the performance standard achieved with respect to a particular Performance Objective is between the Threshold Performance Level and the Target Performance Level or between the Target Performance Level and the Maximum Performance Level, the applicable Performance Unit Value for the Performance Objective shall be determined by interpolation. If a Grantee fails to achieve at least the Threshold Performance Level for a Performance Objective he shall not be entitled to receive an incentive payment with respect to such Performance Objective. Exhibit A attached hereto contains an example that illustrates the manner in which the amount payable under a Performance Award is to be determined.

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5.2 **Amounts Payable Upon the Death, Disability or Retirement of the Grantee.** If a Grantee incurs a Separation From Service due to his death, Disability or Retirement during the Performance Period for which a Performance Award was granted to him, he shall be entitled to receive, and Quanex shall pay him (or his Spouse or estate, if applicable), with respect to each Performance Objective, an amount equal to the amount determined under Section 5.1 above multiplied by a fraction, the numerator of which is the number of days during the Performance Period that have elapsed prior to his Separation From Service and the denominator of which is 1095.

5.3 **Amount Payable Upon a Change of Control.** Notwithstanding any other provisions of the Plan, if a Change of Control occurs (a) prior to the expiration of the applicable Performance Period and (b) either prior to a Grantee's Separation From Service or within 120 days after a Grantee's Separation From Service, he shall be entitled to receive, and Quanex shall pay him (or his Spouse or estate, if applicable), with respect to each Performance Objective, an amount equal to the product of (1) the number of Performance Units awarded to the Grantee under the Performance Award, (2) \$100.00, and (3) a fraction, the numerator of which is the number of days during the Performance Period that will have elapsed prior to the first day of the second Fiscal Year immediately following the Fiscal Year in which the Change of Control occurs and the denominator of which is 1095.

5.4 **No Interest on Performance Awards.** No interest shall be credited with respect to amounts payable under any Performance Awards.

5.5 **Time of Payment.** Unless a Change of Control occurs during the Performance Period, Quanex shall pay a Grantee the aggregate amount due to the Grantee under the Plan with respect to such Performance Period as soon as administratively practicable after the end of the Performance Period and in any event no later than 90 days after the end of the Performance Period.

If during a Performance Period a Change of Control occurs either prior to the date of a Grantee's Separation From Service or within 120 days after the Grantee's Separation From Service, Quanex shall pay the Grantee the aggregate amount due the Grantee under the Plan with respect to such Performance Period as soon as administratively practicable after the date of the Change of Control and in any event no later than 120 days after the date of the Change of Control.

Notwithstanding any other provision of the Plan to the contrary, if the Company determines that as a result of the application of section 162(m) of the Code the Company would not be entitled to take a deduction for part or all of the compensation payable to a Grantee under an Award, then, unless a Change of Control has occurred, the payment of the compensation, to the extent not currently deductible, will be delayed until December 1 of the second Fiscal Year that commences after the expiration of the applicable Performance Period.

5.6 **Form of Payment.** The payment under a Performance Award shall be in the form of cash.

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5.7 **Payment on Death of Grantee.** Upon the death of a Grantee before he has been paid his benefit under his Performance Award, his benefit under his Performance Award shall be paid to the Grantee's Spouse if the Spouse survives the Grantee, or to the Grantee's estate if the Grantee's Spouse does not survive the Grantee. Any payment under this Section 5.7 shall be made at the same time the payment would have been made to the Grantee.



## ARTICLE VI

### VESTING AND FORFEITURES

6.1 **Determination of Vested Interest.** Subject to Section 6.3, if the Grantee does not incur a Separation From Service prior to the expiration of the Performance Period applicable to his Performance Award, his Vested Interest shall be 100 percent. Further, if the Grantee dies, Retires or becomes Disabled before he has been paid his benefit under his Performance Award, his Vested Interest shall be 100 percent.

