SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended October 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $.50 PAR VALUE	NEW YORK STOCK EXCHANGE, INC.
RIGHTS TO PURCHASE SERIES A JUNIOR PARTICIPATING PREFERRED STOCK	NEW YORK STOCK EXCHANGE, INC.
DEPOSITARY CONVERTIBLE EXCHANGEABLE PREFERRED SHARES, EACH REPRESENTING 1/10TH OF A SHARE OF 6.88% CUMULATIVE CONVERTIBLE EXCHANGEABLE PREFERRED STOCK ($250 LIQUIDATION PREFERENCE)	NEW YORK STOCK EXCHANGE, INC.

Securities registered pursuant to Section 12(g) of the Act:

NONE

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the registrant's voting stock held by non-affiliates as of November 30, 1994, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was $294,490,013. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At January 23, 1995, there were outstanding 13,429,533 shares of the registrant's Common Stock, $.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Reference to this Report
Annual Report to Stockholders	Parts I, II and IV
Proxy Statement for Annual Meeting of Stockholders to be held March 2, 1995	Part III

ITEM 1. BUSINESS

GENERAL

The Company was organized in 1927 as a Michigan corporation under the name of Michigan Seamless Tube Company. The Company reincorporated in Delaware in 1968 under the same name and changed its name to Quanex Corporation in 1977. The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. References made to the "Company" or "Quanex" include Quanex Corporation and its subsidiaries unless the context otherwise requires.

Quanex Corporation is a technological leader in the manufacture of specialized metals, including carbon and alloy steel and aluminum. The Company's products include engineered hot rolled carbon and alloy steel bars, cold finished steel bars, seamless and welded steel tubing and aluminum products. Quanex produces high quality specialized metal products for selected markets to achieve attractive profit margins. Through state-of-the-art process technology, low cost production and engineering to specific customer applications, the Company believes it achieves competitive advantages. To reduce the impact of cyclical economic downturns, the Company's strategy is to participate in diversified markets, including the industrial machinery and capital equipment industries, the transportation industry (including auto and truck), energy processing and the home building and remodeling industries.

Since the mid-1980s Quanex has refocused its strategy from being a manufacturer principally of steel products with a heavy dependence on energy markets to a diversified specialty metals company serving a broad range of markets. The Company's future growth strategy focuses on continued penetration of higher margin markets for the Company's steel products and the continued expansion of its aluminum products manufacturing operations. Quanex also has implemented programs to increase capacity utilization by selectively producing certain commodity grade products at some of its facilities.

The Company has invested significantly in technologically advanced continuous manufacturing processes to meet demanding quality specifications and to achieve cost efficiencies. In its MacSteel operations, rotary centrifugal continuous casters are used with an in-line manufacturing process to produce bearing grade and aircraft quality, seam-free, specialty engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets. In August 1991, the Company completed Phase I of a capital improvement program for its MacSteel operations, at a capital cost of approximately $20 million, that enhanced the steel refining processes and increased productive capacity by approximately 10% to 500,000 tons per year. Phase II of the program aims at increasing caster productivity and modernizing rolling and finishing equipment to achieve dimensional precision and increase productive capacity by approximately 10% to 550,000 tons per year when completed in early 1995. The Company estimates total expenditures of approximately $60 million for the Phase II project.

In 1989 Quanex entered the aluminum products business through the acquisition of Nichols-Homeshield, Inc. to diversify its earnings base and continue its strategic transition into specialty metals. In early 1990 the Company commenced a two-year aluminum mini-mill construction project to increase significantly its participation in the aluminum markets. The plant began commercial production in July 1992 producing coiled aluminum sheet from scrap using a state-of-the-art Hazelett thin-slab continuous caster with annual finishing capacity of approximately 280 million pounds.

The Company's business is managed on a decentralized basis. Each operating group has administrative, operating and marketing functions. Financial accounting and controls measure each plant's return on investment; and superior performance is rewarded with incentive compensation, which is a significant portion of total employee compensation. Intercompany sales are conducted on an arms-length basis. Operational activities and policy are managed by corporate officers and a small staff who provide corporate accounting, financial and cash management, tax and human resource services to operating divisions.

MARKETS AND PRODUCT SALES BY BUSINESS SEGMENT

The Company's operations are primarily grouped into four business segments, consisting of (i) hot rolled steel bars, (ii) cold finished steel bars, (iii) steel tubes and (iv) aluminum products. General corporate expenses are classified as "Corporate and Other" operations.

Information with respect to major markets for the Company's products, expressed as a percentage of consolidated net sales, is shown under the heading "Sales by Major Markets" on page 8 of the 1994 Annual Report to Stockholders and is incorporated herein by reference. Although Quanex has attempted to estimate its sales by product and market categories, many products have multiple end uses for several industries and sales are not recorded on the basis of product or market categories. A significant portion of sales is made to distributors who sell to different industries. Net sales by principal market are based upon the total dollar volume of customer invoices. For the year ended October 31, 1994, no single customer allowed for more than 10% of the Company's sales.

A description of each industry segment is shown below:

Hot Rolled Steel Bars

The Company's hot rolled steel bar operations are conducted through its MacSteel division, consisting of two plants located in Ft. Smith, Arkansas and Jackson, Michigan. These plants manufacture hot finished special bar quality ("SBQ") carbon and alloy steel bars. Management believes that MacSteel has the only two plants in North America using continuous rotary centrifugal casting technology. This casting process produces inherently seam-free bars, without surface defects and inclusions, thereby reducing the need for subsequent surface conditioning. The continuous casting and automated in-line manufacturing operations at the MacSteel plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most larger integrated steel mills. Typically, the Company sells only complete heat lots, or batches, which are made to specific customer requirements. Heat lots average 45 tons at Jackson and 50 tons at Ft. Smith. MacSteel's high quality steel bars currently sell for an average of approximately $520 per ton, and its specialty products can sell at a considerable premium to that price.

MacSteel has focused its capital improvement programs on production of high quality specialty steel bars. In August 1991, MacSteel completed the first phase of a capital improvement program, called MacSteel Ultra Clean Steel Program, at a cost of approximately $20 million ("Phase I"). This program improved MacSteel's metallurgical, melting and casting operations and provided ultrasonic testing facilities at both plants. These improvements enable the Company to produce bearing grade and aircraft quality steel bars, permitting the Company to participate in higher margin segments of the market. Phase I increased productive capacity of the MacSteel operations by approximately 40,000 tons to 500,000 tons per year. Phase II of the Ultra Clean Steel Program will upgrade and modernize rolling and finishing capacity and increase caster productivity. This improvement should permit increased participation in the value-added cold forming and bearing markets and will expand product size ranges. The Phase II program is expected to increase annual productive capacity by approximately 50,000 tons to 550,000 tons per year when construction is completed, which is currently scheduled to be in March 1995. Total cost of Phase II is expected to be approximately $60 million.

MacSteel products are manufactured for customers in the automotive, light truck, heavy truck, anti-friction bearing, off-road and farm equipment, defense, capital equipment and seamless tubular industries. These industries use SBQ steel in critical applications such as camshafts, crankshafts, transmission gears, bearing cages and rollers, steering components, hydraulic mechanisms, seamless tube production and track components of military vehicles. Part of MacSteel's production may be sold to LaSalle Steel for conversion into cold finished bars. The Company's steel tube business also purchases MacSteel bars for piercing and extrusion into specialty tubular products.

Cold Finished Steel Bars

The Company's LaSalle Steel subsidiary produces cold finished bars in its Hammond, Indiana facility. LaSalle Steel is a technological leader in the production of cold finished and special purpose steel bar products, having obtained numerous foreign and domestic patents throughout its history. Like MacSteel, LaSalle Steel features products and manufacturing processes that emphasize quality and cost effectiveness. LaSalle Steel uses high quality hot finished steel bars that satisfy exacting quality and metallurgical specifications. The bars are cold drawn and, through a combination of turning, grinding and polishing operations, are manufactured into bars with precision surfaces and guaranteed size and straightness tolerances. These processes, together with heat treating, enhance the tensile and fatigue strength, machinability, wear and corrosion resistance, weldability and platability of the cold finished bar product.

LaSalle Steel's products are sold directly to customers in the machinery, industrial equipment, tooling and automotive markets and are used to produce items such as clutch shafts, gear box shafts, ball joints, sprockets and drive mechanisms. Over one-half of LaSalle Steel's sales are to service centers that supply the same industries. LaSalle Steel has implemented programs to increase capacity utilization by selectively producing certain commodity grade products.

LaSalle Steel's Fluid Power plant in Griffith, Indiana is a major producer of chrome plated steel bars. The plant uses advanced techniques of surface removal, induction hardening and chrome plating to produce chrome plated bars and induction hardened chrome plated bars. These products, which represent the highest value-added products manufactured by LaSalle Steel, are used in hydraulic and pneumatic cylinders by customers in the construction, material handling, farm equipment and industrial machinery industries.

Steel Tubes

The Company's steel tube business consists of its Michigan Seamless Tube ("MST") plant in South Lyon, Michigan, which produces cold drawn seamless steel tube and drawn-over-mandrel welded steel tube; its Gulf States Tube ("GST") plant in Rosenberg, Texas, which produces hot finished and cold drawn seamless steel tube and welded tubular products; its Heat Treating plant in Huntington, Indiana provides tube and bar heat treating services. A significant portion of production at all plants is manufactured to specific customer orders. The Company can deliver small quantities of finished products at competitive prices in considerably less time than many other mills as a result of its production efficiencies.

MST produces over 60 grades of carbon and alloy tubing. Major product lines include customized seamless carbon and alloy mechanical tubing, carbon and alloy boiler and condenser tubing and carbon and alloy pipe. These products are sold by MST to customers in the commercial and utility boiler market, industrial equipment market and capital goods market.

GST produces seamless and welded tubular products in 35 grades to over 100 specifications. The hot finished seamless carbon and alloy pipe and cold drawn tubing produced at GST are used in petroleum refining, petrochemical, aircraft, public utility, oil country and mechanical applications. Electric resistance welded tubing is also manufactured primarily for heat exchangers and condenser applications.

The Heat Treating plant provides tube and bar heat treating services, such as quench and temper, stress relieving, normalizing and "cut-to-length". Metallurgical testing services are also available. This plant serves customers in the energy, automotive, ordnance, mining and fluid power markets.

Aluminum Products

Nichols-Homeshield ("N-H") manufactures aluminum sheet and fabricates aluminum products for the home improvement, new construction and light commercial construction markets. The principal products produced by N-H include aluminum window screens, patio door screens, window frames, window and screen components, rain carrying systems, exterior trim, and mill finish sheet. Aluminum reroll coil is produced by the Company's mini-mill ("N-H Casting"), which began commercial operations in July 1992. The aluminum reroll coil is cold rolled, finished and marketed from the existing Davenport, Iowa, and Lincolnshire, Illinois facilities (collectively, "Nichols-Aluminum"). The Company's aluminum products are fabricated at the AMSCO plant ("AMSCO") in Rice Lake, Wisconsin, and at its Homeshield Fabricated Products plant ("HFP") in Chatsworth, Illinois. N-H's primary businesses are described below.

N-H Casting completed construction of a $60 million aluminum mini-mill in Davenport, Iowa in late fiscal 1992. The capital costs included site acquisition, scrap processing and melting equipment, a 52-inch wide Hazelett thin-slab continuous caster and a three-stand hot rolling mill. The mini-mill provides N-H Casting with finished capacity of as much as 280 million pounds annually of hot rolled coiled aluminum sheet for building products markets, including the Company's fabricated products businesses, and other markets. The three-stand hot rolling mill is able to reduce aluminum slab from a thickness of approximately .75 inches to coiled aluminum sheet with a thickness of .055 inches. This hot rolling mill process substantially reduces subsequent cold rolling requirements. Similar to the more developed steel mini-mill sector, the advent of aluminum mini-mills offers comparative advantages over large integrated producers, including labor and energy savings and reduced capital and raw material costs.

Nichols Aluminum finishes the coiled aluminum sheet produced at N-H Casting and markets aluminum mill products. This division includes the Nichols Aluminum Davenport (NAD) plant and the Nichols Aluminum Lincolnshire (NAL) plant acquired in 1991. Operations include cold rolling to specific gauge, slitting to width, annealing, leveling and custom coating. The Company currently has cold rolling capacity of 300 million pounds annually. On August 25, 1993, a fire occurred at NAL. Damage was confined to the largest of 3 rolling mills and adjacent portions of the building. Total damage to the facility was approximately $17 million. The damaged mill was made fully operational in the Company's second quarter of 1994.

The HFP plant manufactures a broad line of custom designed, roll formed and stamped shapes and residential building and home improvement products. HFP designs and manufactures custom engineered aluminum products at its plants in Chatsworth, Illinois, such as window and screen components, wood window cladding and other custom products for manufacturers of premium wood windows. HFP also coats and fabricates aluminum coil in many colors, sizes and finishes into rain carrying systems, soffit, exterior housing trim and painted coiled sheet and roofing products. These products are sold primarily through distributors and private label producers for the new housing, remodeling and do-it-yourself markets. Most of these products are marketed under the "Homeshield" brand name.

The AMSCO plant manufactures aluminum window and patio door screens, window frames, combination windows and related accessories. All production from this facility is sold to Andersen Corporation, a major manufacturer of premium wood windows, for the home improvement, new construction and commercial construction markets. AMSCO combines a strong product design and development emphasis with reliable, just-in-time delivery to service Andersen Corporation. This exclusive business relationship has been in effect for 50 years.

MANUFACTURING

The Company operates twelve manufacturing facilities in seven states. These facilities feature efficient plant design and flexibility in manufacturing processes, enabling the Company to produce a wide variety of products for various industries and applications. Because the Company typically manufactures products to customer specifications upon order, it is able to maintain minimal levels of finished goods inventories at most locations.

Hot Rolled Steel Bars. The Company's MacSteel facilities produce specialty engineered steel bars by melting high quality steel scrap and casting it in a rotary continuous caster. MacSteel's molten steel goes through a secondary refining stage consisting of argon stirring, ladle injection and vacuum arc degassing prior to casting. This enables MacSteel to produce higher quality, "cleaner" steels. SBQ products are produced through a continuous in-line process by which scrap steel is converted into hot rolled steel bars without interruption. To the Company's knowledge, MacSteel has the only two plants in North America producing inherently seam-free steel bars using the rotary continuous casting process.

As a result of its state-of-the-art continuous manufacturing technology, which reduces labor, energy and process yield loss, the Company believes that MacSteel is one of the lowest cost producers of SBQ carbon and alloy steel bars. The Company believes that energy costs at MacSteel are significantly lower than those of its competitors because its bars are moved directly from the caster to the rolling mill before cooling, eliminating the need for costly reheating. MacSteel's unit labor costs are similarly very low, with its highly automated manufacturing process enabling it to produce finished high quality steel bars using approximately 2 man-hours of labor per ton compared to an estimated average of 4.5 man-hours per ton for U.S. integrated steel producers.

Cold Finished Steel Bars. At the LaSalle Steel facility in Hammond, Indiana, hot finished steel bars meeting quality and metallurgical specifications are used as raw materials in the manufacturing process. These bars are cold drawn and, through a combination of turning, grinding and polishing operations, manufactured into bars having precision surfaces with guaranteed size and straightness tolerances. Heat treating further enhances the tensile and fatigue strength, machinability, wear and corrosion resistance, weldability and platability of LaSalle Steel's cold finished bar products. The Company's Griffith, Indiana facility uses advanced techniques of induction hardening and chrome plating to produce chrome plated bars and induction hardened chrome plated bars.

Steel Tubes. The Company produces seamless tubing at its MST and GST facilities. The manufacturing begins with solid steel bars that are heated and then pierced on a rotary piercing mill at MST or extruded at GST. The resulting hot tube shells are further reduced on draw benches. The product may be shipped as hot finished pipe at GST or, after cooling and inspection, be again reduced in size by cold drawing at both plants. After cold drawing, tubing is annealed to develop specific metallurgical characteristics and mechanical properties to customer order. Following straightening, the product is cut to length and transferred to final inspection where various mechanical and non-destructive tests are performed to insure product integrity. Cold drawn tubing offers a greater degree of dimensional consistency and better machinability than does hot finished tubing. GST also produces small diameter welded tubular products.

Aluminum Products. Manufacturing at the Company's various N-H facilities ranges from the production of coiled aluminum sheet to the production and fabrication of finished building products such as window and patio door screens and window frames.

Since commercial production began in July 1992, all of the Company's aluminum casting operations have been conducted at N-H Casting's mini-mill in Davenport, Iowa. The single in-line manufacturing process at the facility has 280 million pounds of annual finished and hot rolled capacity. The mini-mill converts scrap to aluminum sheet through continuous casting and in-line hot rolling. N-H Casting also has the ability to shred aluminum to broaden the diversity and source of its scrap raw material. Additionally, fuel efficient delacquering equipment improves the quality of the raw material before it reaches the melting furnaces where it is blended through computer analysis to achieve the desired alloy composition. After melting and degassing, the molten metal flows into a single Hazelett thin-slab caster, which casts up to a 52-inch wide aluminum slab at the rate of 20 to 26 feet per minute. The slab then is fed directly to a hot mill with three in-line rolling stands to reduce the slab from a thickness of approximately .75 inches to coiled aluminum sheet with a target thickness of .055 inches. The combination of capacity increases and technological enhancements are directed at producing quality coiled aluminum sheet for the building products, service center, appliance and truck trailer markets. Cost savings are derived from higher scrap utilization and the ability to use lower cost scrap, reduced energy cost per pound, reduced cold rolling requirements and decreases in direct and indirect labor costs.

Further processing of the coiled aluminum sheet from the mini-mill occurs at Nichols Aluminum. At Nichols Aluminum's Davenport, Iowa, and Lincolnshire, Illinois, plants, the specific product requirements of customers can be met through cold rolling to various gauges, slitting to specific widths, annealing for additional product formability and tension levelling. Products at Davenport can also be custom coated, an important feature for the building products applications of certain customers.

Manufacturing of products and components takes place at the group's HFP facilities (including residential building products such as rain carrying systems and engineered products such as window and screen components), and at AMSCO (including aluminum windows and patio door screens). These facilities fabricate aluminum sheet into various components, some of which are then assembled into final products. A significant aspect of the manufacturing process at HFP and AMSCO is the use of MRP II, a closed loop management information system in which all stages of manufacturing, including receiving, billing, accounting, ordering and production, are linked. This process enables HFP and AMSCO to operate efficiently and effect a just-in-time delivery system, with minimal levels of raw materials inventory and maximum usage of available manufacturing capacity.

