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

(Mark One)

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

For the quarterly period ended July 31, 1997

OR

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

For the transition period from __________ to ___________.

Commission File Number 1-5725

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

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

1900 West Loop South, Suite 1500, Houston, Texas 77027
(Address of principal executive offices and zip code)

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

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

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

Class	Outstanding at July 31, 1997
Common Stock, par value $0.50 per share	14,006,398

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	July 31, 1997 (Unaudited)	October 31, 1996 (Audited)
ASSETS		
Current assets:		
Cash and equivalents	$ 25,672	$ 35,975
Accounts and notes receivable, net	88,469	90,583
Inventories	89,106	89,938
Deferred income taxes	10,014	10,019
Prepaid expenses	1,422	121
Total current assets	214,683	226,636
Property, plant and equipment	674,000	620,058
Less accumulated depreciation and amortization	(310,561)	(284,723)
Property, plant and equipment, net	363,439	335,335
Goodwill, net	82,017	84,343
Net assets of discontinued operations	-	7,217
Other assets	17,061	17,152
	$677,200	$670,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ -	$ 5,575
Accounts payable	72,091	73,958
Income taxes payable	15,540	3,807
Accrued expenses	42,147	44,286
Current maturities of long-term debt	402	-
Total current liabilities	130,180	127,626
Long-term debt	194,273	253,513
Deferred pension credits	11,746	11,827
Deferred postretirement welfare benefits	28,875	28,033
Deferred income taxes	33,951	33,743
Other liabilities	19,569	20,000
Total liabilities	418,594	474,742
Stockholders' equity:		
Preferred stock, no par value	-	-
Common stock, $.50 par value	7,002	6,795
Additional paid-in capital	103,574	94,251
Retained earnings	149,573	96,623
Unearned compensation	-	(185)
Adjustment for minimum pension liability	(1,543)	(1,543)
Total stockholders' equity	258,606	195,941
	$677,200	$670,683

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

	Three Months Ended July 31 1997	Three Months Ended July 31 1996	Nine Months Ended July 31 1997	Nine Months Ended July 31 1996
	(Unaudited)			
Net sales	$225,076	$186,284	$637,068	$511,747
Cost and expenses:				
Cost of sales	193,368	157,836	553,832	441,923
Selling, general and administrative expense	13,436	13,920	38,254	35,919
Operating income	18,272	14,528	44,982	33,905
Other income (expense):				
Interest expense	(4,040)	(2,313)	(13,808)	(7,453)
Capitalized interest	849	160	2,231	287
Other, net	(587)	988	(886)	2,151
Income from continuing operations before income taxes	14,494	13,363	32,519	28,890
Income tax expense	(5,074)	(5,612)	(11,382)	(12,134)
Income from continuing operations	9,420	7,751	21,137	16,756
Income from discontinued operations, net of income taxes	-	1,394	1,699	4,568
Gain on sale of discontinued operations, net of income taxes	-	-	36,290	-
Income before extraordinary charge	9,420	9,145	59,126	21,324
Extraordinary charge - early extinguishment of debt	-	-	-	(2,522)
Net income	$ 9,420	$ 9,145	$ 59,126	$ 18,802
Earnings per common share:				
Primary:				
Continuing operations	$ 0.67	$ 0.57	$ 1.52	$ 1.23
Discontinued operations	-	0.10	0.12	0.34
Gain on sale of discontinued operations	-	-	2.60	-
Extraordinary charge	-	-	-	(0.19)
Total primary net earnings	$ 0.67	$ 0.67	$ 4.24	$ 1.38
Fully diluted:				
Continuing operations	$ 0.62	$ 0.53	$ 1.44	$ 1.19
Discontinued operations	-	0.08	0.10	0.28
Gain on sale of discontinued operations	-	-	2.17	-
Extraordinary charge	-	-	-	(0.15)
Total assuming full dilution	$ 0.62	$ 0.61	$ 3.71	$ 1.32
Weighted average shares outstanding:				
Primary	14,105	13,659	13,933	13,630
Assuming full dilution	16,842	16,355	16,737	16,326