6.2 **Forfeiture Upon Separation From Service.** Subject to Section 6.4, if a Grantee incurs a Separation From Service prior to the expiration of the applicable Performance Period for any reason other than death, Retirement or Disability, his Vested Interest shall be zero and his Performance Award shall be immediately forfeited.

6.3 **Complete Forfeiture for Cause.** Notwithstanding Section 6.1 of the Plan, if prior to the date that is 120 days prior to the occurrence of a Change of Control the Committee finds by a majority vote after full consideration of the facts that a Grantee was discharged from the employ of Quanex or an Affiliate for Cause or for a material violation of the Company's Code of Business Conduct & Ethics, the Grantee shall immediately forfeit his Performance Award to the extent he has not yet been paid benefits pursuant to the Performance Award. The decision of the Committee as to the cause of the Grantee's discharge shall be final. No decision of the Committee shall affect the finality of the discharge of the Grantee. No Plan benefits shall be forfeited pursuant to this Section 6.3 after the date that is 120 days prior to the occurrence of a Change of Control. Further, if the Committee finds by a majority vote after full consideration of the facts, that a Grantee possessed direct and actual knowledge of a material violation of the Company's Code of Business Conduct and Ethics and failed to report the violation, a portion or the entire amount of any benefits yet to be paid pursuant to the Performance Award may be forfeited as is decided by the Committee.

6.4 **Accelerated Vesting Upon Change of Control.** Notwithstanding any other provisions of the Plan, if a Change of Control occurs prior to the expiration of the Performance Period applicable to a Grantee's Performance Award and prior to a Grantee's Separation From Service, such Grantee's Vested Interest shall be 100 percent. Further, notwithstanding any other provisions of the Plan, if a Change of Control occurs prior to the expiration of the Performance Period applicable to a Grantee's Performance Award and no later than the date that is 120 days after a Grantee's Separation From Service, such Grantee's Vested Interest shall be 100 percent.

6.5 **Treatment of Forfeited Interest in Performance Award.** If a Grantee's interest in a Performance Award is fully or partially forfeited for any reason, his forfeited interest in the

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Performance Award shall *not* be applied to increase the Long Term Incentive Percentages of, or to otherwise increase the amounts payable under the Plan for any remaining Grantee who has not incurred a Separation From Service on or prior to the date of the forfeiture.

## ARTICLE VII

### ADMINISTRATION

7.1 **General.** The Plan shall be administered by the Committee. All questions of interpretation and application of the Plan and Performance Awards shall be subject to the determination of the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by a majority of the members shall be as effective as if it had been made by a majority vote at a meeting properly called and held.

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

- (a) to make rules, regulations and administrative guidelines for the administration of the Plan;
- (b) to construe all terms, provisions, conditions and limitations of the Plan;
- (c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect for the greatest benefit of all parties at interest;
- (d) to determine all controversies relating to the administration of the Plan, including but not limited to:
  - (1) differences of opinion arising between Quanex and a Grantee; and
  - (2) any question it deems advisable to determine in order to promote the uniform administration of the Plan for the benefit of all parties at interest;
- (e) to determine the terms and conditions, if any, not inconsistent with the terms of the Plan that are to be placed upon the Performance Award given to a particular Grantee; and
- (f) to determine the extent to which the applicable Performance Objectives have been achieved.

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7.3 **Committee Discretion.** The Committee in exercising any power or authority granted under the Plan or in making any determination under the Plan shall perform or refrain from performing those acts in its sole discretion and judgment. Any decision made by the Committee or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decisions shall never be subject to de novo review, but instead shall only be overturned if found to be arbitrary or capricious by an arbitrator or a court of law.

7.4 **Disqualification of Committee Member.** A member of the Committee shall not vote or act on any Plan matter relating solely to himself.

## ARTICLE VIII

### AMENDMENT OR TERMINATION OF PLAN

The Board may terminate the Plan at any time, in its sole and absolute discretion, provided that any termination of the Plan prior to the expiration of the Performance Period shall be deemed to be a Change of Control for all purposes under the Plan. The Board or the Committee may amend the Plan at any time and in any manner provided that no such amendment shall be effective as to any Grantee who has not either been paid the entire amount due him under his Performance Award or forfeited his entire interests in his Performance Award pursuant to the terms of the Plan without the prior written consent of such Grantee if such amendment materially and adversely affects the rights of such Grantee.