RAW MATERIALS AND SUPPLIES

The Company's specialty engineered steel bar plants purchase steel scrap and hot briquetted iron, their principal raw materials, on the open market. Barge transportation of these raw materials to Company plants can be adversely affected by cold weather, creating seasonal price increases. Prices for quality scrap also vary in relation to the general business cycle, typically declining in periods of slow economic growth. LaSalle Steel's primary raw material is hot finished steel bars that it purchases both from the Company's hot rolled steel bars plants and on the open market. The Company's tube manufacturing facilities also purchase hot rolled steel bars from MacSteel and on the open market. MST also purchases tube hollows and GST purchases flat-rolled steel as raw material on the open market.

Historically, the Company's aluminum products business purchased aluminum scrap, ingot, reroll stock and finished sheet from aluminum dealers, brokers and producers. With the completion of the N-H Casting mini-mill, the principal raw material of this business is aluminum scrap. The mini-mill includes a scrap processing and delacquering facility which enables the Company to use the broadest and most economical mix of aluminum scrap for its requirements. The Company also purchases aluminum ingot futures and option contracts on the London Metals Exchange in amounts that approximate N-H's requirements for fixed price sales commitments for aluminum products and future sales for which a sales price increase is expected to lag a raw material cost increase, thereby protecting against increases in the price of the aluminum used to manufacture the related products.

BACKLOG

At October 31, 1994, Quanex's backlog of orders to be shipped in the next twelve months was $182.7 million. This compares to $154.9 million at October 31, 1993. Because many of the markets in which Quanex operates have short lead times, backlog figures are not reliable indicators of annual sales volume or operating results.

COMPETITION

All of the Company's products are sold under highly competitive conditions. The Company competes with a number of companies, some of which have financial and other resources greater than those of the Company. Competitive factors include product quality, price, delivery and ability to manufacture products to customer specifications. The amounts of tubing, aluminum, cold finished bar products and steel bars produced by the Company represent a small percentage of annual domestic production.

The hot rolled specialty steel bar plants compete with two large integrated steel producers, two large nonintegrated steel producers and two smaller steel companies. Although many of these producers are larger and have greater resources than the Company, the Company believes that the technology used at the MacSteel facilities permits it to compete effectively in the markets it serves.

LaSalle Steel has eight major competitors including both integrated and independent steel producers. Although a portion of LaSalle Steel's sales are in specialized products made by patented processes, many of their competitors have similar products using their own patents and processes.

The Company's steel tube manufacturing businesses compete with numerous domestic and foreign steel producers. As a specialized producer, the steel tube segment manufactures seamless steel tubing only in the smaller size ranges. Currently there are five other manufacturers of seamless tubing in the same size ranges as those produced by Quanex. Each of these manufacturers is either wholly or partially integrated in that they produce all or part of the steel used by them for their production of tubing. The Company's welded tube business is also highly competitive, with more than 100 companies producing welded steel tubing. For reasons of geography and product quality, however, the number of welded tube manufacturers with which Quanex is in direct competition is significantly lower. Imports are a significant factor in this market. On June 23, 1994, Quanex announced that its Gulf States Tube Division had filed petitions alleging that imports of carbon and alloy seamless pipe up to 4.5 inches in diameter from four countries were being dumped or subsidized. On August 3, 1994, the International Trade Commission made an affirmative preliminary determination that imports of small diameter pipe from these countries were causing injury to the U.S. industry. The Company expects a preliminary determination on January 19, 1995, from the Department of Commerce on dumping margins.

The Company's aluminum products business competes with many small and large manufacturers and fabricators of aluminum products. Some of these competitors are divisions or subsidiaries of major corporations with substantially greater resources. The Company also competes with major aluminum producers in coil-coated and mill products, primarily on the basis of the breadth of product lines, the quality and design of its products, the responsiveness of its services and its prices. With the increased production of coiled aluminum sheet for aluminum mill products markets, the Company will increasingly compete with major integrated aluminum manufacturers.

SALES AND DISTRIBUTION

The Company has a nationwide system of sales offices. MacSteel sells hot finished steel bars primarily to original equipment manufacturers ("OEM's") through its sales organization and manufacturers' representatives. LaSalle Steel sells its cold finished bars to independent distributors, steel service centers and directly to OEM's. The steel tube segment's products are sold by its sales organization to steel service centers and directly to OEM's.

The sales and distribution of products in the Company's aluminum products business are organized by major product group. Residential products are sold primarily through distributors; engineered products are sold primarily to OEM's; and mill products are sold directly to OEM's and through metal service centers.

SEASONAL NATURE OF BUSINESS

The Company's aluminum products business is seasonal as its primary markets are in the Northeast and Midwest regions of the United States where winter weather reduces home building and home improvement activity. Historically, this business's lowest sales have occurred during the Company's first fiscal quarter. Because a high percentage of this business's manufacturing overhead and operating expenses is due to labor and costs that are generally fixed throughout the year, profits for the operations in this business tend to be lower in quarters with lower sales.

The other businesses in which the Company competes are not seasonal. However, due to the holidays in the Company's first fiscal quarter and steel plant shutdowns for vacations and maintenance in the Company's third fiscal quarter, sales have historically been lower in those quarters. Due to the combined effects of seasonality, the Company generally expects that, absent unusual activity or changes in economic conditions, its lowest sales will occur in the first fiscal quarter.

TRADEMARKS, TRADE NAMES AND PATENTS

The Company's Nichols-Homeshield and MacSteel logos and designs are registered trademarks. The trade name "Homeshield" and its unregistered name "Nichols-Homeshield" are used in connection with the sale of the Company's aluminum products. The Homeshield and MacSteel logos and designs and their trade names are considered valuable in the conduct of the Company's business.

In general, the businesses conducted in the Company's businesses do not depend upon patent protection. Although the Company holds numerous patents, in many cases the proprietary technology that the Company has developed for using the patents is more important than the patents themselves.

RESEARCH AND DEVELOPMENT

Expenditures for research and development of new products or services during the last three years were not significant. Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to customizing and qualifying the Company's products for specific customer applications.

ENVIRONMENTAL MATTERS

As a manufacturer of specialty metal products, Quanex is subject to extensive and expansive regulations concerning the discharge of materials into the environment, and the remediation of chemical contamination at its plant sites or offsite disposal locations. Quanex is required to make capital and other expenditures on an ongoing basis in order to comply with such regulations. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not currently aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations or financial condition.

Under applicable state and federal laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), also known as "Superfund," the Company may be responsible for all or part of the costs required to remove or remediate previously disposed of wastes or hazardous substances at the locations Quanex owns or operates or at which it arranged for disposal of such materials. The Company's most significant involvement at Superfund sites is described below.

During fiscal 1987, Quanex's LaSalle Steel Company subsidiary paid approximately $200,000, of which approximately $128,000 has subsequently been contributed to Quanex by other potentially responsible parties, in connection with a removal action at the Conservation Chemical Co. of Illinois site in the State of Indiana in accordance with an order of the Environmental Protection Agency (the "EPA") pursuant to Section 106 of CERCLA. This matter relates to hazardous substances sold to owners of the waste site by a company whose assets were purchased by Quanex and transferred to LaSalle Steel. LaSalle was named in this matter by the EPA as a potentially responsible party. LaSalle and other parties named by the EPA as potentially responsible parties took various actions to comply with the EPA's order. The Company believes that the response actions contemplated by the EPA removal order have been substantially completed. In 1989, LaSalle withdrew from the group of potentially responsible parties because its only connection to the site was the purchase of assets, without contractually assuming liabilities from a company that allegedly sent waste to the site. Since that time, the Company has had no involvement with the site. The need for, or extent of, any further cleanup therefore is unknown by Quanex. Even if the Company is unsuccessful in asserting its defenses, LaSalle was one of numerous parties contributing cleanup funds and it has no reason to believe that those other parties generally would not be able to pay costs apportioned to them. For all of these reasons, Quanex does not believe that its liability, if any, with respect to this facility, will have a material adverse effect on its business or financial position.

The EPA has placed on the Superfund National Priorities List the Lenz Oil site in the State of Illinois to which a company, whose assets were purchased by Quanex and transferred to LaSalle Steel, had previously sent used petroleum products. The State of Illinois previously had sent a letter to LaSalle Steel stating that those materials had been disposed of improperly at that site. LaSalle Steel, in conjunction with a group of parties who received similar letters, entered into a consent decree pursuant to which action was taken to address the matters referred to in the letter from the State of Illinois. LaSalle paid approximately $8 thousand out of a $2.5 million group settlement. LaSalle Steel is currently participating in a group that is assessing site conditions and further remediation options. Further liability could be asserted against Quanex as a result of the EPA's actions. The company that sold its assets to LaSalle Steel is one of many companies that had sent materials to this facility. It is Quanex's understanding that such company contributed approximately 0.2% of the total volume of materials handled at this facility. The Company has no reason to believe that the other companies involved will not be financially able to contribute to any possible future clean-up efforts at this site, or that the basis for allocation of liability will substantially change. As a result of the foregoing, Quanex does not believe that its liability, if any, with respect to this facility, will have a material adverse effect on its business or financial position.

The EPA also has placed on the National Priorities List the Douglassville, or Berks Associates Disposal Site in the Commonwealth of Pennsylvania to which LaSalle Steel may have sent used petroleum products. The EPA currently is administering a multistage cleanup at the site. Liability has been asserted against the Company by a group of potentially responsible parties for contribution toward cleanup costs incurred at the facility. It is Quanex's understanding that many companies sent wastes to this site and that LaSalle is alleged to have contributed less than 0.005%, on a volumetric basis, of the total materials. The group of defendants and third-party defendants include a number of large companies and several agencies of the federal government that the Company has no reason to believe will not be financially able to contribute their expected share. These parties have expressed a willingness to participate in settlement efforts. Pursuant to settlement negotiations, LaSalle Steel currently is classified as a de minimis contributor. Based on the foregoing, Quanex does not believe that its liability, if any, with respect to this site, will have a material adverse effect on its business or financial position.

Amendments to the federal Clean Air Act were adopted in 1990, and the EPA currently is developing regulations to implement the requirements of those amendments. Depending on the nature of the regulations adopted, and upon requirements that may be imposed by state and local regulatory authorities, Quanex may be required to incur capital expenditures sometime in the next several years for air pollution control equipment to maintain or obtain operating permits and approvals and address other air emission-related issues. Until such time as the new Clean Air Act requirements are implemented, Quanex is unable to estimate the effect on earnings or operations or the amount and timing of required capital expenditures. However, based upon it's preliminary analysis to date, Quanex does not believe that its compliance with these requirements will have a material effect on its operations or finances.

Quanex incurred approximately $4,000,000 and $3,500,000 during fiscal 1994 and 1993, respectively, in expenses and capital expenditures in order to comply with existing or proposed environmental regulations. It is anticipated that Quanex will spend approximately $3,500,000 at various of its facilities during fiscal 1995, and, although not currently quantifiable or expected to be material to the Company as a whole, will continue to have expenditures in connection with environmental matters beyond 1995. Future expenditures relating to environmental matters will necessarily depend upon existing future regulations and their application to Quanex and its facilities.

EMPLOYEES

At October 31, 1994, the Company employed 2,652 persons. Of the total employed, 47% were covered by collective bargaining agreements. During 1995, one labor contract will expire affecting one Quanex facility. The United Steelworkers of America contract at Gulf States Tube covering 211 employees will expire on October 31, 1995.

ITEM 2. PROPERTIES

The following table lists Quanex's principal plants at October 31, 1994, together with their locations, general character and the industry segment which uses the facility. Each of the facilities identified as being owned by the Company is free of any material encumbrance.

		Square Footage
Owned	STEEL BARS	
Fort Smith, Arkansas	MacSteel	415,723
Jackson, Michigan	MacSteel	245,150
Owned	COLD FINISHED STEEL BARS	
Griffith, Indiana	Fluid Power	37,000
Hammond, Indiana	LaSalle Steel	493,000
Owned	STEEL TUBES	
Rosenberg, Texas	Gulf States Tube	128,000
South Lyon, Michigan	Michigan Seamless Tube	323,000
Huntington, Indiana	Heat Treating	82,000
Owned	ALUMINUM PRODUCTS	
Rice Lake, Wisconsin	AMSCO	290,800
Chatsworth, Illinois	Homeshield Fabricated Products	212,000
Lincolnshire, Illinois	Nichols Aluminum	142,000
Davenport, Iowa	Nichols Aluminum	236,000
Davenport, Iowa	Nichols-Aluminum Casting	245,000
Leased (expires 1999)	EXECUTIVE OFFICES	
Houston, Texas	Quanex Corporation	21,000

ITEM 3. LEGAL PROCEEDINGS

Other than the proceedings under Item 1, "Environmental Matters", incorporated here by reference, there are no material legal proceedings to which Quanex, its subsidiaries, or its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

FORM 10K INFORMATION PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Quanex's common stock, $.50 par value, is traded on the New York Stock Exchange, ticker symbol: NX. Quarterly stock price information and dividend information is shown on page 69.

The terms of Quanex's revolving credit arrangements with certain banks and its senior note agreement with certain institutional noteholders, limit the total amount of common and preferred stock dividends and other distributions on such stock. Under the most restrictive test under such credit facilities, the total common stock dividends the Company may declare and pay is limited to $21,000,000, plus 50% of consolidated net earnings after October 31, 1989, adjusted for other factors as defined in their respective Loan Agreements. As of October 31, 1994, the amount of dividends and other distributions the Company was permitted to declare and pay under its credit facilities was $45,854,000. Dividends on the Common Stock are also subject to the prior payment of dividends on the Company's outstanding 6.88% Cumulative Convertible Exchangeable Preferred Stock.

There were 3,454 record holders of Quanex common stock on October 31, 1994.

ITEM 6. SELECTED FINANCIAL DATA

Pages 34 and 35 of the 1994 Annual Report to Stockholders present selected financial data for the past eleven fiscal years.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See pages 37-41 of the 1994 Annual Report to Stockholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data for Quanex are on pages 42-57 of the 1994 Annual Report to Stockholders.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the past two fiscal years there has been no change in the Company's independent auditors, and there has been no disagreement on accounting practices or financial statement disclosure required to be reported.

INDEX TO FORM 10-K INFORMATION

1 The information under the captions "Matters to Come Before the Meeting -- (1) Election of Three Directors" and "Further Information -- Executive Officers" in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held March 2, 1995, is incorporated herein by reference.

2 The information under the captions "Further Information" and "Executive Compensation" in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held March 2, 1995, is incorporated herein by reference.

3 The information regarding beneficial ownership of Common Stock by directors and nominees (in the table of directors and nominees) and under the caption "Further Information -- Principal Shareholders" in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held March 2, 1995, is incorporated herein by reference.

4 A copy of the Index to Exhibits, filed with Quanex's Form 10-K Report, can be obtained free of charge by written request to Investor Relations, Quanex Corporation, 1900 West Loop South, Suite 1500, Houston, Texas, 77027. No Reports on Form 8-K were filed by the Company during the quarter ended October 31, 1994.

EXHIBITS

Exhibit No.	Name of Exhibit
3.1	Certificate of Incorporation of the Registrant, as amended, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1987, and incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Registrant, as amended through October 21, 1992, filed as Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1987, and incorporated herein by reference.
4.2	Amended and Restated Rights Agreement between the Registrant and Manufacturers Hanover Trust Company, as Rights Agent, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
4.3	Amended and Restated Certificate of Designation, Preferences and Rights of the Registrant's Series A Junior Participating Preferred Stock, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
4.4	Certificate of Designations of the Registrant's 6.88% Cumulative Convertible Exchangeable Preferred Stock, liquidation preference $250 per share, filed as Exhibit 19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
4.5	Form of Indenture relating to the Registrant's 6.88% Cumulative Subordinated Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
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4.7	Deposit Agreement, relating to Depositary Convertible Exchangeable Preferred Shares between the Registrant and Chemical Bank, filed as Exhibit 19.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
4.8	Form of Depositary Receipt for Depositary Convertible Exchangeable Preferred Shares, filed as Exhibit 19.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.

4.9	Note Agreement dated July 25, 1990 among the Registrant and the Purchasers listed therein, regarding the sale of $125,000,000 of 10.77% Senior Notes due August 23, 2000, filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1990, and incorporated herein by reference.
4.10	Revolving Credit and Letter of Credit Agreement dated as of December 4, 1990 among the Registrant and the Banks listed therein relating to a $40,000,000 revolving credit, filed as Exhibit 4.7 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.
4.11	Second Amendment to the Revolving Credit and Letter of Credit Agreement dated as of April 15, 1992, filed as Exhibit 4.13 to the Registrant's Registration Statement on Form S-3 (Registration No. 33-47282), and incorporated herein by reference.
4.12	Third and Fourth Amendments to the Revolving Credit and Letter of Credit Agreement dated as of February 12, 1993 and April 1, 1993, respectively, filed as Exhibit 19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1993, and incorporated herein by reference.
4.13	Fifth Amendment to the Revolving Credit and Letter of Credit Agreement dated as of December 8, 1994, filed as Exhibit 4.15 to the Registrant's Form S-8 Registration No. 33-57235, and incorporated herein by reference.
10.1	Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated March 5, 1970, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.3 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
10.2	Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated January 24, 1973, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.4 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
10.3	Lease Agreement between the Registrant and William M. Paul and Associates, dated August 27, 1980, filed as Exhibit 10.5 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
10.4	Agreement of Lease between the Registrant and 3D Tower Limited, dated March 5, 1985, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference, as amended by the First Amendment to Lease Agreement between the Registrant and VPM 1989-1, Ltd. effective December 8, 1989.
10.5	Quanex Corporation 1988 Stock Option Plan and form of Stock Option Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, and incorporated herein by reference.

10.6	Quanex Corporation Deferred Compensation Plan, as amended, filed as Exhibit 10.5 to the Registrant's Form 10-K for the fiscal year ended October 31, 1981, and incorporated herein by reference.
10.7	Quanex Corporation 1978 Stock Option Plan, as amended, filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, and incorporated herein by reference.
10.8	Quanex Corporation Executive Incentive Compensation Plan, as amended, filed as Exhibit 10.8 to the Registrant's Form 10-K for the fiscal year ended October 31, 1993, and incorporated herein by reference.
10.9	Quanex Corporation Supplemental Benefit Plan, effective February 28, 1980 as restated November 1, 1988 and amended on June 28, 1991, filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.
10.10	Form of Severance Compensation Agreement and Escrow Agreement, adopted on February 28, 1985, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference.
10.11	Quanex Corporation Stock Option Loan Plan for Key Officers, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
10.12	Quanex Corporation 1987 Non-Employee Director Stock Option Plan and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
10.13	Quanex Corporation 1989 Non-Employee Director Stock Option Plan, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, and incorporated herein by reference.
10.14	Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended.
10.15	Retirement Agreement dated as of September 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
10.16	Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
10.17	Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.