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Nine Months Ended July 31, 1997	1996
	(Unaudited)	
Operating activities:		
Net income	$59,126	$18,802
Adjustments to reconcile net income to cash provided by continuing operations:		
Income from discontinued operations	(1,699)	(4,568)
Gain on sale of discontinued operations	(36,290)	-
Depreciation and amortization	30,711	26,561
Deferred income taxes	208	(1,815)
Deferred pension costs	(81)	580
Deferred postretirement welfare benefits	842	924
	52,817	40,484
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease in accounts and notes receivable	2,114	12,878
Decrease (increase) in inventory	832	(11,413)
Decrease in accounts payable	(1,867)	(4,821)
Dcrease in accrued expenses	(2,139)	(3,439)
Other, net	(3,042)	3,135
Cash provided by continuing operations	48,715	36,824
Cash provided by (used in) discontinued operations	(4,630)	6,225
Cash provided by operating activities	44,085	43,049
Investment activities:		
Proceeds from the sale of discontinued operations	63,900	-
Capital expenditures of continuing operations net of retirements	(55,847)	(17,142)
Capital expenditures of discontinued operations	(685)	(5,573)
Other, net	(6,126)	(4,084)
Cash provided by (used in) investment activities	1,242	(26,799)
Cash provided by operating and investment activities	45,327	16,250
Financing activities:		
Notes payable repayments	-	(10,000)
Purchase of Senior Notes	-	(44,667)
Bank borrowings (repayments)	(60,000)	30,000
Common dividends paid	(6,176)	(6,084)
Other, net	10,546	819
Cash used by financing activities	(55,630)	(29,932)
Decrease in cash and equivalents	(10,303)	(13,682)
Cash and equivalents at beginning of period	35,975	45,205
Cash and equivalents at end of period	$25,672	$31,523
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$15,662	$ 9,941
Income taxes	12,105	12,651

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1996 Annual Report on Form 10-K, which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1997 classifications.

2. Inventories

Inventories consist of the following:	July 31, 1997	October 31, 1996
	(In thousands)	
Raw materials	$27,156	$28,426
Finished goods and work in process....	53,514	52,768
	80,670	81,194
Other.................................	8,436	8,744
	$89,106	$89,938

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

LIFO..................................	$65,008	$69,234
FIFO..................................	24,098	20,704
	$89,106	$89,938

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $19 million at July 31, 1997, and $15 million at October 31, 1996.

3. Long-Term Debt and Financing Arrangements

On July 23, 1996, the Company replaced its $75 million Revolving Credit and Letter of Credit Agreement with an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). As of July 1997, the Bank Agreement consisted solely of a revolving line of credit ("Revolver") as the term loan provisions of the Bank Agreement expired as of such date. Additionally, the maturity date of the Bank Agreement was extended by one year to July 23, 2002. The Bank Agreement also provides for up to $25 million for letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either (i) the prime rate or the federal funds rate plus one percent, whichever is higher, or (ii) a Eurodollar based rate. At July 31, 1997, the Company had $100 million outstanding under the Revolver.

In December 1995, the Company acquired the remaining $44.7 million principal amount of its 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses resulted in an after-tax extraordinary charge of approximately $2.5 million ($4.3 million before tax) in the first quarter of 1996.

4. Discontinued Operations

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously reported as the segment "Cold Finished Steel Bars".