## ARTICLE IX

### FUNDING

9.1 **Payments Under the Plan Are the Obligation of Quanex.** Benefits due under the Plan will be paid by Quanex.

9.2 **Grantees Must Rely Solely on the General Credit of Quanex.** The Plan is only a general corporate commitment of Quanex and each Grantee must rely solely upon the general credit of Quanex for the fulfillment of its obligations hereunder. Under all circumstances the rights of the Grantee to any asset held by Quanex will be no greater than the rights expressed in the Plan. Nothing contained in the Plan or a Performance Award will constitute a guarantee by Quanex that the assets of Quanex will be sufficient to pay any benefits under the Plan or would place the Grantee in a secured position ahead of general creditors of Quanex; the Grantees are only unsecured creditors of Quanex with respect to their Plan benefits and the Plan constitutes a mere promise by Quanex to make benefit payments in the future. No specific assets of Quanex have been or will be set aside, or will be pledged in any way for the performance of Quanex's obligations under the Plan which would remove such assets from being subject to the general creditors of Quanex.

9.3 **Unfunded Arrangement.** It is intended that the Plan shall be unfunded for tax purposes and for purposes of Title of the Employee Retirement Income Security Act of 1974, as amended.

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## ARTICLE X

### MISCELLANEOUS

10.1 **No Employment Obligation.** The granting of any Performance Award shall not constitute an employment contract, express or implied, nor impose upon Quanex or any Affiliate any obligation to employ or continue to employ the Grantee. The right of Quanex or any Affiliate to terminate the employment of any person shall not be diminished or affected by reason of the fact that a Performance Award has been granted to him.

10.2 **Tax Withholding.** Quanex shall be entitled to deduct from the Performance Award or other compensation payable to each Grantee any sums required by federal, state, or local tax law to be withheld with respect to payments under a Performance Award.

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

10.4 **Indemnification of the Board.** Quanex shall indemnify each present and future member of the Board against, and each member of the Board shall be entitled without further act on his part to indemnify from Quanex for, all expenses (including attorneys' fees, the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to Quanex itself) reasonably incurred by him in connection with or arising out of any action, suit, or proceeding relating to the Plan in which he may be involved by reason of his being or having been a member of the Board, whether or not he continues to be a member of the Board at the time of incurring the expenses — including, without limitation, matters as to which he shall be finally adjudged in any action, suit or proceeding to have been found to have been negligent in the performance of his duty as a member of the Board. However, this indemnity shall not include any expenses incurred by any

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member of the Board in respect of matters as to which he shall be finally adjudged in any action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his duty as a member of the Board. In addition, no right of indemnification under the Plan shall be available to or

enforceable by any member of the Board unless, within 60 days after institution of any action, suit or proceeding, he shall have offered Quanex, in writing, the opportunity to handle and defend same at its own expense. This right of indemnification shall inure to the benefit of the heirs, executors or administrators of each member of the Board and shall be in addition to all other rights to which a member of the Board may be entitled as a matter of law, contract, or otherwise.

10.5 **Gender and Number.** If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

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

10.7 **Other Compensation Plans.** The adoption and maintenance of the Plan shall not affect any other stock option, incentive or other compensation or benefit plans in effect for Quanex or any Affiliate or preclude Quanex from establishing any other forms of incentive or other compensation for employees of Quanex or any Affiliate.

10.8 **Rights of Quanex and Affiliates.** The existence of Performance Awards shall not affect in any way the right or power of Quanex or an Affiliate to (a) make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in Quanex's or an Affiliate's structure or business, (b) approve and consummate any merger or consolidation of Quanex or an Affiliate with or into any entity, (c) issue any bonds, debentures or interests in Quanex or an Affiliate of any nature whatsoever to any person, (d) approve and consummate the dissolution or liquidation of Quanex or an Affiliate or any sale or transfer of all or any part of Quanex's or an Affiliate's assets or business or (e) approve and consummate any other act or proceeding whether of a similar character or otherwise.