10.18	Quanex Corporation Non-Employee Director Retirement Plan.
11	Statement re computation of per share earnings.
13	Quanex Corporation Annual Report to Shareholders for fiscal year 1994 (each portion of the annual report that is incorporated and filed as part of this report).
21	Subsidiaries of the Registrant.
23	Consent of Deloitte & Touche LLP.
27	Financial Data Schedule

As permitted by Item 601(b)(4) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K 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.

Pursuant to the requirements of Section 13 or 15(d) 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

By: ROBERT C. SNYDER January 23, 1995

Robert C. Snyder
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

CARL E. PFEIFFER ------------------------------------- Carl E. Pfeiffer Chairman of the Board	January 23, 1995
ROBERT C. SNYDER ------------------------------------- Robert C. Snyder President, Chief Executive Officer and Director (Principal Executive Officer)	January 23, 1995
GERALD B. HAECKEL ------------------------------------- Gerald B. Haeckel Director	January 23, 1995
DONALD J. MORFEE ------------------------------------- Donald J. Morfee Director	January 23, 1995
JOHN D. O'CONNELL ------------------------------------- John D. O'Connell Director	January 23, 1995
------------------------------------- Fred J. Broad Director	

ROBERT L. WALKER ------------------------------------- Robert L. Walker Director	January 23, 1995
MICHAEL J. SEBASTIAN ------------------------------------- Michael J. Sebastian Director	January 23, 1995
WAYNE M. ROSE ------------------------------------- Wayne M. Rose Vice President-Finance and Chief Financial Officer (Principal Financial Officer)	January 23, 1995
VIREN M. PARIKH ------------------------------------- Viren M. Parikh Controller (Chief Accounting Officer)	January 23, 1995

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27	Financial Data Schedule

As permitted by Item 601(b)(4) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K 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.

EXHIBIT 10.14

QUANEX CORPORATION
EMPLOYEE STOCK OPTION AND RESTRICTED STOCK PLAN

SECTION 1. PURPOSE

The purpose of the Quanex Corporation Employee Stock Option and Restricted Stock Plan is to promote the interests of Quanex Corporation (the "Company") and its shareholders by providing it with a mechanism to enable the Company and its subsidiaries to attract, retain and motivate their key employees with compensatory arrangements and benefits that make use of the Company's stock so as to provide for or increase the proprietary interests of such employees in the Company. The Quanex Corporation Employee Stock Option and Restricted Stock Plan is an amendment and restatement of the Quanex Corporation 1993 Employee Stock Option Plan.

SECTION 2. DEFINITIONS

(A) "AGREEMENT" shall mean a written agreement setting forth the terms of an Award.

(B) "AWARD" shall mean an Option (which may be designated as an Incentive Stock Option or a Non-Incentive Stock Option) or a Restricted Stock Award granted under this Plan.

(C) "BOARD" shall mean the Board of Directors of the Company.

(D) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(E) "COMMITTEE" shall mean the committee appointed by the Board to administer this Plan.

(F) "COMMON STOCK" shall mean the Company's Common Stock, $.50 par value (or such other par value as may be designated by act of the Company's stockholders). In addition, for purposes of the Plan and the Awards, the term Common Stock shall also be deemed to include any rights to purchase ("Rights") the Series A Junior Participating Preferred Stock of the Company that may then be trading together with the Common Stock as provided in the Rights Agreement between the Company and Chemical Bank relating to the Rights.

(G) "COMPANY" shall mean Quanex Corporation.

(H) "DISABILITY" shall mean a mental or physical disability which, in the opinion of a physician selected by the Committee, shall prevent the Employee from earning a reasonable livelihood with the Company or any Subsidiary and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months and which: (a) was not contracted, suffered or incurred while the Employee was engaged in, or did not result from having engaged in, a felonious criminal enterprise; (b) did not result from alcoholism or addiction to narcotics; and (c) did not result from an injury incurred while a member of the Armed Forces of the United States for which the Employee receives a military pension.

(I) "DISINTERESTED" shall mean disinterested within the meaning of applicable regulatory requirements, including those promulgated under Section 16 of the Exchange Act.

(J) "EMPLOYEE" shall mean an officer or employee of the Company or a Subsidiary.

(K) "EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

(L) "FAIR MARKET VALUE" shall mean the closing price of the Common Stock on the date in question as reported in the New York Stock Exchange - -- Composite Transactions listing or if, in the discretion of the Committee, another means of determining the fair market value of a share of Common Stock at such date shall be necessary or advisable, the Committee may provide for another means of determining such fair market value.

(M) "INCENTIVE STOCK OPTION" shall mean an Option that is intended by the Committee to meet the requirements of Section 422 of the Code or any successor provision.

(N) "NON-INCENTIVE STOCK OPTION" shall mean an Option granted pursuant to this Plan which does not qualify as an Incentive Stock Option.

(O) "OPTION" shall mean the right to purchase Common Stock at a price to be specified and upon terms to be designated by the Committee pursuant to this Plan. An Option shall be designated by the Committee as an Incentive Stock Option or a Non-Incentive Stock Option.

(P) "OPTION PRICE" shall mean the price at which shares may be purchased pursuant to an Option.

(Q) "PLAN" shall mean this Quanex Corporation Employee Stock Option and Restricted Stock Plan.

(R) "RESTRICTED PERIOD" shall mean the period designated by the Committee during which Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered.

(S) "RESTRICTED STOCK" shall mean those shares of Common Stock issued pursuant to a Restricted Stock Award which are subject to the restrictions, terms, and conditions set forth in the related Agreement.

(T) "RESTRICTED STOCK AWARD" shall mean an award of Restricted Stock pursuant to Section 8 hereof.

(U) "RETAINED DISTRIBUTIONS" shall mean any securities or other property (other than regular cash dividends) distributed by the Company in respect of Restricted Stock during any Restricted Period.

(V) "RETIRE" or "RETIREMENT" shall mean retirement in accordance with the terms of a retirement plan that is qualified under Section 401(a) of the Code and maintained by the Company or a Subsidiary in which the employee is a participant.

(W) "SUBSIDIARY" shall mean any present or future subsidiary corporations, as defined in Section 424 of the Code, of the Company.

SECTION 3. STOCK SUBJECT TO THE PLAN

The total amount of the Common Stock with respect to which Awards may be granted shall not exceed in the aggregate 750,000 shares. The class and aggregate number of shares which may be subject to the Options granted under this Plan shall be subject to adjustment under Section 7. The class and aggregate number of shares which may be subject to the Restricted Stock Awards granted under the Plan shall also be subject to adjustment under Section 8. Shares may be treasury shares or authorized but unissued shares. If any Award under the Plan shall expire or terminate for any reason without having been exercised in full, or if any Award shall be forfeited, the shares subject to the unexercised or forfeited portion of such Award shall again be available for the purposes of the Plan.

SECTION 4. ADMINISTRATION

The Plan shall be administered by a Committee the members of which shall be Disinterested persons. The Committee shall consist of not less than two members of the Board, who are not Employees. The Board shall have the power from time to time to add or remove members of the Committee, and to fill vacancies arising for any reason. The Committee shall designate a chairman from among its members, who shall preside at all of its meetings, and shall designate a secretary, without regard to whether that person is a member of the Committee, who shall keep the minutes of the proceedings and all records, documents, and data pertaining to its administration of the Plan. Meetings shall be held at any time and place as it shall choose. A majority of the members of the Committee shall constitute a quorum for the transaction of business. The vote of a majority of those members present at any meeting shall decide any question brought before that meeting. In addition, the Committee may take any action otherwise proper under the Plan by the affirmative vote, taken without a meeting, of a majority of its members. No member of the Committee shall be liable for any act or omission of any other member of the Committee or for any act or omission on his own part, including but not limited to the exercise of any power or discretion given to him under the Plan, except those resulting from his own gross negligence or willful misconduct. All questions of interpretation and application of the Plan, or as to Awards granted under it shall be subject to the determination of a majority of the Committee. The Committee in exercising any power or authority granted under this Plan or in making any determination under this Plan shall perform or refrain from performing those acts using 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 decision shall never be subject to de novo review. When appropriate the Plan shall be administered in order to qualify certain of the Options granted under it as Incentive Stock Options.

SECTION 5. ELIGIBILITY

The individuals who shall be eligible to participate in the Plan shall be those full-time key Employees, including directors if they are Employees, as the Committee shall determine during the term of this Plan. No individual shall be eligible to receive an Award under the Plan while that individual is a member of the Committee.

No Employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the corporation employing the Employee or of its parent or subsidiary corporation shall be eligible to receive an Option which is an Incentive Stock Option unless at the time that the Option is granted the option price is at least 110% of the Fair Market Value of the Common Stock at the time the Option is granted and the Option by its own terms is not exercisable after the expiration of five years from the date the Option is granted.

An Employee will be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust will be considered as being owned proportionately by or for its shareholders, partners or beneficiaries. For all purposes of this Plan, a parent corporation is any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, on the date of grant of the Option in question, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in that chain; and a subsidiary corporation is any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, on the date of grant of the Option in question, each of the corporations, other than the last corporation in the chain, owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in that chain.

SECTION 6. MAXIMUM NUMBER OF SHARES SUBJECT TO AN AWARD

Effective with respect to Options awarded after February 17, 1993, the maximum number of shares of Common Stock subject to Options that may be awarded to any Employee under the Plan is 250,000. The maximum number of shares of Common Stock that may be awarded to any Employee pursuant to Restricted Stock Awards under the Plan is 250,000.

SECTION 7. STOCK OPTIONS

A. AUTHORITY TO GRANT OPTIONS. The Committee may grant Incentive Stock Options or Non-Incentive Stock Options at any time during the term of this Plan to any eligible Employee that it chooses.

Each Option granted shall be approved by the Committee. Subject only to any applicable limitations set forth in this Plan, the number of shares of Common Stock to be covered by an Option shall be as determined by the Committee.

B. OPTION PRICE. The price at which shares may be purchased pursuant to an Option, whether it is an Incentive Stock Option or a Non-Incentive Stock Option, shall be not less than the Fair Market Value of the shares of Common Stock on the date the Option is granted. The Committee in its discretion may provide that the price at which shares may be purchased shall be more than the minimum price required.

C. DURATION OF OPTIONS. No Option which is an Incentive Stock Option shall be exercisable after the expiration of ten years from the date such Option is granted. The Committee in its discretion may provide that such Option shall be exercisable throughout the ten year period or during any lesser period of time commencing on or after the date of grant of such Option and ending upon or before the expiration of the ten year period. If an Employee owns stock possessing more than 10% of the total combined voting power of all classes of stock of the corporation employing the Employee or of its parent or subsidiary corporation, no Option which is an Incentive Stock Option shall be exercisable after the expiration of five years from the date such Option is granted. No Option which is a Non-Incentive Stock Option shall be exercisable after the expiration of ten years from the date such Option is granted. The Committee in its discretion may provide that such Option shall be exercisable throughout the ten year period or during any lesser period of time commencing on or after the date of grant of such Option and ending upon or before the expiration of the ten year period.

D. MAXIMUM VALUE OF STOCK SUBJECT TO OPTIONS WHICH ARE INCENTIVE STOCK OPTIONS. To the extent that the aggregate Fair Market Value (determined as of the date the Option is granted) of the stock with respect to which Incentive Stock Options are exercisable for the first time by the Optionee in any calendar year (under this Plan and any other incentive stock option plan(s) of the Company and any parent and subsidiary corporation) exceeds $100,000, the Options shall be treated as Non-Incentive Stock Options. In making this determination, Options shall be taken into account in the order in which they were granted.

E. AMOUNT EXERCISABLE. The usual form of agreement granting an Option (whether Incentive or Non-incentive) shall, subject to any limitation on exercise contained in the Agreement which is not inconsistent with this Plan, contain the following terms of exercise:

(a) No Option granted under this Plan may be exercised until an Optionee has completed one year of continuous employment with the Company or any Subsidiary following the date of grant;

(b) Beginning on the day after the first anniversary of the date of grant, an Option may be exercised up to 1/3 of the shares subject to the Option;

(c) After the expiration of each succeeding anniversary date of the date of grant, the Option may be exercised up to an additional 1/3 of the shares subject to the Option, so that after the expiration of the third anniversary of the date of grant, the Option shall be exercisable in full; and

(d) To the extent not exercised, installments shall be cumulative and may be exercised in whole or in part until the Option expires on the tenth anniversary of the date of the grant.

However, the Committee, in its discretion, may change the terms of exercise so that any Option may be exercised so long as it is valid and outstanding from time to time in part or as a whole in such manner and subject to such conditions as it may set. In addition, the Committee, in its discretion, may accelerate the time in which any outstanding Option may be exercised. But in no event shall any Option be exercisable after the tenth anniversary of the date of the grant.

F. EXERCISE OF OPTIONS. An Optionee may exercise such optionee's Option by delivering to the Company a written notice stating (i) that such optionee wishes to exercise such Option on the date such notice is so delivered, (ii) the number of shares of stock with respect to which the Option is to be exercised and (iii) the address to which the certificate representing such shares of stock should be mailed. In order to be effective, such written notice shall be accompanied by (i) payment of the Option Price of such shares of stock and (ii) payment of an amount of money necessary to satisfy any withholding tax liability that may result from the exercise of such Option. Each such payment shall be made by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars.

If, at the time of receipt by the Company of such written notice, (i) the Company has unrestricted surplus in an amount not less than the Option Price of such shares of stock, (ii) all accrued cumulative preferential dividends and other current preferential dividends on all outstanding shares of preferred stock of the Company have been fully paid, (iii) the acquisition by the Company of its own shares of stock for the purpose of enabling such optionee to exercise such Option is otherwise permitted by applicable law and without any vote or consent of any stockholder of the Company, and (iv) there shall have been adopted, and there shall be in full force and effect, a resolution of the Board authorizing the acquisition by the Company of its own shares of stock for such purpose, then such optionee may deliver to the Company, in payment of the Option Price of the shares of stock with respect to which such Option is exercised, (x) certificates registered in the name of such optionee that represent a number of shares of stock legally and beneficially owned by such optionee (free of all liens, claims and encumbrances of every kind) and having a Fair Market Value on the date of receipt by the Company of such written notice that is not greater than the Option Price of the shares of stock with respect to which such Option is to be exercised, such certificates to be accompanied by stock powers duly endorsed in blank by the record holder of the shares of stock represented by such certificates, with the signature of such record holder guaranteed by a national banking association, and (y) if the Option Price of the shares of stock with respect to which such Option is to be exercised exceeds such Fair Market Value, a cashier's check drawn on a national banking association and payable to the order of the Company in an amount, in United States dollars, equal to the amount of such excess. Notwithstanding the provisions of the immediately preceding sentence, the Committee, in its sole discretion, may refuse to accept shares of stock in payment of the Option Price of the shares of stock with respect to which such Option is to be exercised and, in that event, any certificates representing shares of stock that were received by the Company with such written notice shall be returned to such optionee, together with notice by the Company to such optionee of the refusal of the Committee to accept such shares of stock. If, at the expiration of seven business days after the delivery to such optionee of such written notice from the Company, such optionee shall not have delivered to the Company a cashier's check drawn on a national banking association and payable to the order of the Company in an amount, in United States dollars, equal to the Option Price of the shares of stock with respect to which such Option is to be exercised, such written notice from the optionee to the Company shall be ineffective to exercise such Option.

As promptly as practicable after the receipt by the Company of (i) such written notice from the optionee, (ii) payment, in the form required by the foregoing provisions of this Section of the Option Price of the shares of stock with respect to which such Option is to be exercised, and (iii) payment, in the form required by the foregoing provisions of this Section, of an amount of money necessary to satisfy any withholding tax liability that may result from the exercise of such Option, a certificate representing the number of shares of stock with respect to which such Option has been so exercised, such certificate to be registered in the name of such optionee, provided that such delivery shall be considered to have been made when such certificate shall have been mailed, postage prepaid, to such optionee at the address specified for such purpose in such written notice from the optionee to the Company.

G. TRANSFERABILITY OF OPTIONS. Options shall not be transferable by the optionee except by will or under the laws of descent and distribution, and shall be exercisable, during his lifetime, only by him. Any attempted sale, assignment, transfer, pledge or encumbrance of an Option in violation of this Agreement shall be void and the Company shall not be bound thereby.

H. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE. Except as may be otherwise expressly provided herein with respect to an Option that is a Non-statutory Stock Option, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of severance, upon severance of the employment relationship between the Company and the optionee, whether with or without cause, for any reason other than the death, Disability or, in the case of Non-statutory Stock Options only, Retirement of the optionee, during which period the optionee shall be entitled to exercise the Option in respect of the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Option on the date of such severance of employment. Whether authorized leave of absence, or absence on military or government service, shall constitute severance of the employment relationship between the Company and the optionee shall be determined by the Committee at the time thereof. In the event of severance because of the Disability of the holder of any Incentive Stock Option while in the employ of the Company and before the date of expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of such severance because of Disability, during which period the optionee shall be entitled to exercise the Incentive Stock Option in respect to the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Incentive Stock Option on the date of such severance because of Disability. In the event of the death of the holder of any Incentive Stock Option while in the employ of the Company and before the date of expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of death. After the death of the optionee, his executors, administrators or any person or person to whom his Incentive Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of an Incentive Stock Option to exercise the Incentive Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he had exercised the Incentive Stock Option on the date of his death while in employment. For purposes of Incentive Stock Options issued under this Plan, an employment relationship between the Company and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company, a corporation issuing or assuming an option in a transaction to which Section 424(a) of the Code applies, or a parent or subsidiary corporation of such corporation issuing or assuming an option. For this purpose, the phrase "corporation issuing or assuming an option" shall be substituted for the word "Company" in the definitions of parent and subsidiary corporations in Section 4 and the parent-subsidiary relationship shall be determined at the time of the corporate action described in Section 424(a) of the Code.

In the event of the death, Disability, or Retirement of a holder of a Non-statutory Stock Option, before the date of expiration of such Non-statutory Stock Option, such Non-statutory Stock Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, and shall terminate on the date of expiration of the Non-statutory Stock Option notwithstanding any provision to the contrary in the optionee's Option Agreement. After the death of the optionee, his executors, administrators or any person or person to whom his Non-statutory Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Non-statutory Stock Option to exercise the Non-statutory Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive. Notwithstanding the foregoing provisions of this Section, in the case of a Non-statutory Stock Option granted on or after December 8, 1994, the Committee may provide for a different option termination date in the Option Agreement with respect to such Option.

I. NO RIGHTS AS STOCKHOLDER. No optionee shall have rights as a stockholder with respect to shares covered by his Option until the date a stock certificate is issued for the shares. Except as provided in the following provisions of this Section 7, no adjustment for dividends, or other matters shall be made if the record date is prior to the date the certificate is issued.