Net sales and income from discontinued operations are as follows:

	Three Months Ended July 31, 1996	Nine months Ended July 31, 1997	Nine months Ended July 31, 1996
Net sales	$39,179	$66,733	$120,829
Income before income taxes	2,404	2,615	7,876
Income tax expense	(1,010)	(916)	(3,308)
Net income	$ 1,394	$ 1,699	$ 4,568

Net Assets of Discontinued Operations	October 31, 1996 (In thousands)
Current assets	$36,702
Property, plant and equipment, net	16,211
Other assets	1,827
Current liabilities	(25,440)
Deferred pension credits	(5,466)
Deferred postretirement welfare benefits	(27,595)
Deferred income taxes	9,710
Adjustment for minimum pension liability	1,268
Net assets of discontinued operations	$ 7,217

5. Earnings Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128") which specifies the computation, presentation and disclosure requirements for Earnings Per Share ("EPS"). SFAS 128 replaces the presentation of primary and fully diluted EPS pursuant to Accounting Principles Board Opinion No. 15 - "Earnings per Share"("APB 15") with the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company is required to adopt SFAS 128 with its January 31, 1998 financial statements and restate all prior-period EPS data. The Company will continue to account for EPS under APB 15 until that time.

Under SFAS 128, the Company's basic and diluted EPS would have been:

	Three Months Ended July 31,		Nine Months Ended July 31,	
Basic EPS:	1997	1996	1997	1996
Continuing operations	$0.68	$0.57	$1.54	$1.24
Discontinued operations	-	0.10	0.12	0.34
Gain on sale of discontinued operations	-	-	2.64	-
Extraordinary charge	-	-	-	(0.19)
Total Basic EPS	$0.68	$0.67	$4.30	$1.39
Diluted EPS:				
Continuing operations	$0.62	$0.53	$1.45	$1.19
Discontinued operations	-	0.08	0.10	0.28
Gain on sale of discontinued operations	-	-	2.18	-
Extraordinary charge	-	-	-	(0.15)
Total Diluted EPS	$0.62	$0.61	$3.73	$1.32

6.Subsequent Event

In August 1997, the Company entered into a non-binding letter of intent to purchase Decatur Aluminum Corp., a Decatur, Alabama based manufacturer of aluminum sheet. The transaction is subject to various conditions, including the completion of due diligence, the negotiation and execution of a definitive agreement, and other necessary approvals.

7. Industry Segment Information

Quanex is principally a specialized metals and metal products producer. The Company's continuing operations primarily consist of three segments: hot rolled steel bars, steel tubes and aluminum products.

Three Months Ended July 31, 1997	Hot Rolled Steel Bars	Steel Tubes	Aluminum Products(1)	Corporate and Other(2)	Consolidated
		(in thousands)			
Units shipped:					
To unaffiliated companies	141.0 Tons	23.3 Tons	74,615 Lbs.		
Intersegment...........	6.9	-	-		
Total....................	147.9 Tons	23.3 Tons	74,615 Lbs.		
Net Sales:					
To unaffiliated companies	$75,216	$29,625	$120,235	-	$225,076
Intersegment(3).........	4,465	-	-	$(4,465)	-
Total....................	$79,681	$29,625	$120,235	$(4,465)	$225,076
Operating income (loss)..	$12,874	$ 1,612	$ 8,125	$(4,339)	$ 18,272

Three Months Ended July 31, 1996	Hot Rolled Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(2)	Consolidated
Units shipped:					
To unaffiliated companies	129.2 Tons	21.2 Tons	70,293 Lbs.		
Intersegment...........	5.6	-	-		
Total....................	134.8 Tons	21.2 Tons	70,293 Lbs.		
Net Sales:					
To unaffiliated companies	$70,142	$26,704	$89,438	-	$186,284
Intersegment(3).........	3,028	-	-	$(3,028)	-
Total....................	$73,170	$26,704	$89,438	$(3,028)	$186,284
Operating income (loss)..	$ 9,324	$ 597	$ 7,807	$(3,200)	$ 14,528

Nine Months Ended July 31, 1997	Hot Rolled Steel Bars	Steel Tubes	Aluminum Products(1)	Corporate and Other(2)	Consolidated
Units shipped:					
To unaffiliated companies	411.6 Tons	73.1 Tons	211,349 Lbs.		
Intersegment...........	19.4	-	-		
Total....................	431.0 Tons	73.1 Tons	211,349 Lbs.		
Net Sales:					
To unaffiliated companies	$219,192	$89,913	$327,963	-	$637,068
Intersegment(3).........	11,832	-	-	$(11,832)	-
Total....................	$231,024	$89,913	$327,963	$(11,832)	$637,068
Operating income (loss)..	$ 34,815	$ 4,059	$ 16,728	$(10,620)	$ 44,982