10.9 **Nonalienation of Benefits.** No benefit provided under the Plan shall be transferable by the Grantee except pursuant to a state domestic relations order. No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge. Any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit under the Plan shall be void. No right or benefit under the Plan shall, in any manner, be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to the right or benefit. If any Grantee becomes bankrupt or attempts to anticipate, alienate, assign, pledge, sell, encumber or charge any right or benefit under the Plan, then the right or benefit shall, in the discretion of the Committee, cease. In that event, Quanex and/or one or more Affiliates may hold or apply the right or benefit or any part of the right or benefit for the benefit of the Grantee, the Grantee's Spouse, children or other dependents or any of them in the manner and in the proportion that the Committee shall deem proper, in its sole discretion, but is not required to do so. The restrictions in this Section 10.9 shall not apply to state domestic relations' orders.

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10.10 **Plan and Award Agreements Binding Upon Quanex's Successor.** The Plan and all Award Agreements shall be binding upon Quanex's successor. Further, the Board shall not authorize a Change of Control unless the purchaser agrees to take such actions as are necessary to cause all Grantees to be paid amounts due under the terms of the Plan as in effect prior to the Change of Control.

10.11 **Governing Law.** Except to the extent such laws are preempted by federal law, the validity, interpretation, construction and enforceability of the Plan shall be governed by the laws of the State of Texas.

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**EXHIBIT A**

**Example of Performance Compensation  
Calculation Under the  
Quanex Corporation Long-Term Incentive Plan**

Assume that the Committee grants an executive a performance based compensation award under the Plan that is contingent upon achieving two performance goals, Performance Objective A and Performance Objective B. The Committee assigns weights of importance Performance Objective Percentages in the amounts of 40% and 60% for Performance Objective A and Performance Objective B, respectively.

Assume that for both of Performance Objectives A and B the Committee establishes threshold, target and maximum performance standards. The per performance unit dollar values ("Performance Unit Value") assigned for achieving the threshold, target and maximum performance standards are \$75, \$100 and \$200, respectively.

Assume that the performance based compensation award provides that the executive is awarded 2000 units ("Performance Units") for purposes of determining the amount payable under the award.

Assume that the executive achieves the maximum performance standard for Performance Objective A, and precisely halfway between the target and maximum performance standards for Performance Objective B. Finally, assume that the executive is continuously employed by Quanex throughout the performance period.

The amount payable to the executive with respect to Performance Objective A is \$160,000, determined as follows:

.40 (Performance Objective Percentage) X 2000 (Performance Units) X \$200 (Performance Unit Value) = \$160,000.

The amount payable to the executive with respect to Performance Objective B is \$180,000, determined as follows:

.60 (Performance Objective Percentage) X 2000 (Performance Units) X \$150 (Performance Unit Value) = \$180,000.

The total amount payable to the executive under the award is \$340,000.



## 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 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. 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
  - c. 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.

June 1, 2005

/s/ Raymond A. Jean

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Raymond A. Jean

Chairman of the Board, President and

Chief Executive Officer

(Principal Executive Officer)

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## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Terry M. Murphy, 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 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. 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
  - c. 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.

June 1, 2005

/s/ Terry M. Murphy

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Terry M. Murphy

Senior Vice President – Finance and

Chief Financial Officer

(Principal Financial Officer)

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

We hereby certify that the accompanying Report of Quanex Corporation on Form 10-Q for the quarter ended April 30, 2005 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.

June 1, 2005

/s/ Raymond A. Jean

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Raymond A. Jean  
*Chairman of the Board, President and  
Chief Executive Officer*

/s/ Terry M. Murphy

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Terry M. Murphy  
*Senior Vice President—Finance and  
Chief Financial Officer*

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