J. CHANGES IN THE COMPANY'S CAPITAL STRUCTURE. The existence of outstanding Options shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

If the Company shall effect a subdivision or consolidation of shares or other capital adjustment of, or the payment of a dividend in capital stock or other equity securities of the Company on, its Common Stock, or other increase or reduction of the number of shares of the Common Stock outstanding without receiving consideration therefor in money, services, or property, or the reclassification of its Common Stock, in whole or in part, into other equity securities of the Company, then (a) the number, class and per share price of shares of stock subject to outstanding Options hereunder shall be appropriately adjusted (or in the case of the issuance of other equity securities as a dividend on, or in a reclassification of, the Common Stock, the Options shall extend to such other securities) in such a manner as to entitle an optionee to receive, upon exercise of an Option, for the same aggregate cash compensation, the same total number and class or classes of shares (or in the case of a dividend of, or reclassification into, other equity securities, such other securities) he would have held after such adjustment if he had exercised his Option in full immediately prior to the event requiring the adjustment, or, if applicable, the record date for determining shareholders to be affected by such adjustment; and (b) the number and class of shares then reserved for issuance under the Plan (or in the case of a dividend of, or reclassification into, other equity securities, such other securities) shall be adjusted by substituting for the total number and class of shares of stock then received, the number and class or classes of shares of stock (or in the case of a dividend on, or reclassification into, other equity securities, such other securities) that would have been received by the owner of an equal number of outstanding shares of Common Stock as the result of the event requiring the adjustment. Comparable rights shall accrue to each optionee in the event of successive subdivisions, consolidations, capital adjustment, dividends or reclassifications of the character described above.

If the Company shall distribute to all holders of its shares of Common Stock (including any such distribution made to non-dissenting shareholders in connection with a consolidation or merger in which the Company is the surviving corporation and in which holders of shares of Common Stock continue to hold shares of Common Stock after such merger or consolidation) evidences of indebtedness or cash or other assets (other than cash dividends payable out of consolidated retained earnings not in excess of, in any one year period, the greater of (a) $1.00 per share of Common Stock or (b) two times the aggregate amount of dividends per share paid during the preceding calendar year and dividends or distributions payable in shares of Common Stock or other equity securities of the Company described in the immediately preceding paragraph), then in each case the Option Price shall be adjusted by reducing the Option Price in effect immediately prior to the record date for the determination of stockholders entitled to receive such distribution by an amount equal to the Fair Market Value, as determined in good faith by the Board (whose determination shall be described in a statement filed in the Company's corporate records and be available for inspection by any holder of an Option) of the portion of the evidence of indebtedness or cash or other assets so to be distributed applicable to one share of Common Stock; provided that in no event shall the Option Price be less than the par value of a share of Common Stock. Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of the distribution retroactive to the record date for the determination of the stockholders entitled to receive such distribution. Comparable adjustments shall be made in the event of successive transactions of the character described above.

If the Company shall make a tender offer for, or grant to all of its holders of its shares of Common Stock the right to require the Company or any subsidiary of the Company to acquire from such stockholders shares of, Common Stock, at a price in excess of the Current Market Price (a "Put Right") or the Company shall grant to all of its holders for its shares of Common Stock the right to acquire shares of Common Stock for less than the Current Market Price (a "Purchase Right"), then, in the case of a Put Right, the Option Price shall be adjusted by multiplying the Option Price in effect immediately prior to the record date for the determination of stockholders entitled to receive such Put Right by a fraction, the numerator of which shall be the number of shares of Common Stock then outstanding minus the number of shares of Common Stock which could be purchased at the Current Market Price for the aggregate amount which would be paid if all Put Rights are exercised and the denominator of which is the number of shares of Common Stock which would be outstanding if all Put Rights are exercised; and, in the case of a Purchase Right, the Option Price shall be adjusted by multiplying the Option Price in effect immediately prior to the record date for the determination of the stockholders entitled to receive such Purchase Right by a fraction, the numerator of which shall be the number of shares of Common Stock then outstanding plus the number of shares of Common Stock which could be purchased at the Current Market Price for the aggregate amount which would be paid if all Purchase Rights are exercised and the denominator of which is the number of shares of Common Stock which would be outstanding if all Purchase Rights are exercised. In addition, the number of shares subject to the Option shall be increased by multiplying the number of shares then subject to the Option by a fraction which is the inverse of the fraction used to adjust the Option Price. Notwithstanding the foregoing if any such Put Rights or Purchase Rights shall terminate without being exercised, the Option Price and number of shares subject to the Option shall be appropriately readjusted to reflect the Option Price and number of shares subject to the Option which would have been in effect if such unexercised Rights had never existed. Comparable adjustments shall be made in the event of successive transactions of the character described above.

After the merger of one or more corporations into the Company, after any consolidation of the Company and one or more corporations, or after any other corporate transaction described in Section 424(a) of the Code in which the Company shall be the surviving corporation, each optionee, at no additional cost, shall be entitled to receive, upon any exercise of his Option, in lieu of the number of shares as to which the Option shall then be so exercised, the number and class of shares of stock or other equity securities to which the optionee would have been entitled pursuant to the terms of the agreement of merger or consolidation if at the time of such merger or consolidation such optionee had been a holder of a number of shares of Common Stock equal to the number of shares as to which the Option shall then be so exercised and, if as a result of such merger, consolidation or other transaction, the holders of Common Stock are not entitled to receive any shares of Common Stock pursuant to the terms thereof, each optionee, at no additional cost shall be entitled to receive, upon exercise of his Option, such other assets and property, including cash to which he would have been entitled if at the time of such merger, consolidation or other transaction he had been the holder of the number of shares of Common Stock equal to the number of shares as to which the Option shall then be so exercised. Comparable rights shall accrue to each optionee in the event of successive mergers or consolidations of the character described above.

After a merger of the Company into one or more corporations, after a consolidation of the Company and one or more corporations, or after any other corporate transaction described in Section 424(a) of the Code in which the Company is not the surviving corporation, each optionee shall, at no additional cost, be entitled at the option of the surviving corporation (i) to have his then existing Option assumed or have a new option substituted for the existing Option by the surviving corporation to the transaction which is then employing him, or a parent or subsidiary of such corporation, on a basis where the excess of the aggregate fair market value of the shares subject to the Option immediately after the substitution or assumption over the aggregate Option Price of such option is equal to the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate Option Price of such shares, provided that the shares subject to the new option must be traded on the New York or American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotation System, or (ii) to receive, upon any exercise of his Option, in lieu of the number of shares as to which the Option shall then be so exercised, the securities, property and other assets, including cash, to which the optionee would have been entitled pursuant to the terms of the agreement of merger or consolidation or the agreement giving rise to the other corporate transaction if at the time of such merger, consolidation or other transaction such optionee had been the holder of the number of shares of Common Stock equal to the number of shares as to which the Option shall then be so exercised.

If a corporate transaction described in Section 424(a) of the Code which involves the Company is to take place and there is to be no surviving corporation while an Option remains in whole or in part unexercised, it shall be canceled by the Board as of the effective date of any such corporate transaction but before that date each optionee shall be provided with a notice of such cancellation and each optionee shall have the right to exercise such Option in full (without regard to any vesting limitations set forth in or imposed pursuant to preceding provisions of this Plan or the option agreement with respect to such Option) to the extent it is then still unexercised during a 30-day period preceding the effective date of such corporate transaction.

For purposes of this Section, Current Market Price per share of Common Stock shall mean the last reported price for the Common Stock in the New York Stock Exchange -- Composite Transaction listing on the trading day immediately preceding the first trading day on which, as a result of the establishment of a record date or otherwise, the trading price reflects that an acquiror of Common Stock in the public market will not participate in or receive the payment of any applicable dividend or distribution; provided, however, that if there is no closing price for the stock as so reported on that date or if, in the discretion of the Committee, another means of determining the fair value of the shares of stock at such date shall be necessary or advisable, the Committee may provide for another means for determining the Current Market Price of the Common Stock.

Except as hereinbefore expressly provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to outstanding Options.

K. SUBSTITUTION OPTIONS. Options may be granted under this Plan from time to time in substitution for stock options held by employees of other corporations who are about to become employees of the Company, or whose employer is about to become a parent or subsidiary corporation, conditioned in the case of an incentive stock option upon the employee becoming an employee as the result of a merger or consolidation of the Company with another corporation, or the acquisition by the Company of substantially all the assets of another corporation, or the acquisition by the Company of at least 50% of the issued and outstanding stock of another corporation as the result of which it becomes a subsidiary of the Company. The terms and conditions of the substitute Options granted may vary from the terms and conditions of this Plan to the extent the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted. But with respect to stock options which are incentive stock options, no variation shall be made which will affect the status of any substitute option as an "incentive stock option" under Section 422 of the Code.

SECTION 8. RESTRICTED STOCK AWARDS

A. AWARDS. The Committee may make an Award of Restricted Stock to selected eligible Employees. The amount of each Restricted Stock Award and the respective terms and conditions of each Award (which terms and conditions need not be the same in each case) shall be determined by the Committee in its sole discretion. However, the terms and conditions of an Award shall not be inconsistent with the terms of the Plan.

B. TRANSFERABILITY AND RIGHTS WITH RESPECT TO RESTRICTED STOCK. Except as provided herein, Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered during a Restricted Period. Any attempted sale, assignment, transfer, pledge or encumbrance of Restricted Stock in violation of this Plan shall be void and the Company shall not be bound thereby.

During the Restricted Period, certificates representing the Restricted Stock and any Retained Distributions shall be registered in the recipient's name and bear a restrictive legend to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto are subject to the restrictions, terms, and conditions provided in this Plan and the applicable Agreement. Such certificates shall be deposited by the recipient with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with this Plan and the applicable Agreement. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes.

Subject to the terms of this Plan and the Agreement with respect to the Award, the recipient shall have the right to vote the Restricted Stock awarded to such recipient and to receive and retain all regular cash dividends, and to exercise all other rights, powers and privileges of a holder of Common Stock, with respect to such Restricted Stock, with the exception that (i) the recipient shall not be entitled to delivery of the stock certificate or certificates representing such Restricted Stock until the restrictions applicable thereto shall have expired, (ii) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (iii) the recipient may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period. Nothing in this Section shall prevent transfers by will or by the applicable laws of descent and distribution.

C. VESTING OF RESTRICTED STOCK. Restricted Stock Awards shall be subject to such vesting restrictions, if any, as the Committee shall determine in its sole discretion; provided that any Restricted Stock Award that is granted to an Employee who is then subject to the reporting and short-swing profit provisions of Section 16 of the Exchange Act and the rules thereunder shall vest no earlier than six months following the date on which the Restricted Stock is deemed awarded for purposes of such provisions.

D. CONSEQUENCE OF VESTING. Subject to Section 9, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares, reduced as necessary to satisfy the Company's tax withholding obligation.

E. WITHHOLDING TAX. The Company shall meet its tax withholding obligations under the Code and applicable state or local law arising upon the vesting of Restricted Stock by delivering to the Restricted Stock recipient (or his estate, if applicable) a reduced number of shares of Common Stock in the manner specified herein. At the time of vesting of shares of Restricted Stock, the Company shall (i) calculate the amount of withholding tax due on the assumption that all such vested shares of Restricted Stock are made available for delivery, (ii) reduce the number of such shares made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (iii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the participant, in the amount of the withholding tax due.

The Company shall withhold only whole shares of Common Stock to satisfy its withholding obligation. Where the Fair Market Value of the withheld shares does not equal Company's withholding tax obligation, the Company shall withhold shares with a Fair Market Value slightly in excess of the amount of its withholding obligation and shall remit the excess cash to the Restricted Stock Award recipient (or his estate, if applicable) with the shares of Common Stock made available for delivery.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be cancelled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

F. CHANGES IN COMPANY'S CAPITAL STRUCTURE. In the event that the outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split, stock dividend, or combination of shares, appropriate adjustments shall be made by the Committee in the aggregate number and kind of shares which may be issued or granted as Awards. If any adjustment shall result in a fractional share, the fraction shall be disregarded.

SECTION 9. REQUIREMENTS OF LAW

The Company shall not be required to sell, issue or deliver any shares of Common Stock under any Award if such sale, issuance or delivery shall constitute a violation by the Award recipient or the Company of any provisions of any law or regulation of any governmental authority. Each Award granted under this Plan shall be subject to the requirements that, if at any time the Board or the Committee shall determine that the listing, registration or qualification of the shares upon any securities exchange or under any state or federal law of the United States or of any other country or governmental subdivision, or the consent or approval of any governmental regulatory body, or investment or other representations, are necessary or desirable in connection with the issue, or purchase or delivery of shares subject to an Award, that Award shall not be exercised in whole or in part and no shares shall be delivered pursuant to an Award unless the listing, registration, qualification, consent, approval or representations shall have been effected or obtained free of any conditions not acceptable to the Committee. Any determination in this connection by the Committee shall be final. In the event the shares issuable or deliverable on exercise or vesting of an Award are not registered under the Securities Act of 1933, the Company may imprint on the certificate for those shares the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Securities Act of 1933:

> "The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any state and may not be sold or transferred except upon registration or upon receipt by the Corporation of an opinion of counsel satisfactory to the Corporation, in form and substance satisfactory to the Corporation, that registration is not required for a sale or transfer."

The Company may, but shall in no event be obligated to, register any securities covered by this Plan under the Securities Act of 1933 (as now in effect or as later amended) and, in the event any shares are registered, the Company may remove any legend on certificates representing those shares. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an Award or the issuance or delivery of shares under the Award to comply with any law or regulation or any governmental authority.

SECTION 10. EMPLOYMENT OBLIGATION

The granting of any Award shall not impose upon the Company any obligation to employ or continue to employ any Award recipient. The right of the Company to terminate the employment of any officer or other Employee shall not be diminished or affected by reason of the fact that an Award has been granted to him.

SECTION 11. FORFEITURE FOR CAUSE

Notwithstanding any other provision of this Plan, if the Committee finds by a majority vote, that the Award recipient, before or after termination of his employment with the Company (a) committed a fraud, embezzlement, theft, felony or act of dishonesty in the course of his employment by the Company which conduct damaged the Company or (b) disclosed trade secrets of the Company, then any outstanding options which have not been exercised by the individual and any Awards which have not yet vested will be forfeited. The decision of the Committee as to the cause of an Award recipient's discharge, the damage done to the Company and the extent of the individual's competitive activity will be final. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company.

SECTION 12. AMENDMENT OR TERMINATION OF PLAN

The Board may modify, revise or terminate this Plan at any time and from time to time. However, without the further Company stockholder approval by a majority of the votes cast at a duly held stockholders' meeting at which a quorum representing a majority of all outstanding voting stock (or if the provisions of the corporate charter, bylaws or applicable state law prescribe a greater degree of stockholder approval for this action, without the degree of stockholder approval thus required) is, either in person or by proxy, present and voting on the issue, the Board may not (a) increase the aggregate number of shares that may be subject to Awards pursuant to the provisions of this Plan; (b) materially increase the benefits accruing to participants under this Plan or (c) materially modify the requirements as to eligibility for participation in this Plan.

SECTION 13. WRITTEN AGREEMENT

Each Award granted under this Plan shall be embodied in a written Agreement, which shall be subject to the terms and conditions prescribed above, and shall be signed by the recipient and by the appropriate officer of the Company for and in the name and on behalf of the Company. Each Agreement shall contain any other provisions consistent with this Plan that the Committee in its discretion shall deem advisable.

SECTION 14. INDEMNIFICATION OF THE COMMITTEE

The Company 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 indemnity from the Company for, all expenses (including 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 the Company 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 such member of the Committee at the time of incurring such expenses; provided, however, that such indemnity shall not include any expenses incurred by any such member of the Committee (a) in respect of matters as to which he shall be finally adjudged in any such action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his duty as such member of the Committee, or (b) in respect of any matter in which any settlement is effected, to an amount in excess of the amount approved by the Company on the advice of its legal counsel; and provided further, that no right of indemnification under the provisions set forth herein shall be available to or enforceable by any such member of the Committee unless, within sixty (60) days after institution of any such action, suit or proceeding, he shall have offered the Company, in writing, the opportunity to handle and defend the same at its own expense. The foregoing right of indemnification shall inure to the benefit of the heirs, executors or administrators of each such member of the Committee and shall be in addition to all other rights to which such member of the Committee may be entitled to as a matter of law, contract or otherwise. Nothing in this Section shall be construed to limit or otherwise affect any right to indemnification or payment of expense, or any provisions limiting the liability of any officer or director of the Company or any member of the Committee, provided by law, the Certificate of Incorporation of the Company or otherwise.

SECTION 15. SECTION 83(B) ELECTIONS.

No Employee shall exercise the election permitted under Section 83(b) of the Code with respect to an Award without written approval of the Committee. If the Committee permits such an election with respect to any Award, the Company shall require the Award recipient to pay the Company an amount necessary to satisfy the Company's tax withholding obligation.

SECTION 16. AWARD GRANT TERMINATION.

No Awards shall be granted pursuant to this Plan after December 1, 2002.

FIRST AMENDMENT TO THE QUANEX CORPORATION EMPLOYEE STOCK OPTION AND RESTRICTED STOCK PLAN

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

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation Employee Stock Option and Restricted Stock Plan" (the "Plan"); and

WHEREAS, the Board of Directors of the Company retained the right in Section 12 of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, the Board of Directors of the Company agrees that Paragraph H of Section 7 of the Plan is hereby amended, effective with respect to both Non-Incentive Options outstanding on the date of the adoption of this Amendment and all Non-Incentive Options issued in the future under this Plan, as follows:

> H. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE. Except as may be otherwise expressly provided herein with respect to an Option that is a Non-Incentive Stock Option, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of severance, upon severance of the employment relationship between the Company and the optionee, whether with or without cause, for any reason other than the death, Disability or, in the case of Non-Incentive Stock Options only, Retirement of the optionee, during which period the optionee shall be entitled to exercise the Option in respect of the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Option on the date of such severance of employment. Whether authorized leave of absence, or absence on military or government service, shall constitute severance of the employment relationship between the Company and the optionee shall be determined by the Committee at the time thereof. In the event of severance because of the Disability of the holder of any Incentive Stock Option while in the employ of the Company and before the date of expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of such severance because of Disability, during which period the optionee shall be entitled to exercise the Incentive Stock Option in respect to the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Incentive Stock Option on the date of such severance because of Disability. In the event of the death of the holder of any Incentive Stock Option while in the employ of the Company and before the date of expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of death. After the death of the optionee, his executors, administrators or any person or person to whom his Incentive Stock Option may be transferred by will or by the laws of descent and

distribution, shall have the right, at any time prior to the termination of an Incentive Stock Option to exercise the Incentive Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he had exercised the Incentive Stock Option on the date of his death while in employment. For purposes of Incentive Stock Options issued under this Plan, an employment relationship between the Company and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company, a corporation issuing or assuming an option in a transaction to which Section 424(a) of the Code applies, or a parent or subsidiary corporation of such corporation issuing or assuming an option. For this purpose, the phrase "corporation issuing or assuming an option" shall be substituted for the word "Company" in the definitions of parent and subsidiary corporations in Section 4 and the parent-subsidiary relationship shall be determined at the time of the corporate action described in Section 424(a) of the Code.