Nine Months Ended July 31, 1996	Hot Rolled Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(2)	Consolidated

Units shipped:					
To unaffiliated companies	360.1 Tons	68.3 Tons	179,759 Lbs.		
Intersegment............	19.7	-	-		
Total....................	379.8 Tons	68.3 Tons	179,759 Lbs.		
Net Sales:					
To unaffiliated companies	$196,625	$88,515	$226,607	-	$511,747
Intersegment(3).........	11,186	-	-	$(11,186)	-
Total....................	$207,811	$88,515	$226,607	$(11,186)	$511,747
Operating income (loss)..	$ 26,999	$ 4,934	$ 13,224	$(11,252)	$ 33,905

(1) 1997 includes Piper Impact, Inc.
(2) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.
(3) Intersegment sales are conducted on an arm's-length basis.

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

Results of Operations

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

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously classified as "Cold Finished Steel Bars".

The Company's hot rolled steel business reflected improvements in net sales and operating income for the first three quarters of fiscal 1997 as compared to the same periods of fiscal 1996. The improved results were due primarily to higher sales volume, but also reflect the benefits realized from the Company's capital improvement programs, which have allowed the Company to increase production, improve quality and manage manufacturing costs.

The Company's aluminum products business achieved higher sales and operating income primarily due to the acquisition in August 1996 of Piper Impact, Inc. ("Piper") and its higher margin operations. The Company's Nichols-Homeshield Division was affected by weaker margins between selling prices and raw material costs. These margins, referred to herein as "price spreads", are a key financial performance indicator in the aluminum products business.

The Company currently expects that overall business levels for the remainder of fiscal 1997 should be similar to those experienced during 1996. However, domestic and global market factors will impact the Company and any slowdown in the U.S. economy could affect demand and pricing for many of the Company's products. The acquisition of Piper in August 1996 will result in higher fiscal 1997 sales and operating income, assuming no material declines in the markets in which it serves. The sale of LaSalle in April 1997 will affect income for the remainder of fiscal 1997 by the difference between the amount LaSalle would have earned and the reduction in interest expense as a result of the repayment of debt with the net proceeds from the sale. Improved financial results will be dependent upon, among other things, whether the continued strength of the economy can be sustained, improvements in the markets which the Company serves and improvement in the price spreads of aluminum products.

Item 2 - Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

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

	Three Months Ended July 31, 1997	Three Months Ended July 31, 1996	Nine Months Ended July 31, 1997	Nine Months Ended July 31, 1996
	(In thousands)			
Hot Rolled Steel Bars:				
Units shipped (Tons)............	147.9	134.8	431.0	379.8
Net Sales.......................	$ 79,681	$ 73,170	$231,024	$207,811
Operating income................	$ 12,874	$ 9,324	$ 34,815	$ 26,999
Depreciation and amortization...	$ 3,405	$ 4,590	$ 10,215	$ 13,770
Identifiable assets.............	$179,235	$164,209	$179,235	$164,209
Steel Tubes:				
Units shipped (Tons)............	23.3	21.2	73.1	68.3
Net Sales.......................	$ 29,625	$ 26,704	$ 89,913	$ 88,515
Operating income................	$ 1,612	$ 597	$ 4,059	$ 4,934
Depreciation and amortization...	$ 607	$ 552	$ 1,851	$ 1,730
Identifiable assets.............	$ 45,996	$ 41,675	$ 45,996	$ 41,675
Aluminum Products:				
Units shipped (Pounds)..........	74,615	70,293	211,349	179,759
Net Sales.......................	$120,235	$ 89,438	$327,963	$226,607
Operating income................	$ 8,125	$ 7,807	$ 16,728	$ 13,224
Depreciation and amortization...	$ 5,312	$ 3,621	$ 18,126	$ 10,558
Identifiable assets.............	$414,179	$225,143	$414,179	$225,143

Consolidated net sales for the three and nine months ended July 31, 1997, were $225.1 million and $637.1 million, respectively, representing increases of $38.8 million, or 21%, and $125.3 million, or 24%, respectively, when compared to the same periods last year. The improvement principally reflects the inclusion of Piper sales and improved sales volume in the Company's hot rolled steel bar business.