In the event of the death, Disability, or Retirement of a holder of a Non-Incentive Stock Option, before the date of expiration of such Non-Incentive Stock Option, such Non-Incentive Stock Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, and shall terminate on the date of expiration of the Non-Incentive Stock Option notwithstanding any provision to the contrary in the optionee's Option Agreement. After the death of the optionee, his executors, administrators or any person or person to whom his Non-Incentive Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Non-Incentive Stock Option to exercise the Non-Incentive Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive. Notwithstanding the foregoing provisions of this Section, in the case of a Non-Incentive Stock Option granted on or after December 8, 1994, the Committee may provide for a different option termination date in the Option Agreement with respect to such Option.

Dated: October 20, 1994

EXHIBIT 10.18

QUANEX CORPORATION

NON-EMPLOYEE DIRECTOR RETIREMENT PLAN

To promote the interest of Quanex Corporation (the "Company") and to assist the Company in obtaining and retaining qualified persons to act as directors of the Company, the Company has adopted the following Non-Employee Directors Retirement Plan (the "Plan").

1. Eligibility. Each person, other than full-time employees of the Company, serving, on or after the Effective Date of this Plan, as a director subject to reelection by the holders of Common Stock of the Company and each person serving as an advisory director at the request of the Board of Directors, shall be entitled to participate in this Plan.

2. Retirement Benefit. Any director or advisory director who is eligible to participate in this Plan and has served on the Board of Directors of the Company for at least an aggregate of ten full years shall be entitled to a retirement payment as provided herein. Subject to Sections 3 and 4 below, the Company shall pay to the director or advisory director annually a sum (the "Retirement Amount") equal to the base annual director retainer fee paid at the time the person is no longer either a director or advisory director of the Company. The base annual director retainer fee shall not include fees paid for attendance at meetings or other purposes. The Retirement Amount shall be paid annually on the anniversary date of the retirement of the person as a director or advisory director or at such earlier time as the Company may select. In addition, the Company may elect to pay the Retirement Amount in installments provided the Retirement Amount shall be paid in full by each anniversary date.

3. Termination of Payment. The Company shall pay the Retirement Amount annually for a period equal to the aggregate length of time the director or advisory director served on the Board of Directors, such period to be rounded up to the next full year; provided that the Company's obligation shall earlier terminate (i) upon the death of the director or advisory director, (ii) upon the termination of this Plan as to all then current and retired directors, in which case payment shall be made to all eligible retired directors and advisory directors for the year in which the termination of this Plan occurs and two additional years, and (iii) upon a determination by the Board of Directors that the retired director or advisory director is serving as a director, officer or employee of a competitor of the Company and the continuation of such relationship after 15 days written notice of such determination to the retired director.

4. Consultation. At any time payments are being made to a person pursuant to this Plan, such person agrees to be available to consult with and advise the Board of Directors of the Company from time to time upon reasonable notice; provided that the Company shall pay all out of pocket expenses of such person, such person shall not be obligated to travel and such consultations shall not require more of such person's time than that required when serving as a director or advisory director.

5. Effective Date. This Plan shall be effective on February 20, 1992, and shall remain in effect until termination by a resolution of the Board of Directors of the Company. Except as provided in Section 3, upon termination of this Plan, no person shall be entitled to any further benefits hereunder.

EXHIBIT 11

QUANEX CORPORATION
COMPUTATION OF EARNINGS PER COMMON SHARE

Years Ended October 31,	1994	1993	1992
	(In thousands, except per share amounts)		
Income before cumulative effect of accounting change	$ 18,852	$ 8,428	$ 6,195
Cumulative effect of accounting change	-	-	(25,108)
Net income (loss)	18,852	8,428	(18,913)
Preferred dividend requirements	(5,934)	(5,934)	(2,654)
Net income attributable to common stockholders	$ 12,918	$ 2,494	$ (21,567)
Weighted average shares outstanding-primary	13,496	13,551	12,696
Earnings(loss) per common share:			
Primary:			
Income before cumulative effect of accounting change	$ 0.96	$ 0.18	$ 0.28
Cumulative effect of accounting change	-	-	(1.98)
Net earnings (loss)	$ 0.96	$ 0.18	$ (1.70)

Income before cumulative effect of accounting change	$ 18,852	$ 8,428	$ 6,195
Cumulative effect of accounting change	-	-	(25,108)
Net income (loss)	18,852	8,428	(18,913)
Interest on 9-1/8% convertible subordinated debentures and amortization of related issuance costs, net applicable of income taxes	-	-	1,783
Adjusted net income	$ 18,852	$ 8,428	$ (17,130)
Weighted average shares outstanding-primary	13,496	13,551	12,696
Effect of common stock equivalents arising from stock options	72	45	133
Preferred stock assumed converted to common stock	2,738	2,738	1,225
Subordinated debentures assumed converted to common stock	-	-	1,993
Weighted average shares outstanding-fully diluted	16,306	16,334	16,047
Earnings(loss) per common share:			
Assuming full dilution:			
Income before cumulative effect of accounting change	$ 1.16	$ 0.52	$ 0.50
Cumulative effect of accounting change	-	-	(1.56)
Net earnings (loss)	$ 1.16	$ 0.52	$ (1.06)

EXHIBIT 13

SALES BY MAJOR MARKETS

Markets	Market Description	Quanex Products	Sales ($ millions)				
			1994	1993	1992	1991	1990
INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT	General Industrial Machinery (including mining, agriculture and construction)	Mechanical and pressure tubing, pipe, specialty forgings, extruded products, steel bars	$179.9 25.7%	$180.4 29.3%	$163.9 28.7%	$146.4 24.8%	$171.4 26.4%
	Capital Equipment (including material handling, machine tools and office/household)	Mechanical tubing, steel bars	$ 46.8 6.7%	$ 40.0 6.5%	$ 30.3 5.3%	$ 32.3 5.5%	$ 44.6 6.9%
		TOTAL INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT	$226.7 32.4%	$220.4 35.8%	$194.2 34.0%	$178.7 30.3%	$216.0 33.3%
TRANSPORTATION	Aerospace	Seamless contoured rolled rings, mechanical tubing	$ - (1) -	$ 6.2 (1) 1.0%	$ 24.2 4.2%	$ 26.8 4.6%	$ 30.8 4.7%
	Auto/Truck	Mechanical tubing, steel bars	$189.2 27.1%	$153.1 24.8%	$114.6 20.0%	$ 93.6 15.9%	$115.7 17.8%
	Other Transportation (including ship/railroad, recreational vehicles and military transportation)	Mechanical tubing, steel bars	$ 17.0 2.4%	$ 17.1 2.8%	$ 20.1 3.5%	$ 26.7 4.5%	$ 23.5 3.6%
		TOTAL TRANSPORTATION	$206.2 29.5%	$176.4 28.6%	$158.9 27.7%	$147.1 25.0%	$170.0 26.1%
ENERGY	Exploration/Production	Oil field production tubing and casing, mechanical tubing, steel bars	$ 9.9 1.4%	$ 13.9 2.3%	$ 23.1 4.0%	$ 42.7 7.3%	$ 12.0 1.9%
	Processing/Conversion (refining, petrochemical, power generation)	Pressure tubing, process pipe	$ 55.2 7.9%	$ 61.9 10.0%	$ 58.5 10.2%	$ 61.8 10.5%	$ 71.7 11.0%
		TOTAL ENERGY	$ 65.1 9.3%	$ 75.8 12.3%	$ 81.6 14.2%	$104.5 17.8%	$ 83.7 12.9%
ALUMINUM PRODUCTS	Residential and Commercial Building Materials, Other	Aluminum sheet, fabricated aluminum products, aluminum coil and coated aluminum coil	$200.9 28.7%	$143.0 23.2%	$137.1 24.0%	$133.7 22.7%	$153.7 23.6%
OTHER			$ .4 .1%	$ .5 .1%	$ .3 .1%	$ 24.9 4.2%	$ 26.9 4.1%
		TOTAL SALES	$699.3 100.0%	$616.1 100.0%	$572.1 100.0%	$588.9 100.0%	$650.3 100.0%

(1) Decrease from prior years reflects the disposition of the Viking Metallurgical Corporation subsidiary during the second quarter of 1993

INDEX TO FINANCIAL SECTION

Years Ended October 31, 1994, 1993 and 1992

Schedules not listed or discussed above have been omitted as they are either inapplicable or the required information has been given in the consolidated financial statements or the notes thereto.

GLOSSARY OF TERMS

The exact definitions of commonly used financial terms and ratios vary somewhat among different companies and investment analysts. The following list gives the definition of certain financial terms that are used in this report:

Capital expenditures: Additions to property, plant and equipment.

Book value per common share: Stockholders' equity less the stated value of preferred stock divided by the number of common shares outstanding.

Asset turnover: Net sales divided by average total assets.

Current ratio: Current assets divided by current liabilities.

Fixed charge coverage: The sum of income before income taxes plus interest expense, plus the estimated interest component of rentals, less capitalized interest, plus amortization of previously capitalized interest, plus amortization of deferred debt issuance costs; divided by interest expense, plus the estimated interest component of rentals, plus amortization of deferred debt issuance costs.

Return on investment: The sum of net income and the after-tax effect of interest expense less capitalized interest divided by the sum of the averages for long-term debt and stockholders' equity.

Return on common stockholders' equity: Net income attributable to common stockholders' divided by average common stockholders' equity.

FINANCIAL SUMMARY 1984-1994
($ THOUSANDS, EXCEPT PER SHARE DATA)

(FOR DEFINITION OF ITEMS, SEE PAGE 33)

FISCAL YEARS ENDED OCTOBER 31,		1994	1993	1992	1991	1990	1989(1)
REVENUES AND EARNINGS							
Net sales	$	699,314	616,145	572,090	588,888	650,316	501,991
Cost of sales	$	613,553	550,969	506,778	514,894	551,929	418,580
Gross profit	$	85,761	65,176	65,312	73,994	98,387	83,411
Selling, general and administrative expenses	$	44,359	41,907	46,390 (4)	38,914	41,207	30,136
Operating income (loss)	$	41,402	23,269	18,922	35,080	57,180	53,275
Percent of net sales		5.9	3.8	3.3	6.0	8.8	10.6
Other income (expense)-net	$	1,279	3,224	2,255	673	(2,106)	703
Interest expense-net of capitalized interest	$	10,178	11,962	10,495	14,306	9,880	6,837
Income (loss) before income taxes, extraordinary items, and cumulative effect of accounting change	$	32,503	14,531	10,682	21,447	45,194	47,141
Income taxes (credit)	$	13,651	6,103	4,487	9,007	17,174	17,891
Extraordinary items(2)		-	-	(25,108)(2)	-	-	-
Net income (loss)	$	18,852	8,428	(18,913)	12,440	28,020	29,250
Percent of net sales		2.7	1.4	(3.3)	2.1	4.3	5.8
PER SHARE DATA							
Earnings (loss) per primary common share before extraordinary items and cumulative effect of accounting change	$	.96	.18	.28	1.02	2.03	2.11
Net earnings (loss) per primary common shares	$	.96	.18	(1.70)	1.02	2.03	2.11
Cash dividends declared	$	.56	.56	.52	.48	.40	.30
Book value	$	10.91	10.48	11.10	12.99	12.33	10.83
Average shares outstanding (000)		13,496	13,551	12,696	11,679	12,224	12,380
Market closing price range							
High	$	27	20 3\4	31 1\2	23	18 1\2	19
Low	$	16 1\4	14 1\4	15 1\2	10 1\8	9 1\8	12 3\4
FINANCIAL POSITION - YEAR END							
Working capital	$	124,645	148,338	154,455	69,142	74,187	76,257
Property, plant and equipment - net	$	262,261	242,346	239,538	220,038	187,712	194,638
Other assets	$	42,351	43,111	44,801	45,431	44,683	35,580
Noncurrent deferred income taxes	$	23,014	18,061	16,675	32,428	31,400	37,132
Long-term debt	$	128,400	128,695	128,894	162,792	131,498	94,214
Stockholders' equity	$	232,249	225,776	237,592	152,488	181,430	167,630
Total capitalization	$	360,649	354,471	366,486	315,280	312,928	261,844
Long-term debt percent of capitalization		35.6	36.3	35.2	51.6	42.0	36.0
OTHER DATA							
Asset turnover		1.3	1.2	1.2	1.3	1.5	1.4
Current ratio		1.9 TO 1	2.6 to 1	2.6 to 1	1.7 to 1	1.8 to 1	1.8 to 1
Fixed charge coverage		3.08	1.98	1.52	2.12	5.12	7.47
Return on average investment - percent		6.9	4.3	(3.8)	6.6	11.9	15.0
Return on average common equity - percent		9.0	1.7	(14.2)	8.0	17.8	21.3
Working capital provided (used) by operations(5)	$	51,243	40,061	44,932	37,971	49,848	56,883
Depreciation and amortization	$	28,535	29,352	26,777	25,741	22,920	17,442
Capital expenditures	$	44,557	36,961	52,516	47,945	31,939	13,781
Backlog for shipment in next 12 months	$	182,707	142,771	119,254	91,396	114,534	116,641
Number of stockholders		3,454	3,540	3,596	3,894	4,262	4,578
Average number of employees		2,603	2,622	2,725	2,886	3,001	2,135
Sales/employee	$	269	235	210	204	217	235

(1) On August 22, 1989, Quanex Corporation acquired Nichols-Homeshield, Inc. 1989 results include two months of Nichols-Homeshield operations.

(2) 1992-Cumulative effect of accounting change for postretirement welfare benefits; 1988-primarily loss on early extinguishment of debt; 1987-reduction of income taxes arising from carryforward of prior year operating losses; 1985-loss on early extinguishment of debt.

(3) Includes $16.7 million loss on disposition of Oil Country Tubular Division.

(4) Includes $7.2 million facilities realignment charge.

(5) Working capital provided by operations, is a supplemental financial measurement used in the evaluation of the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital.

FINANCIAL SUMMARY 1984-1994
($ THOUSANDS, EXCEPT PER SHARE DATA)

(FOR DEFINITION OF ITEMS, SEE PAGE 33)

FISCAL YEARS ENDED OCTOBER 31,	1988	1987	1986	1985	1984
REVENUES AND EARNINGS					
Net sales	462,916	345,409	324,835	296,974	398,314
Cost of sales	383,399	305,725	304,330	263,746	340,765
Gross profit	79,517	39,684	20,505	33,228	57,549
Selling, general and administrative expenses	29,495	23,415	26,476	26,452	33,272
Operating income (loss)	50,022	16,269	(5,971)	6,776	24,277
Percent of net sales	10.8	4.7	(1.8)	2.3	6.1
Other income (expense)-net	1,596	6,758	83	9,405	(15,076)(3)
Interest expense-net of capitalized interest	15,081	17,019	17,255	10,861	9,922
Income (loss) before income taxes, extraordinary items, and cumulative effect of accounting change	36,537	6,008	(23,143)	5,320	(721)
Income taxes (credit)	13,600	2,958	(3,200)	(5,801)	(2,700)
Extraordinary items(2)	(4,464)(2)	2,158(2)	-	(1,000)(2)	-
Net income (loss)	18,473	5,208	(19,943)	10,121	1,979
Percent of net sales	4.0	1.5	(6.1)	3.4	0.5
PER SHARE DATA					
Earnings (loss) per primary common share before extraordinary items and cumulative effect of accounting change	1.85	.25	(1.63)	.98	.19
Net earnings (loss) per primary common shares	1.48	.42	(1.63)	.89	.19
Cash dividends declared	.08	-	-	-	-
Book value	9.13	7.83	7.41	9.03	8.20
Average shares outstanding (000)	12,270	12,257	12,256	11,369	10,658
Market closing price range					
High	14 1\2	9	8	10 1\4	12 1\2
Low	4 1\4	3	3 5\8	5 1\8	6 3\8
FINANCIAL POSITION - YEAR END					
Working capital	64,820	43,772	24,513	35,201	36,847
Property, plant and equipment - net	141,640	155,766	169,782	187,299	176,903
Other assets	3,688	7,662	13,132	14,276	9,551
Noncurrent deferred income taxes	14,890	4,623	3,545	10,765	16,257
Long-term debt	38,953	96,847	113,055	113,467	128,050
Stockholders' equity	146,654	95,988	90,764	110,707	87,389
Total capitalization	185,607	192,835	203,819	224,174	215,439
Long-term debt percent of capitalization	21.0	50.2	55.5	50.6	59.4
OTHER DATA					
Asset turnover	1.6	1.3	1.2	1.0	1.3
Current ratio	1.7 to 1	1.7 to 1	1.5 to 1	1.6 to 1	1.7 to 1
Fixed charge coverage	2.84	1.42	(.16)	.97	.56
Return on average investment - percent	14.8	10.1	(2.4)	7.2	3.3
Return on average common equity - percent	17.5	5.6	(19.8)	10.2	2.3
Working capital provided (used) by operations(5)	52,784	25,762	(2,918)	21,254	20,931
Depreciation and amortization	18,355	18,091	20,597	15,625	12,593
Capital expenditures	5,348	2,210	5,045	25,302	32,443
Backlog for shipment in next 12 months	110,955	101,679	69,941	54,911	52,382
Number of stockholders	5,318	5,483	5,808	6,515	7,182
Average number of employees	2,013	1,843	1,925	2,030	2,661
Sales/employee	230	187	169	146	150

(1) On August 22, 1989, Quanex Corporation acquired Nichols-Homeshield, Inc. 1989 results include two months of Nichols-Homeshield operations.

(2) 1992-Cumulative effect of accounting change for postretirement welfare benefits; 1988-primarily loss on early extinguishment of debt; 1987-reduction of income taxes arising from carryforward of prior year operating losses; 1985-loss on early extinguishment of debt.

(3) Includes $16.7 million loss on disposition of oil country tubular division.

(4) Includes $7.2 million facilities realignment charge.

(5) Working capital provided by operations, is a supplemental financial measurement used in the evaluation of the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Quanex Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 1994 and 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1994. Our audits also included the financial statement schedules listed in the index on page 33. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1994, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 9 of "Notes to Consolidated Financial Statements," The Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," as of November 1, 1991.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Houston, Texas
November 23, 1994
(December 29, 1994 as to Note 17)

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quanex Corporation and subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates.

Quanex's system of internal controls is designed to provide reasonable assurance, at justifiable cost, as to the reliability of financial records and reporting and the protection of assets. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. Internal controls are monitored through recurring internal audit programs and are updated as our businesses and business conditions change.

The Audit Committee, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with management, Deloitte & Touche LLP, and Quanex's internal auditors, to review internal accounting control and financial reporting matters. The internal and independent auditors have free and complete access to the Audit Committee.