Net sales from the Company's hot rolled steel bar business for the three and nine months ended July 31, 1997, were $79.7 million and $231.0 million, respectively, representing increases of $6.5 million, or 9%, and $23.2 million, or 11%, respectively, when compared to the same periods last year. The improvements were primarily due to sales volume increases of 10% and 13%, respectively, for the three and nine months ended July 31, 1997, as compared to the same prior year periods. The hot rolled steel bar business sales volume increase is principally due to the continued market strength in the durable goods market, particularly transportation and capital goods, and increased market penetration.

Net sales from the Company's steel tube business for the three and nine months ended July 31, 1997, were $29.6 million and $89.9 million, respectively, representing increases of $2.9 million, or 11%, and $1.4 million, or 2%, respectively, when compared to the same periods last year. The improvements were primarily due to sales volume increases of 10% and 7%, respectively, for the three and nine months ended July 31, 1997, as compared to the same prior year periods. The volume improvement reflects ongoing strength in the mechanical tube market. Pricing pressure continued, however, despite the higher demand.

Net sales from the Company's aluminum products business for the three and nine months ended July 31, 1997, were $120.2 million and $328.0 million, respectively, representing increases of $30.8 million, or 34%, and $101.4 million, or 45%, respectively, when compared to the same periods last year. These increases are principally due to the acquisition of Piper in August 1996. Net sales were also higher for the nine months ended July 31, 1997, compared to the same period last year, due to higher sales volume of aluminum flat roll.

Consolidated operating income for the three and nine months ended July 31, 1997, was $18.3 million and $45.0 million, respectively, representing increases of $3.7 million, or 26%, and $11.1 million, or 33%, respectively, when compared to the same periods last year. The improvements were primarily due to the inclusion of Piper's results and improved operating income in the hot rolled steel bar business.

Operating income from the Company's hot rolled steel bar business for the three and nine months ended July 31, 1997, was $12.9 million and $34.8 million, respectively, representing increases of $3.6 million, or 38%, and $7.8 million, or 29%, respectively, when compared to the same periods last year. These improvements were attributable to higher sales due to increased capacity and strong demand.

Operating income from the Company's steel tube business for the three and nine months ended July 31, 1997, was $1.6 million and $4.1 million, respectively, representing an increase of $1.0 million and a decrease of $875 thousand, respectively, when compared to the same periods last year. Profitability improved during the third quarter of fiscal 1997 reflecting strength in most of this segment's product lines, but, on a year-to-date basis, remained below fiscal 1996 primarily due to weaker selling prices and a depressed boiler tube market.

Operating income from the Company's aluminum products business for the three and nine months ended July 31, 1997, was $8.1 million and $16.7 million, respectively, representing increases of $318,000, or 4%, and $3.5 million, or 26%, respectively, when compared to the same periods last year. Improvement in this segment reflects the acquisition of Piper, partially offset by lower margins at Nichols Aluminum.

Selling, general and administrative expenses decreased by $484,000, or 3%, and increased by $2.3 million, or 7%, respectively, for the three and nine months ended July 31, 1997, as compared to the same periods of last year. These changes principally reflect the inclusion of Piper in 1997, offset by higher accruals to the allowance for doubtful accounts during the third quarter of fiscal 1996.

Interest expense increased by $1.7 million and $6.4 million, respectively, for the three and nine months ended July 31, 1997, as compared to the same periods of 1996 primarily as a result of increased bank borrowings associated with the Piper acquisition.