We believe Quanex's system of internal controls, combined with the activities of the internal and independent auditors and the Audit Committee, provides reasonable assurance of the integrity of our financial reporting.

/s/ ROBERT C. SNYDER

Robert C. Snyder
President and
Chief Executive Officer

/s/ WAYNE M. ROSE

Wayne M. Rose
Vice President and
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

The Company classifies its operations into four business segments: hot rolled steel bars, cold finished 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 home building and remodeling industries.

All of the Company's businesses, with the exception of the steel tube business, reflected substantial improvement in fiscal 1994 over fiscal 1993 in both revenues and income. The improvement was due primarily to more favorable market conditions in these business segments relating to a stronger domestic economy, improved margins resulting from favorable pricing trends, greater market penetration for certain of the Company's manufactured products and the cost reduction programs initiated in earlier years and continuing to the present. The improved results also reflect the benefits realized from the Company's capital improvement programs, which have allowed the Company to increase capacity, improve quality and manage manufacturing costs. The Company's steel tube business was adversely affected in fiscal 1994 by downward pricing pressure from imports on certain products, the absence of operating income from the Company's Bellville Tube Division, which was sold in fiscal 1993, and a general weakness in this segment's primary markets, which include power generation and the petrochemical and refining industries.

Net sales, operating income and income before the cumulative effect of an accounting change all increased on a Company-wide basis for fiscal 1994 compared to fiscal 1993 and 1992. Results for 1993 and 1992 were affected by less favorable economic conditions. Results for fiscal 1993 were also materially affected by the existence of excess supplies of aluminum ingot, which resulted in lower selling prices and lower profit margins in the Company's aluminum products business. Results for fiscal 1992 included a $7.2 million charge to write down certain manufacturing facilities and to reflect cost reduction actions to be taken to improve profitability and growth.

The impact of recent increases in interest rates and global competition in the Company's markets can also be expected to impact the Company's future business. In this regard, increased interest rates can be expected to impact the demand for products in many of the Company's markets, including the automotive and light truck market and the residential building market. The Company currently expects that business conditions will remain strong in early fiscal 1995, although typically the first fiscal quarter is seasonally the weakest quarter. Continued improved financial results, however, will be dependent upon, among other things, whether the strong economic conditions experienced in fiscal 1994 can be sustained.

1994 COMPARED TO 1993

Net Sales -- Net sales for fiscal 1994 were $699.3 million, an increase of $83.2 million, or 13%, as compared to fiscal 1993 sales of $616.1 million.

Net sales from the Company's hot rolled steel bar business increased by $31.1 million, or 15%. The increase was attributable to a 5% increase in tonnage shipped due to improved demand, particularly in the automotive and light truck markets, combined with an increase in average net selling prices of 9%.

Net sales from the Company's cold finished steel bar business increased by $15.6 million, or 11%. This increase was primarily attributable to improved demand related to better market conditions. The improved demand resulted in a 4% increase in tons shipped. Average net selling prices for the Company's cold finished steel bar products also increased by 7%.

Net sales from the Company's steel tube business decreased by $15.0 million, or 12%. However, net sales for 1993 included revenues from Bellville Tube Division that was sold in April of 1993. Excluding the net sales of Bellville Tube Division from the 1993 data, net sales increased by $4.6 million, or 5%. The steel tube business was adversely affected during the year by increased foreign competition and lower prices for certain products. The increased pressure from imports on certain products was partially offset by improved demand and prices in automotive related business. Weakness in this segment's primary markets, which include power generation and the petrochemical and refining industries, continued to depress revenues.

Net sales from the Company's aluminum products business increased by $57.9 million, or 41%. The increase was primarily attributable to a larger customer base which resulted in a higher market share and improved demand related to the economy. Overall average selling prices declined 6% due to product mix changes.

Operating Income -- Consolidated operating income for fiscal 1994 was $41.4 million, an increase of $18.1 million, or 78%, as compared to fiscal 1993 operating income of $23.3 million. This increase was principally due to higher net sales and lower costs per unit resulting from operating at higher levels of volume and continuing cost reduction programs. Included in 1993 results is $3.2 million of operating income from the Company's Bellville Tube Division and Viking Metallurgical Subsidiary, which were sold during fiscal 1993.

Operating income from the Company's hot rolled steel bar business was $31.2 million in fiscal 1994 compared to $21.9 million in fiscal 1993, an increase of 43%. This increase was due to higher net sales as well as lower variable production costs per ton.

Operating income from the cold finished steel bar business was $8.6 million, an increase of $2.1 million, or 33%, as compared to fiscal 1993 operating income of $6.5 million. The improvement resulted from increased volume as well as better margins related to higher selling prices. The cold finished steel bar business segment operated near capacity during 1994.

Operating income from the steel tube business was $6.5 million, a decrease of $2.9 million, or 31% as compared to fiscal 1993 operating income of $9.4 million. This decrease reflects primarily the absence of operating income from Bellville Tube Division. After excluding the impact of the Bellville Tube Division, operating income for fiscal 1994 was essentially flat as compared to fiscal 1993 notwithstanding increased sales. Operating income in the steel tube business reflected reduced margins due to continued pricing pressures from imports. This trend is continuing.

Operating income from the aluminum products business was $9.6 million, compared to an operating loss in fiscal 1993 of $437 thousand. The improved results are due to significantly higher sales combined with lower variable conversion costs per pound. The lower costs per pound resulted from both cost reductions as well as from economies related to operating at higher levels of volume. Also contributing to improved operating income in 1994 was the partial elimination of outside service costs as the additional finishing equipment became operational at the Company's Lincolnshire facility. Pricing pressures declined in fiscal 1994 due to a reduction in the excess supply of aluminum ingot, which allowed for improved profit margins.

Selling, General and Administrative Expenses -- Selling, general and administrative expenses increased $2.5 million, or 6%, in fiscal 1994 as compared to fiscal 1993 primarily due to increased levels of business activity. However, as a percentage of net sales, selling, general and administrative expenses decreased slightly in fiscal 1994 from fiscal 1993.

Interest Expense and Capitalized Interest -- Interest expense was flat at $13.9 million for both fiscal years 1994 and 1993. Capitalized interest increased by $1.9 million due to continued construction at the Company's MacSteel facilities which will be completed in 1995.

Net Income -- Net income attributable to common stockholders for fiscal 1994 was $12.9 million as compared to $2.5 million in fiscal 1993, after deducting preferred dividends of $5.9 million from both periods.

Interest income, included in "Other, net", was $3.0 million in fiscal 1994 as compared to $5.0 million in fiscal 1993. The decrease reflects lower yields on short-term investments and lower average cash balances available for investment as a result of the Company's investment of cash in its businesses.

Included in net income for fiscal 1994 and 1993 are certain items classified as "Other, net" on the income statement. In fiscal 1994, $1.0 million of income relating to partial reimbursement of a business interruption loss for the fire that occurred at the Company's Lincolnshire facility in August 1993 was received. In addition, included in fiscal 1994 and 1993 are a $1.7 million pre-tax charge and a $1.4 million pre-tax gain, respectively, realized from certain financing contracts.

1993 COMPARED TO 1992

Net Sales -- Net sales for fiscal 1993 were $616.1 million, an increase of $44.0 million, or 8%, as compared to fiscal 1992 sales of $572.1 million.

Net sales from the Company's hot rolled steel bar business increased by $22.9 million, or 12%. The increase was attributable to a 13% increase in tonnage shipped due to moderately improved demand for the Company's hot rolled steel bar products, particularly in the automotive and light truck market segments. Although the Company was able to increase prices for certain products to reflect increases in scrap prices, most sales of hot rolled steel bar products were under one year fixed price contracts, which resulted in average net sales transaction prices for the Company's hot rolled steel bar products being essentially unchanged in 1993 as compared to 1992.

Net sales from the Company's cold finished steel bar business increased by $25.2 million, or 21%. This increase was primarily attributable to improved demand related to strength in the automotive and truck market segment as well as continuation of the change in marketing strategy that was made in fiscal 1992. This change in strategy was to achieve higher plant capacity utilization by aggressively pursuing sales of products in commodity markets while maintaining its share in the value added specialties. The improved demand combined with the change in marketing strategy resulted in a 23% increase in tons shipped. Average net selling prices for the Company's cold finished steel bar products were at approximately the same level in 1993 as compared to 1992. Price increases late in fiscal 1993 were partly offset by raw material cost increases.

Net sales from the Company's steel tube business increased by $9.2 million, or 8%. This increase resulted from improved demand in the industrial machinery and capital equipment market segment and the transportation market segment, particularly at the Michigan Seamless Tube Division. Net sales for fiscal 1993 and fiscal 1992 from the Bellville Tube Division, which was sold in April, 1993, were $19.6 million and $18.8 million, respectively.

Excluding Bellville Tube Division's sales, the steel tube business experienced a decrease in average unit selling prices of 4%, which was primarily due to downward pricing pressures.

Net sales from the Company's aluminum products business increased by $5.9 million, or 4%. The increase in sales was attributable in part to increased capacity following the commencement of commercial operations of the Company's new mini-mill in 1992. Although pounds shipped increased by 16%, selling prices decreased approximately 10% due to both product mix and excess world supplies of aluminum ingot. Sales in the aluminum products business during the fourth quarter of fiscal 1993 were also affected by a fire at one of the Company's production facilities.

Operating Income -- Operating income for fiscal 1993 was $23.3 million, an increase of $4.3 million, or 23%, as compared to fiscal 1992 operating income of $18.9 million. However, included in fiscal 1992 results was the $7.2 million pre-tax facilities realignment charge described below. Excluding the facilities realignment charge, operating income decreased in fiscal 1993 compared to fiscal 1992 by $2.8 million, or 11%.

Operating income from the Company's hot rolled steel bar business was $21.9 million in fiscal 1993 compared to $21.4 million in fiscal 1992, an increase of 2%. The percentage increase in operating income from this business was less than the percentage increase in sales primarily because of rising scrap prices and the inability of the Company to fully pass on these cost increases to customers due to one year fixed price contracts in effect during the year.

Operating income from the cold finished steel bar business was $6.5 million, an increase of $2.8 million, or 75%, as compared to fiscal 1992 operating income of $3.7 million. This increase was due to higher net sales combined with lower costs primarily related to productivity improvements and other cost reduction programs.

Operating income from the steel tube business was $9.4 million in fiscal 1993 compared to fiscal 1992 operating income of $2.0 million. This increase reflected both improved net sales as well as significant improvements in productivity and product yield.

Operating income from the aluminum products business declined by $8.5 million in fiscal 1993 compared to fiscal 1992, to an operating loss of $437 thousand. Although shipments improved by 16% when compared to 1992, profits declined due to increased costs associated with the start-up of the plants in Davenport, Iowa and Lincolnshire, Illinois together with a reduction in margins. Excess supplies of aluminum ingot also adversely affected fiscal 1993 operating income. Profit margins for aluminum products declined significantly due to lower selling prices relative to the cost of aluminum scrap which is the principal component of cost of goods sold for these products. Partially offsetting these factors was increased operating income at the Company's fabricated products plant in Chatsworth, Illinois resulting from an improved product mix.

Facilities Realignment -- During the fourth quarter of 1992, the Company completed a strategic evaluation of its businesses as part of its plan for profitable growth. As a result of this evaluation and of management's assessment of then current and forecasted industry conditions, a $7.2 million pre-tax charge was recognized to write down certain manufacturing facilities and to reflect the anticipated costs of various cost saving actions, such as relocation, downsizings, subleases, rationalizations of equipment and similar matters. The facilities realignment was completed during fiscal 1993 and 1994. Of the $7.2 million, $4.7 million related to the aluminum products segment, $600 thousand related to the steel tube segment and the remainder related to various assets classified in "Corporate and Other."

Selling, General and Administrative Expenses -- Selling, general and administrative expenses increased $2.7 million, or 7%, in 1993 as compared to fiscal 1992 primarily due to increased levels of business activity. However, as a percentage of net sales, selling, general and administrative expenses were essentially unchanged from fiscal 1993 to 1992.

Interest Expense and Capitalized Interest -- Interest expense was $13.9 million for fiscal 1993 as compared to $14.6 million in fiscal 1992. This decrease reflects the conversion of $28.6 million principal amount of the Company's convertible subordinated debentures into common stock during 1992. Capitalized interest decreased by $2.2 million due to the completion in 1992 of the aluminum mini-mill in Davenport, Iowa.

Net Income -- Net income attributable to common stockholders for fiscal 1993 was $2.5 million as compared to a net loss attributable to common stockholders of $21.6 million in fiscal 1992, after deducting preferred dividends of $5.9 million and $2.7 million, respectively. The results for fiscal 1992 include a one-time cumulative net of tax charge of $25.1 million for postretirement welfare benefits related to the adoption of SFAS 106.

Interest income, included in "Other, net", was $5.0 million in fiscal 1993 as compared to $3.3 million in fiscal 1992. The increase reflects higher average cash balances carried by the Company during fiscal 1993 and investments in short-term instruments with maturities longer than three months.

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

	Years Ended October 31,		
	1994(1)	1993(1)	1992(1)
	(In thousands)		
Hot Rolled Steel Bars:			
Units shipped (Tons)	476.1	451.6	400.6
Net sales	$245,219	$214,139	$191,277
Operating income	31,209	21,875	21,382
Depreciation and amortization	12,862	12,724	12,826
Identifiable assets	$167,583	$157,078	$136,501
Cold Finished Steel Bars:			
Units shipped (Tons)	182.9	175.9	143.0
Net sales	$160,010	$144,445	$119,206
Operating income	8,618	6,464	3,693
Depreciation and amortization	1,268	1,195	992
Identifiable assets	$ 51,405	$ 49,400	$ 43,999
Steel Tubes:			
Units shipped (Tons)	81.4	113.2	103.1
Net sales	$106,136	$121,126	$111,938
Operating income	6,492	9,436	1,962
Depreciation and amortization	1,992	2,811	4,364
Identifiable assets	$ 38,939	$ 37,821	$ 47,024
Aluminum Products:			
Units shipped (Pounds)	154,503	103,149	88,888
Net sales	$200,932	$142,990	$137,060
Operating income	9,606	(437)	8,063
Depreciation and amortization	12,077	11,700	7,540
Identifiable assets	$221,332	$193,183	$200,977

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(1) Excludes the effect of a $7.2 million general write-down taken in the fourth quarter of 1992 against manufacturing facilities that could not be allocated against specific facilities or between businesses and has therefore been reflected as a charge against "Corporate and Other" operations and the identifiable assets included within "Corporate and Other" operations. In 1993, $2.9 million was charged against the reserve, which included $2.2 million relating to the aluminum products business and $700 thousand relating to the sale of Viking Metallurgical Corporation and Bellville Tube Division. In 1994, $4.3 million was charged against the reserve, which included $2.5 million relating to the aluminum products business, $900 thousand relating to the steel tubes business and $900 thousand relating to write-downs of assets classified in "Corporate and Other" (See Notes 2 and 10 to consolidated financial statements).

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and, if needed, borrowings under a $48 million unsecured revolving credit facility with a group of banks (the "Bank Agreement"). All borrowings under the Bank Agreement bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. 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. At October 31, 1994, there were no outstanding borrowings under the Bank Agreement and $92,800 of outstanding letters of credit. The Bank Agreement was amended in December 1994 to extend the maturity date to March 31, 1999. As of October 31, 1994, the Company was in compliance with all Bank Agreement covenants.

At October 31, 1994, the Company had outstanding $125 million in Senior Notes ("Senior Notes "). The Senior Notes are unsecured and bear interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes will mature on August 23, 2000, and require annual repayments of principal beginning on August 23, 1995. On December 29, 1994, the Company acquired $59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. Total annual principal payments on the remaining $65.5 million in Senior Notes will not change as a result of the purchase. The purchase will result in a one-time, after-tax extraordinary charge of approximately $2.0 million in the first quarter of 1995. The Senior Notes contain customary affirmative and negative covenants, as well as requirements to maintain a minimum capital base, as defined. As of October 31, 1994, the Company was in compliance with all Senior Notes covenants. In addition, the terms of the Senior Notes limit the payment of dividends and certain restricted investments.

The Company currently has outstanding 3,450,000 Depositary Convertible Exchangeable Preferred Shares, each representing 1/10th of a share of the Company's 6.88% Cumulative Convertible Exchangeable Preferred Stock

("Preferred Stock"). The Preferred Stock may be exchanged, at the option of the Company, beginning on June 30, 1995, for a new issue of the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007 having a principal amount equal to $250 per share of Preferred Stock exchanged.

At October 31, 1994, the Company had commitments of $10 million for the purchase or construction of capital assets, primarily at its Nichols-Homeshield and MacSteel divisions. The Company's $52 million (not including approximately $9 million in capitalized interest) Phase II MacSteel Ultra Clean Steel Program, which commenced in June 1992, is expected to be completed in early fiscal 1995. Capital expenditures remaining for this program are approximately $7 million.

In management's opinion, the Company currently has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs including required payments on the Senior Notes. Management believes that cash flow from operations, cash balances, short-term investments and available borrowings will be sufficient for the foreseeable future to finance anticipated capital expenditures, debt service requirements and dividends.

Operating Activities

Cash provided by operating activities during fiscal 1994 was $46.0 million. This represents an increase of $16.1 million, or 53.8%, as compared to fiscal 1993. The principal cause of this increase was higher operating income in 1994.

Investment Activities

Net cash used by investment activities in fiscal 1994 was $41.3 million as compared to $66.1 million in fiscal 1993. Fiscal 1994 included an increase in short-term investments of $6.4 million as compared to $47.7 million in fiscal 1993. In fiscal 1993, the Company invested a portion of its cash and equivalents in investments with maturities longer than three months. In addition, $6.4 million in proceeds from the sale of the Company's Viking Metallurgical Corporation subsidiary was received in fiscal 1994 as compared to $15.5 million in proceeds from the sale of Bellville Tube Division and Viking Metallurgical Corporation received in fiscal 1993. The Company has made substantial capital expenditures over the past three years. For fiscal 1994, 1993, and 1992, capital expenditures (net of retirements) were $42.5 million, $35.9 million and $52.2 million, respectively. These capital expenditures have been primarily directed toward the Company's Nichols-Homeshield and MacSteel divisions, with the goal of increasing the manufacturing capacity and improving quality and operating costs. Capital expenditures for fiscal 1994 included approximately $23 million related to its Phase II MacSteel Ultra Clean Steel Program which is expected to be completed in early 1995. The Company estimates that fiscal 1995 capital expenditures will approximate $30 to $40 million.

Financing Activities

Cash used by financing activities for fiscal 1994 was $12.9 million, principally consisting of $7.5 million in common dividends and $5.9 million in preferred dividends.

CHANGE IN ACCOUNTING

The Company elected, effective November 1, 1991, for fiscal 1992, to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" on the immediate recognition basis. Under this accounting method, the Company records the cost of these benefits during an employee's years of service versus on a pay-as-you-go basis upon retirement. The after-tax cumulative effect on prior years as of November 1, 1991, for this change in accounting for retiree medical and life insurance plans reduced fiscal 1992 earnings by $25.1 million ($1.98 per share primary).

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 109, "Accounting for Income Taxes", ("FAS 109") which modifies and replaces FAS No. 96, "Accounting for Income Taxes". The Company adopted FAS 109 effective November 1, 1993. It was not necessary for the Company to record any adjustments for the cumulative effect of adopting FAS 109.

EFFECTS OF INFLATION

Inflation has not had a significant effect on earnings and other financial statement items.

Quanex Corporation

CONSOLIDATED BALANCE SHEETS

October 31,	1994	1993
	(In thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 34,041	$ 42,247
Short-term investments	54,070	47,655
Accounts and notes receivable, less allowance for doubtful accounts of $3,593,000 in 1994 and $2,025,000 in 1993	83,082	72,266
Inventories (Note 4)	81,800	76,899
Deferred income taxes (Note 3)	6,114	3,875
Prepaid expenses	289	468
Total current assets	259,396	243,410
Property, plant and equipment, net (Note 5)	262,261	242,346
Goodwill, net (Note 1)	33,017	33,964
Other assets	9,334	9,147
	$564,008	$528,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 75,515	$ 62,349
Accrued expenses (Note 6)	37,118	32,504
Current maturities of long-term debt (Note 7)	20,958	219
Income taxes payable (Note 3)	1,160	--
Total current liabilities	134,751	95,072
Long-term debt (Note 7)	107,442	128,476
Deferred pension credits (Note 8)	15,810	13,923
Deferred postretirement welfare benefits (Note 9)	50,742	47,559
Deferred income taxes (Note 3)	23,014	18,061
Total liabilities	331,759	303,091
Stockholders' equity (Notes 11, 12, and 13):		
Preferred stock, no par value, 1,000,000 shares authorized; 345,000 issued and outstanding	86,250	86,250
Common stock, $.50 par value, 25,000,000 shares authorized; 13,377,724 shares in 1994 and 13,314,837 shares in 1993 issued and outstanding	6,688	6,657
Additional paid-in capital	86,323	85,218
Retained earnings	55,081	49,635
Unearned compensation	(370)	--
Adjustment for minimum pension liability (Note 8)	(1,723)	(1,984)
Total stockholders' equity	232,249	225,776
	$564,008	$528,867

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF INCOME

Years Ended October 31,	1994	1993	1992
	(In thousands, except per share amounts)		
Net sales	$699,314	$616,145	$572,090
Costs and expenses:			
Cost of sales	613,553	550,969	506,778
Selling, general and administrative	44,359	41,907	39,190
Facilities realignment charge (Note 2)	--	--	7,200
Operating income	41,402	23,269	18,922
Other income (expense):			
Interest expense	(13,944)	(13,871)	(14,557)
Capitalized interest	3,766	1,909	4,062
Other, net	1,279	3,224	2,255
Income before income taxes and cumulative effect of accounting change	32,503	14,531	10,682
Income tax expense (Note 3)	(13,651)	(6,103)	(4,487)
Income before cumulative effect of accounting change	18,852	8,428	6,195
Cumulative effect of accounting change for postretirement welfare benefits, net of related income tax benefit of $18,181 in 1992	--	--	(25,108)
Net income (loss)	18,852	8,428	(18,913)
Preferred dividends	(5,934)	(5,934)	(2,654)
Net income (loss) attributable to common stockholders	$ 12,918	$ 2,494	$(21,567)
Earnings (loss) per common share:			
Income before cumulative effect of accounting change	$ .96	$ .18	$ 0.28
Cumulative effect of accounting change	--	--	(1.98)
Net earnings (loss)	$ .96	$ .18	$ (1.70)
Weighted average number of shares outstanding	13,496	13,551	12,696

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended October 31, 1994, 1993, and 1992	Preferred Stock		Common Stock		Additional Paid-in	Retained	Adjustment for Minimum Pension Liability/ Unearned	Total Stock-holders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Compensation	Equity
Balance at October 31, 1991	--	--	11,735,166	$5,868	$59,885	$ 86,735	--	$152,488
Net loss	--	--	--	--	--	(18,913)	--	(18,913)
Issuance of preferred stock through public offering	345,000	$86,250	--	--	(3,350)	--	--	82,900
Conversion of subordinated debentures to common stock	--	--	1,691,439	846	26,418	--	--	27,264
Common dividends-- ($.52 per share) ...	--	--	--	--	--	(6,657)	--	(6,657)
Preferred dividends ...	--	--	--	--	--	(2,159)	--	(2,159)
Exercise of stock options	--	--	211,400	105	4,307	(1,743)	--	2,669
Balance at October 31, 1992	345,000	86,250	13,638,005	6,819	87,260	57,263	--	237,592
Net Income	--	--	--	--	--	8,428	--	8,428
Stock purchases	--	--	(340,100)	(170)	(2,252)	(2,574)	--	(4,996)
Common dividends-- ($.56 per share) ...	--	--	--	--	--	(7,548)	--	(7,548)
Preferred dividends ...	--	--	--	--	--	(5,934)	--	(5,934)
Adjustment for minimum pension liability	--	--	--	--	--	--	$(1,984)	(1,984)
Exercise of stock options	--	--	16,932	8	210	--	--	218
Balance at October 31, 1993	345,000	86,250	13,314,837	6,657	85,218	49,635	(1,984)	225,776
Net Income.............	--	--	--	--	--	18,852	--	18,852
Common dividends-- ($.56 per share) ...	--	--	--	--	--	(7,472)	--	(7,472)
Preferred dividends ...	--	--	--	--	--	(5,934)	--	(5,934)
Adjustment for minimum pension liability	--	--	--	--	--	--	261	261
Unearned Compensation	--	--	--	--	--	--	(370)	(370)
Exercise of stock options and restricted stock awards	--	--	62,887	31	1,105	--	--	1,136
Balance at October 31, 1994	345,000	$86,250	13,377,724	$6,688	$86,323	$ 55,081	$(2,093)	$232,249

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended October 31,	1994	1993	1992
		(In thousands)	
OPERATING ACTIVITIES:			
Income before cumulative effect of accounting change	$ 18,852	$ 8,428	$ 6,195
Adjustments to reconcile income before cumulative effect of accounting change to cash provided by operating activities:			
Depreciation and amortization	28,535	29,352	26,777
Facilities realignment charge (See Note 1)	(4,264)	(2,936)	7,200
Deferred income taxes	4,786	4,593	2,428
Deferred pension costs	151	(1,400)	(328)
Deferred postretirement welfare benefits	3,183	2,024	45,949
Cumulative effect of accounting change	--	--	(43,289)
	51,243	40,061	44,932
Changes in assets and liabilities net of effects from acquisitions and dispositions:			
Increase in accounts and notes receivable	(17,206)	(3,008)	(11,757)
Increase in inventory	(4,901)	(6,763)	(7,708)
Increase (decrease) in accounts payable	13,166	(3,076)	11,105
Increase (decrease) in accrued expenses	4,614	2,723	(3,889)
Other, net	(900)	(9)	(1,213)
Cash provided by operating activities	46,016	29,928	31,470
INVESTMENT ACTIVITIES:			
Capital expenditures, net of retirements	(42,457)	(35,866)	(52,162)
Increase in short-term investments	(6,415)	(47,655)	--
Designated cash and equivalents used for plant expansion	--	--	17,000
Proceeds from the sale of Bellville Tube Division and Viking Metallurgical Subsidiary	6,390	15,500	--
Other, net	1,195	1,941	(2,006)
Cash used by investment activities	(41,287)	(66,080)	(37,168)
Cash provided (used) by operating and investment activities	4,729	(36,152)	(5,698)
FINANCING ACTIVITIES:			
Net proceeds from preferred stock offering	--	--	82,900
Repayments of long-term debt	(295)	(199)	(5,313)
Common dividends paid	(7,472)	(7,548)	(6,657)
Preferred dividends paid	(5,934)	(5,934)	(2,159)
Purchases of Quanex common stock	--	(4,996)	--
Other, net	766	218	2,669
Cash provided (used) by financing activities	(12,935)	(18,459)	71,440
Increase (decrease) in cash and equivalents	(8,206)	(54,611)	65,742
Cash and equivalents at beginning of period	42,247	96,858	31,116
Cash and equivalents at end of period	$ 34,041	$ 42,247	$ 96,858

See notes to consolidated financial statements.

Quanex Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of Quanex Corporation and its subsidiaries (the "Company"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

SCOPE OF OPERATIONS
The Company operates primarily in four industry segments: the manufacturing of hot rolled steel bars, cold finished steel bars, steel tubes, and aluminum products. The Company's operations are conducted principally in one geographic area, the United States. For the years ended October 31, 1994, 1993 and 1992, no single customer accounted for more than 10% of the Company's revenue. (See Note 10.)

STATEMENTS OF CASH FLOWS
The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments and are carried at cost, which approximates market value. For fiscal years 1994, 1993 and 1992 cash paid for income taxes was $10,144,000, $4,037,000 and $3,413,000, respectively. These amounts are before refunds of $294,000, $1,412,000 and $2,406,000, respectively. Cash paid for interest for fiscal 1994, 1993 and 1992 was $13,990,000, $13,941,000 and $15,202,000, respectively. Cash payments related to the facilities realignment charge recorded in fiscal 1992 were $625,000 and $1,712,000, respectively, for fiscal 1994 and 1993 (none in 1992). In fiscal 1992, non-cash investing and financing activities included the conversion of $28,588,000 principal amount of the Company's 9 1/8% Convertible Subordinated Debentures to common stock.

INVENTORIES
Inventories are valued at the lower of cost or market. Costs related to substantially all manufacturing inventories are determined by the last-in, first-out ("LIFO") method (See Note 4).

GOODWILL
Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years. At October 31, 1994 and 1993, accumulated amortization was $4,854,000 and $3,907,000, respectively.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION
Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

	Years
Land improvements	10 to 25
Buildings	10 to 40
Machinery and equipment	3 to 18

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS
Effective November 1, 1991, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("FAS 106") on the immediate recognition basis. Under this accounting method, the Company records the cost of these benefits during an employee's years of service versus on a pay-as-you-go basis upon retirement. The after-tax cumulative effect on prior years as of November 1, 1991 for this change in accounting for retiree medical and life insurance plans reduced fiscal 1992 first quarter earnings by $25,108,000 (See Note 9).

FAIR VALUE OF FINANCIAL INSTRUMENTS
Effective October 31, 1993, the Company adopted Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments" ("FAS 107")(See Note 14).

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HEDGING

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with the related sales transactions (See Note 16).

INCOME TAXES

Effective November 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes. Adoption of this statement did not have a material effect on the Company's financial position or results of operations (See Note 3).

EARNINGS PER SHARE DATA

Primary earnings per share is computed by deducting preferred dividends from net income in order to determine net income attributable to common stockholders. This amount is then divided by the weighted average number of common shares outstanding and common stock equivalents.

RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1994 presentations.

2. ACQUISITIONS, DISPOSITIONS AND FACILITIES REALIGNMENT

During the second quarter of fiscal 1993, the Company sold the stock of its Viking Metallurgical Corporation subsidiary and the assets of its Bellville Tube Division for $15.5 million in cash and a $6.4 million note. The aggregate consideration approximated the book value. These sales did not have a significant effect on the Company's financial results.

In the fourth quarter of fiscal 1992, the Company completed a strategic evaluation of its businesses as part of its plan for profitable growth. As a result of this evaluation and of management's assessment of current and forecasted industry conditions, a $7.2 million pre-tax charge was recognized to write down certain manufacturing facilities. During 1994 and 1993, $4.3 million and $2.9 million, respectively, were charged against the reserve (See Note 10).

3. INCOME TAXES

Effective November 1, 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes." This statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes. Adoption of this statement did not have a material effect on the Company's financial position or results of operations. Prior year financial statements have not been restated.

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	1994	1993	1992
	(In thousands)		
Current:			
Federal	$ 9,738	$4,226	$ 1,562
State	1,359	802	485
	11,097	5,028	2,047
Deferred	2,554	1,075	2,440
	13,651	6,103	4,487
Cumulative effect of accounting change for postretirement welfare benefits-deferred	--	--	(18,181)
	$13,651	$6,103	$(13,694)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At October 31, 1994 and 1993, $6,114,000 and $3,875,000, respectively, of deferred tax assets were classified as current assets. Significant components of the Company's net deferred tax liability are as follows:

	October 31,	
	1994	1993
	(In thousands)	
Deferred tax liability:		
Property, plant and equipment	$38,406	$38,690
Inventory	3,885	1,951
Other	8,547	4,917
	50,838	45,558
Deferred tax assets:		
Postretirement benefit obligation	19,786	18,546
Other employee benefit obligations	8,647	8,149
Other accrued liabilities	5,505	4,677
	33,938	31,372
Net deferred tax liability	$16,900	$14,186

Income tax expense before cumulative effect of accounting change differs from the amount computed by applying the statutory federal income tax rate to earnings before income taxes for the following reasons:

	Years Ended October 31,		
	1994	1993	1992
	(In thousands)		
Income tax expense at statutory tax rate	$11,376	$5,039	$3,632
Increase in taxes resulting from:			
State income taxes, net of federal effect	1,720	694	193
Goodwill	331	332	322
Other items, net	224	38	340
	$13,651	$6,103	$4,487

4. INVENTORIES

Inventories consist of the following:

	October 31,	
	1994	1993
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials	$25,946	$25,474
Finished goods and work in process	47,684	42,610
	73,630	68,084
Other	8,170	8,815
Total	$81,800	$76,899

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $15,000,000 and $10,000,000 at October 31, 1994 and 1993, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31,	
	1994	1993
	(In thousands)	
Land and land improvements	$ 17,365	$ 17,208

Leasehold improvements	94	99
Buildings	70,795	70,318
Machinery and equipment	353,927	335,454
Construction in progress	57,617	36,075
	499,798	459,154
Less accumulated depreciation and amortization	237,537	216,808
	$262,261	$242,346

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Maintenance and repair expense was $21,488,000, $19,572,000, and $19,173,000 in 1994, 1993 and 1992, respectively. The Company had commitments for the purchase or construction of capital assets amounting to approximately $10,000,000 at October 31, 1994.

6. ACCRUED EXPENSES

Accrued expenses consist of the following:

	October, 31, 1994	October, 31, 1993
	(In thousands)	
Accrued contribution to pension funds	$ 1,435	$ 1,633
Interest	2,661	2,708
Payroll, payroll taxes and employee benefits	20,392	15,231
State and local taxes	3,271	3,098
Other	9,359	9,834
	$37,118	$32,504

7. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

	October, 31, 1994	October, 31, 1993
	(In thousands)	
Senior notes	$125,000	$125,000
Industrial Revenue and Economic Development Bonds, unsecured, payable in annual installments through the year 2005, bearing interest ranging from 7.40% to 8.375%	3,400	3,515
Other	--	180
	$128,400	$128,695
Less maturities due within one year included in current liabilities	20,958	219
	$107,442	$128,476

At October 31, 1994 and 1993, the Company had $125,000,000 outstanding under its unsecured Long-Term Note Agreement ("Senior Notes Agreement"). The debt bears interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes Agreement will mature on August 23, 2000, and requires annual repayments of principal beginning on August 23, 1995. The Senior Notes Agreement contains customary affirmative and negative covenants, as well as requirements to maintain a minimum capital base as defined. As of October 31, 1994, the Company was in compliance with all Senior Notes Agreement covenants. In addition, the Senior Notes Agreement limits the payment of dividends and certain restricted investments. On December 29, 1994, the Company repurchased $59.5 million principal amount of its Senior Notes (See Note 17).

The Company has an unsecured $48,000,000 Revolving Credit and Letter of Credit Agreement ("Bank Agreement") with a group of banks. The Bank Agreement consists of a revolving line of credit ("Revolver"), and up to $20,000,000 for standby letters of credit, limited to the undrawn amount available under the Revolver. The Bank Agreement is renewable annually and was amended in December 1994 to extend the maturity to March 31, 1999. All borrowings under the Revolver bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. 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. At October 31, 1994 and 1993, no amounts were outstanding under the Revolver and $92,800 and $104,000, respectively, were issued under Letters of Credit. As of October 31, 1994, the Company was in compliance with all Bank Agreement covenants.

Under the Company's most restrictive loan covenants, retained earnings of $45,854,000 at October 31, 1994, were available for dividends.

Aggregate maturities of long-term debt at October 31, 1994, are as follows (in thousands):

1995	$ 20,958
1996	20,968
1997	20,978
1998	20,988
1999	20,998
Thereafter	23,510
	$128,400

The above aggregate maturities will decrease in years 1998, 1999 and 2000 by approximately $17.9 million, $20.8 million and $20.8 million, respectively, as a result of the repurchase of $59.5 million of the Senior Notes in December 1994 (See Note 17).

The Company has entered into financing arrangements in order to manage a portion of its exposure to interest rate fluctuations. These arrangements effectively converted a portion of the Company's debt from fixed-rate to variable rate. In 1994, the Company accrued its maximum potential pretax loss on open agreements of $1.7 million. These agreements expire in 1995. In 1993, the Company recognized a $1.4 million gain on the close out of certain financing contracts.

8. PENSION PLANS AND RETIREMENT BENEFITS

The Company has retirement plans covering substantially all employees. The plans provide for defined benefits. The plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations.

The plans' funded status was as follows:

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
	October 31,			
	1994	1993	1994	1993
Assets available for benefits	$22,564	$20,732	$10,363	$10,198
Projected benefit obligation				
Vested	(20,457)	(20,015)	(16,329)	(13,999)
Nonvested	(340)	(636)	(3,217)	(3,190)
Accumulated benefit obligation	(20,797)	(20,651)	(19,546)	(17,189)
Effect of future salary increases	(8,725)	(9,257)	(278)	(228)
Total projected benefit obligation	(29,522)	(29,908)	(19,824)	(17,417)
Assets less than projected benefit obligation	$(6,958)	$(9,176)	$(9,461)	$(7,219)
Consisting of:				
Amounts to be offset against future pension costs:				
Assets in excess of obligation at adoption	$ 1,083	$ 1,187	$ 321	$ 381
Obligation (increase) decrease due to plan amendments	405	517	(4,343)	(2,178)
Actuarial gains and losses	(383)	(2,317)	(3,425)	(3,861)
Minimum liability adjustment	--	--	7,168	5,432
Amounts recognized in consolidated balance sheets:				
Deferred pension credit	(7,497)	(7,466)	(8,313)	(6,457)
Accrued contribution to pension funds	(566)	(1,097)	(869)	(536)
	$(6,958)	$(9,176)	$(9,461)	$(7,219)

In accordance with the provisions of Statement of Financial Accounting Standards No. 87, the Company recorded additional minimum pension liabilities as of October 31, 1994 and 1993, representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The Company recorded additional pension liabilities of $7,168,000 and $5,432,000; intangible assets of $4,343,000 and $2,179,000; and stockholders' equity reductions, net of income taxes, of $1,723,000 and $1,984,000, as of October 31, 1994 and 1993, respectively.