Income from continuing operations for the three and nine months ended July 31, 1997, was $9.4 million and $21.1 million, respectively, as compared to $7.8 million and $16.8 million for the same prior year periods. The improvements were principally attributable to improved results at the Company's MacSteel division and the inclusion of Piper. Included in "Other, net" for the nine months ended July 31, 1996, was a $2.3 million pretax gain related to the final recovery of a business interruption claim. Also included in "Other, net" for the nine months ended July 31, 1996, was $1.5 million resulting from a loss on abandonment of idle assets. Capitalized interest increased to $849,000 and $2.2 million, respectively, for the three and nine months ended July 31, 1997, compared to $160,000 and $287,000 for the same periods last year due to ongoing construction related to the expansion programs at MacSteel and Piper. Income taxes were applied at the Company's expected annual effective rate. The Company's effective income tax rate was 35% for the first three quarters of fiscal 1997 compared to 42% in the prior year periods.

Income from discontinued operations, net of income taxes, for the nine months ended July 31, 1997, was $1.7 million, as compared to $4.6 million for the same period in 1996. Included in net income for the nine months ended July 31, 1997, is an after-tax gain of $36.3 million on the sale of these operations.

Liquidity and Capital Resources

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The maturity date of the Bank Agreement, however, was extended by one year to July 23, 2002. The Bank Agreement also provides for up to $25 million for letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either (i) the prime rate or the federal funds rate plus one percent, whichever is higher, or (ii) a Eurodollar based rate. In the fourth quarter of fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement to fixed rate. Under these agreements, payments are made based on a fixed rate ($50 million at 7.025%, and $50 million at 6.755%) and payments are received on a LIBOR based variable rate (5.71875% at July 31, 1997). Differentials to be paid or received under the agreements are recognized as interest expense. Payments under the swap agreements are tied to the interest periods for the borrowings under the Bank Agreement. The swap agreements mature July 29, 2003. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. Under the Bank Agreement, at July 31, 1997, there were $100 million of Revolver borrowings outstanding.

In December 1995, the Company acquired all of its outstanding 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses resulted in an after-tax extraordinary charge of approximately $2.5 million in the first quarter of 1996. The acquisition was funded with cash and bank borrowings.

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

On August 9, 1996, the Company completed the acquisition of substantially all of the assets of Piper. Piper's assets, net of various liabilities, were acquired for approximately $130 million in cash, cash equivalents, and notes. This acquisition was financed with existing cash and bank borrowings. Subsequent to the acquisition, the Company's Board of Directors approved additional capital expenditures at Piper totaling approximately $55 million. These expenditures are expected to provide the capacity needed to supply major new customer programs phasing in over the next two years.

On April 18, 1997, the Company completed the sale of LaSalle for approximately $65 million in cash. The proceeds were used to pay down the Company's Revolver.

At July 31, 1997, the Company had commitments of $21 million for the purchase or construction of capital assets, primarily relating to the Company's continued expansions at MacSteel and Piper. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

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

Operating Activities

Cash provided by operating activities during the nine months ended July 31, 1997, was $44.1 million as compared to $43.0 million during the nine months ended July 31, 1996. The increase was principally due to improved income and higher depreciation, mostly offset by increased cash used by discontinued operations.

Investment Activities

Net cash provided by investment activities during the nine months ended July 31, 1997, was $1.2 million as compared to cash used in investment activities of $26.8 million for the same 1996 period. The increase in cash provided by investment activities was principally due to proceeds from the sale of LaSalle, and was partly offset by increased capital expenditures and payment of the remaining notes related to the Piper acquisition. The Company estimates that fiscal 1997 capital expenditures will be approximately $70 to $80 million.

Financing Activities

Cash used in financing activities for the nine months ended July 31, 1997, was $55.6 million, primarily consisting of $60.0 million of repayments of bank borrowings, mostly from the proceeds of the LaSalle sale. Cash used in financing activities for the nine months ended July 31, 1996, was $29.9 million, principally consisting of $44.7 million for the early extinguishment of long-term debt, a $10.0 million reduction in notes payable and the payment of $6.2 million in common dividends and was offset by bank borrowings of $30.0 million.

Private Securities Litigation Reform Act

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

PART II. OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K.

Exhibit 2.1 -	Stock Purchase Agreement dated as of April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp. and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, dated May 5, 1997, and incorporated herein by reference.
Exhibit 3.1 -	Restated Certificate of Incorporation of Quanex Corporation, as amended on February 27, 1997, as filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8, Registration No. 333-22977, and incorporated herein by reference.
Exhibit 11 -	Statement re computation of earnings per share.
Exhibit 27 -	Financial Data Schedule.

A Report on Form 8-K was filed by the Company on May 5, 1997, regarding the completion of the sale of its LaSalle Steel subsidiary and containing certain pro forma financial statements of the Company and notes thereto regarding the sale.

SIGNATURES

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

QUANEX CORPORATION

/s/ Viren M. Parikh

Viren M. Parikh
Controller (Chief Accounting Officer)

Date August 29, 1997

EXHIBIT 11

QUANEX CORPORATION
COMPUTATION OF EARNINGS PER COMMON SHARE
(In thousands, except per share amounts)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1997	1996	1997	1996
	(Unaudited)		(Unaudited)	
Income from continuing operations	$ 9,420	$ 7,751	$ 21,137	$ 16,756
Income from discontinued operations, net of income taxes	-	1,394	1,699	4,568
Gain on sale of discontinued operations, net of income taxes	-	-	36,290	-
Income before extraordinary charge	9,420	9,145	59,126	21,324
Extraordinary charge - early extinguishment of debt	-	-	-	(2,522)
Net income	$ 9,420	$ 9,145	$ 59,126	$ 18,802
Weighted average shares outstanding-primary	14,105	13,659	13,933	13,630
Earnings per common share:				
Primary:				
Income from continuing operations	$ 0.67	$ 0.57	$ 1.52	$ 1.23
Income from discontinued operations	-	0.10	0.12	0.34
Gain on sale of discontinued operations	-	-	2.60	-
Extraordinary charge	-	-	-	(0.19)
Earnings per common share	$ 0.67	$ 0.67	$ 4.24	$ 1.38

Income from continuing operations	$ 9,420	$ 7,751	$ 21,137	$ 16,756
Income from discontinued operations, net of income taxes	-	1,394	1,699	4,568
Gain on sale of discontinued operations, net of income taxes	-	-	36,290	-
Income before extraordinary charge	9,420	9,145	59,126	21,324
Extraordinary charge - early extinguishment of debt	-	-	-	(2,522)
Net income	9,420	9,145	59,126	18,802
Interest on 6.88% convertible subordinated debentures and amortization of related issuance costs, net of applicable income taxes	999	892	2,997	2,676
Adjusted net income	$ 10,419	$ 10,037	$ 62,123	$ 21,478
Weighted average shares outstanding-primary	14,105	13,659	13,933	13,630
Effect of common stock equivalents arising from stock options	41	-	108	-
Subordinated debentures assumed converted to common stock	2,696	2,696	2,696	2,696
Weighted average shares outstanding-fully diluted	16,842	16,355	16,737	16,326
Earnings per common share:				
Assuming full dilution:				
Income from continuing operations	$ 0.62	$ 0.53	$ 1.44	$ 1.19
Income from discontinued operations	-	0.08	0.10	0.28
Gain on sale of discontinued operations	-	-	2.17	-
Extraordinary charge	-	-	-	(0.15)
Earnings per common share	$ 0.62	$ 0.61	$ 3.71	$ 1.32

This schedule contains summary financial information extracted from the balance sheet as of July 31, 1997 and the income statement for the three and nine months ended July 31, 1997 and is qualified in its entirety by reference to such financial statements.

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9-MOS
OCT-31-1997
NOV-01-1996
JUL-31-1997
25,672
0
88,469
0
89,106
214,683
674,000
310,561
677,200
130,180
194,273
0
0
7,002
251,604
677,200
637,068
637,068
553,832
553,832
0
0
13,808
32,519
11,382
21,137
1,699
36,290
0
59,126
4.240
3.710