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The projected unit credit method was used to determine the actuarial present value of the accumulated benefit obligation and the projected benefit obligation. For 1994, 1993 and 1992 the discount rates were 8%, 7% and 8%, respectively. The expected long term rate of return on assets was 10% for the three year period ending October 31, 1994. The assumed rate of increase in future compensation levels was 5% in 1994, 4% in 1993 and 5% in 1992. The plans invest primarily in marketable equity and debt securities.

Net pension costs for defined benefit plans were as follows:

	Years Ended October 31,		
	1994	1993	1992
	(In thousands)		
Benefits earned during the year	$3,040	$2,631	$2,538
Interest cost on projected benefit obligation	3,388	3,231	2,906
Actual return on plan assets	(275)	(3,715)	(1,474)
Net amortization and deferral	(2,727)	1,153	(626)
	$3,426	$3,300	$3,344

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately $2,478,000, $2,277,000, and $2,219,000 during fiscal 1994, 1993, and 1992, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately $2,982,000, $2,543,000, and $5,231,000 at October 31, 1994, 1993 and 1992, respectively. These benefits are funded with life insurance policies on the officers purchased by the Company.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides certain health care and life insurance benefits for eligible retired employees. Employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis; and, for fiscal year 1994, the Company made benefit payments totaling $1,892,000, compared to $2,460,000 and $1,665,000 in fiscal 1993 and 1992, respectively.

The following table sets forth the funded status of the Company's projected postretirement benefits other than pensions, reconciled with amounts recognized in the Company's consolidated balance sheets at:

	October 31,	
	1994	1993
	(In thousands)	
Accumulated postretirement benefit obligation:		
Retirees	$(29,995)	$(28,927)
Fully eligible active plan participants	(5,764)	(7,275)
Other active plan participants	(14,209)	(16,750)
	(49,968)	(52,952)
Plan assets at fair value	--	--
Accumulated postretirement benefit obligation in excess of plan assets	(49,968)	(52,952)
Unrecognized prior service cost	(3,232)	--
Unrecognized net loss from past experience different from that assumed and from changes in assumption	2,458	5,393
Accrued postretirement benefit cost	$(50,742)	$(47,559)

	Years Ended October 31,		
	1994	1993	1992
	(In thousands)		
Net periodic postretirement benefit cost:			
Service cost -- benefits attributed to service during the period	$ 945	$ 824	$ 859
Interest cost on accumulated postretirement benefit obligation	3,839	3,634	3,466
Net amortization and deferral	291	26	--
Net periodic postretirement benefit cost	$5,075	$4,484	$4,325

The assumed health care cost trend rate was 10.7% in 1994, decreasing uniformly to 6.0% in the year 2002 and remaining level thereafter. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 8% at October 31, 1994, and 7% at October 31, 1993.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 1994 would be increased by 7.7%. The effect of this change on the sum of the service cost and interest cost would be an increase of 14.2%.

10. INDUSTRY SEGMENT INFORMATION

Quanex is principally a specialty metals producer. The Company's operations primarily consist of four segments: Hot rolled steel bars, cold finished steel bars, steel tubes and aluminum products.

Year ended October 31, 1994	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
			(In thousands)			
Units shipped:						
To unaffiliated companies..	452.4 Tons	182.9 Tons	81.4 Tons	154,503 Lbs.		
Intersegment	23.7	--	--	--		
Total........................	476.1 Tons	182.9 Tons	81.4 Tons	154,503 Lbs.		
Net sales:						
To unaffiliated companies..	$232,236	$160,010	$106,136	$200,932	--	$699,314
Intersegment(2)............	12,983	--	--	--	$(12,983)	--
Total........................	$245,219	$160,010	$106,136	$200,932	$(12,983)	$699,314
Operating income (loss)......	$ 31,209	$ 8,618	$ 6,492	$ 9,606	$(14,523)	$ 41,402
Depreciation and amortization:						
Operating..................	$ 12,862	$ 1,268	$ 1,992	$ 11,130	$ 97	$ 27,349
Other......................	--	--	--	947	239	1,186
Total........................	$ 12,862	$ 1,268	$ 1,992	$ 12,077	$ 336	$ 28,535
Capital expenditures.........	$ 23,931	$ 893	$ 1,907	$ 17,741	$ 85	$ 44,557
Identifiable assets..........	$167,583	$ 51,405	$ 38,939	$221,332	$ 84,749	$564,008

(1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.
(2) Intersegment sales are conducted on an arm's-length basis.

Year ended October 31, 1993	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
			(In thousands)			
Units shipped:						
To unaffiliate companies...	427.3 Tons	175.9 Tons	113.2 Tons	103,149 Lbs.		
Intersegment	24.3	--	--	--		
Total........................	451.6 Tons	175.9 Tons	113.2 Tons	103,149 Lbs.		
Net sales:						
To unaffiliated companies...............	$201,419	$144,445	$121,126	$142,990	$ 6,165	$616,145
Intersegment(2)............	12,720	--	--	--	(12,720)	--
Total........................	$214,139	$144,445	$121,126	$142,990	$ (6,555)	$616,145
Operating income (loss)......	$ 21,875	$ 6,464	$ 9,436	$ (437)	$(14,069)	$ 23,269
Depreciation and amortization:						
Operating..................	$ 12,724	$ 1,195	$ 2,811	$ 10,752	$ 296	$ 27,778
Other......................	--	--	--	948	626	1,574
Total........................	$ 12,724	$ 1,195	$ 2,811	$ 11,700	$ 922	$ 29,352
Capital expenditures.........	$ 26,734	$ 1,457	$ 1,388	$ 7,078	$ 304	$ 36,961
Identifiable assets..........	$157,078	$ 49,400	$ 37,821	$193,183	$ 91,385	$528,867

(1) Included in "Corporate and Other" are intersegment eliminations, Viking Metallurgical Corporation and corporate expenses.
(2) Intersegment sales are conducted on an arm's-length basis.

Year ended October 31, 1992	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
			(In thousands)			
Units shipped:						
To unaffiliated companies..	368.1 Tons	143.0 Tons	103.1 Tons	88,888 Lbs.		
Intersegment..............	32.5	--	--	--		
Total........................	400.6 Tons	143.0 Tons	103.1 Tons	88,888 Lbs.		
Net sales:						
To unaffiliated companies..	$175,246	$119,206	$111,888	$137,060	$ 28,690	$572,090
Intersegment(2)...........	16,031	--	50	--	(16,081)	--
Total........................	$191,277	$119,206	$111,938	$137,060	$ 12,609	$572,090
Operating income (loss)......	$ 21,382	$ 3,693	$ 1,962	$ 8,063	$(16,178)	$ 18,922
Depreciation and amortization:						
Operating..................	$ 12,826	$ 992	$ 4,364	$ 6,592	$ 7,901(3)	$ 32,675
Other......................	--	--	--	948	354	1,302
Total........................	$ 12,826	$ 992	$ 4,364	$ 7,540	$ 8,255	$ 33,977
Capital expenditures.........	$ 8,796	$ 2,532	$ 1,856	$ 38,797	$ 535	$ 52,516
Identifiable assets..........	$136,501	$ 43,999	$ 47,024	$200,977	$106,248(3)	$534,749

(1) Included in "Corporate and Other" are intersegment eliminations, Viking Metallurgical Corporation and corporate expenses.
(2) Intersegment sales are conducted on an arm's-length basis.
(3) Includes a general facilities realignment charge of $7.2 million. This charge was recorded in "Other" because no specific allocation of the charge could be made between various facilities and segments. In 1993, $2.9 million was charged against the reserve, which included $2.2 million relating to the Aluminum Products segment and $700 thousand relating to the sale of Viking Metallurgical Corporation and Bellville Tube Division. In 1994, $4.3 million was charged against the reserve, which included $2.5 million relating to the Aluminum Products segment, $900 thousand relating to the Steel Tubes segment and $900 thousand relating to write-downs of assets classified in "Corporate and Other".

11. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of $60. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of $.01 and the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will entitle the holder to purchase $120 worth of the surviving company's common stock for $60. Additionally, if someone acquires 20% or more of the Company's common stock, each Right not owned by the 20% or greater shareholder would permit the holder to purchase $120 worth of the Company's common stock for $60. The Rights are redeemable, at the option of the Company, at $.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire in 1999.

As a result of the Rights distribution, 150,000 of the 1,000,000 shares of authorized Preferred Stock were reserved for issuance as Series A Junior Participating Preferred Stock.

12. PREFERRED STOCK -- DEPOSITARY CONVERTIBLE EXCHANGEABLE PREFERRED SHARES

During May 1992, the Company issued 3,450,000 Depositary Convertible Exchangeable Preferred Shares ("Depositary Shares"), each representing 1/10th of a share of the Company's 6.88% Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock"). The net proceeds from the issuance was $82.9 million. The dividend per annum and liquidation preference for each share of Preferred Stock are $17.20 and $250, respectively, and for each Depositary Share are $1.72 and $25, respectively. Dividends on the Preferred Stock and Depositary Shares are cumulative and payable quarterly, commencing September 30, 1992. The Company is prohibited from paying any dividends on Common Stock (other than in Common Stock or junior stock) unless all required preferred dividends have been paid.

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The Preferred Stock is convertible at the option of the holder into shares of the Company's Common Stock at a conversion price of $31.50 per share, subject to adjustment in certain events. As a result, 2,738,095 shares of Common Stock are reserved for conversion.

The Preferred Stock is exchangeable at the option of the Company, in whole but not in part, on any dividend payment date commencing June 30, 1995 for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007 ("6.88% Debentures") at the rate of $250 principal amount of 6.88% Debentures for each share of Preferred Stock and $25 principal amount of 6.88% Debentures for each Depositary Share. The 6.88% Debentures, if issued, will bear interest payable semiannually on June 30 and December 31 of each year.

The Preferred Stock may be redeemed at any time on or after June 30, 1995 at the option of the Company, in whole or in part, at specified redemption prices, together with accrued and unpaid dividends, except that no such redemption may be made prior to June 30, 1996 unless the last reported sale price of the Company's Common Stock is at least 150% of the conversion price then in effect for any 20 trading days within a period of 30 consecutive trading days ending not more than five days prior to the date of the notice of redemption.

13. RESTRICTED STOCK AND STOCK OPTION PLANS

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The award vests during an eight year period based on the price of the Company's stock. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. Restricted shares granted were 22,400 in 1994 and none in 1993 or 1992. The amount charged to compensation expense was $92,000 in 1994 and none in 1993 or 1992.

Options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. No options may be granted under the plans after December 1, 2002. There were 435,151, 652,951, and 69,513 shares available for granting of options at October 31, 1994, 1993 and 1992, respectively. Stock option transactions for the three years ended October 31, 1994, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1991	352,870	623,529	$13
Granted		185,400	18
Exercised		(264,925)	11
Cancelled		(62,133)	16
Balance at October 31, 1992	190,885	481,871	16
Granted		198,700	20
Exercised		(13,932)	10
Cancelled		(32,838)	17
Balance at October 31, 1993	287,412	633,801	17
Granted		198,800	26
Exercised		(34,400)	15
Cancelled		(3,400)	19
Balance at October 31, 1994	405,299	794,801	$19

The Company also has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director as of the first anniversary of the date of his election as a Director of the Company will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were 40,000, 40,000 and 50,000 shares available

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for granting of options at October 31, 1994, 1993 and 1992, respectively. Stock option transactions for the three years ended October 31, 1994, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1991	20,000	20,000	$10
Granted		--	--
Exercised		(10,000)	6
Cancelled		--	--
Balance at October 31, 1992	10,000	10,000	14
Granted		10,000	21
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1993	10,000	20,000	17
Granted		--	--
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1994	13,333	20,000	$17

In addition, the Company has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 210,000 shares of common stock. The plan provides that each non-employee Director as of December 6, 1989, was granted an option to purchase 3,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of grant. Also, each non-employee Director who is a director of the Company on any subsequent October 31, while the plan is in effect and shares are available for the granting of options hereunder, shall be granted on such October 31, an option to purchase 3,000 shares of common stock at a price equal to the fair market value of the common stock as of such October 31. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were 93,000, 114,000, and 135,000 shares available for granting of options at October 31, 1994, 1993 and 1992, respectively. Stock option transactions for the three years ended October 31, 1994, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1991	27,000	45,000	$17
Granted		21,000	19
Exercised		(9,000)	16
Cancelled		--	--
Balance at October 31, 1992	36,000	57,000	18
Granted		21,000	20
Exercised		(3,000)	11
Cancelled		--	--
Balance at October 31, 1993	54,000	75,000	19
Granted		21,000	25
Exercised		(9,000)	15
Cancelled		--	--
Balance at October 31, 1994	66,000	87,000	$20

On October 1, 1992, Carl E. Pfeiffer retired as the Chief Executive Officer of the Company. In connection with such retirement, the Company replaced options to purchase 60,000 shares of Common Stock at a weighted average exercise price of $15.85 held by Mr. Pfeiffer, under the Company's employee stock option plans with new options having the same exercise prices and expiration dates. Such options are substantially similar to the options previously held by him with the exception that vesting is not contingent upon his continued employment with the Company and the options expire on various dates between October 25, 1999, and October 13, 2001, instead of one year after retirement. There were 60,000, 50,000 and 30,000 shares exercisable at October 31, 1994, 1993, and 1992, respectively. There were no transactions related to these stock options during the years ended October 31, 1994 and 1993.

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14. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

FAS 107 requires disclosure of fair value of certain financial instruments, as well as the methods and assumptions to estimate fair value.

The financial assets and liabilities included in the Company's balance sheet and their estimated fair values at October 31, 1994 and 1993 are as follows:

	October 31,			
	1994		1993	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and equivalents	$ 34,041	$ 34,041	$ 42,247	$ 42,247
Short-term investments	54,070	53,688	47,655	48,030
Financial liabilities and equities:				
Long-term debt (including current portion)	$128,400	$133,792	$128,695	$133,372
Preferred stock	86,250	83,663	86,250	87,113

The fair values of cash and equivalents approximate amounts included in the balance sheet due to the short-term maturity of the instruments. The fair value of short-term investments was arrived at using quoted market prices. The fair value of long-term debt was based on recent transactions or based on rates available to the Company for instruments with similar terms and maturities. The fair value of preferred stock was calculated using the quoted market price.

At October 31, 1994 and 1993, the Company had open futures and option contracts at fair values of $8.5 million and $14.4 million, respectively, and open financing contracts in a net payable position as of October 31, 1994 of $1.4 million (none in 1993). The fair values of futures and option contacts are based on quoted market prices. The fair values of open financing contracts are the net cash amounts payable in 1995.

15. CONTINGENCIES

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, govern the discharge of materials in the environment and may require the Company to make environmental expenditures on an on-going basis. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company has been identified as potentially responsible for cleanup of several contaminated sites under the Federal Superfund law or similar statutes. Although in some circumstances, Superfund might be deemed to impose joint and several liability upon each responsible party at a site, the extent of the Company's allocated financial contribution to the cleanup of these sites is expected to be limited based on the number of companies participating, the volumes of waste involved, and/or the nature of the Company's alleged connection. Although the level of reasonably possible future expenditures, if any, beyond amounts already accrued for environmental purposes, including cleanup obligations, is impossible to determine with any degree of probability, it is management's opinion that, based on current knowledge and the extent of such expenditures to date, the ultimate aggregate cost of environmental remediation will not have a material adverse effect on the Company's financial condition.

16. HEDGING

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Firm price commitments do not extend beyond December 1995. As of October 31, 1994, the Company had $7.0 million of open contracts, all of which mature before December 1995. The amount of deferred gains related to contracts closed prior to the occurrence of the hedged sales is $1.2 million as of October 31, 1994. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the financial statements.

17. SUBSEQUENT EVENT

On December 29, 1994, the Company acquired $59.5 million principal amount of its 10.77% Senior Notes, due August 23, 2000, for a purchase price equal to 105% of the principal amount plus accrued interest. The purchase will result in a one-time, after-tax extraordinary charge of approximately $2.0 million in the first quarter of 1995.

Quanex Corporation
SUPPLEMENTARY FINANCIAL DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Selected quarterly information for the years ended October 31, 1994 and 1993 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
1994:				
Net sales	$149,522	$172,235	$181,088	$196,469
Gross profit	14,330	20,383	23,534	27,514
Net income	1,768	3,777	5,777	7,530
Earnings per share	$ .02	$ .17	$ .32	$ .45
1993:				
Net sales	$141,430	$161,370	$153,500	$159,845
Gross profit	11,635	16,374	16,916	20,251
Net income	486	1,902	2,678	3,362
Earnings (loss) per share	$ (.07)	$ .03	$ .09	$ .13

Quanex Corporation
SCHEDULE V -- PROPERTY, PLANT AND EQUIPMENT

Description	Balance at beginning of year	Additions	Retirements and sales	Other	Balance at end of year
			(In thousands)		
YEAR ENDED OCTOBER 31, 1994:					
Land	$ 7,717	$ --	$ 1	$ --	$ 7,716
Land improvements	9,491	158	--	--	9,649
Leasehold improvements	99	--	5	--	94
Buildings	70,318	477	--	--	70,795
Machinery and equipment	335,454	22,380	3,907	--	353,927
Construction in progress	36,075	21,542	--	--	57,617
	$459,154	$ 44,557	$3,913	$	$499,798
YEAR ENDED OCTOBER 31, 1993:					
Land	$ 8,208	$ --	$ --	$ (491)	$ 7,717
Land improvements	11,627	42	33	(2,145)	9,491
Leasehold improvements	99	--	--	--	99
Buildings	72,980	974	48	(3,588)	70,318
Machinery and equipment	348,830	14,803	4,704	(23,475)	335,454
Construction in progress	15,159	21,142	--	(226)	36,075
	$456,903	$ 36,961	$4,785	$(29,925)(1)	$459,154
YEAR ENDED OCTOBER 31, 1992:					
Land	$ 7,158	$ 1,202	$ 152	$ --	$ 8,208
Land improvements	9,036	2,591	--	--	11,627
Leasehold improvements	99	--	--	--	99
Buildings	58,555	14,458	33	--	72,980
Machinery and equipment	284,658	65,035	863	--	348,830
Construction in progress	45,929	(30,770)	--	--	15,159
	$405,435	$ 52,516	$1,048	$ --	$456,903

(1) Relates to sale of Viking Metallurgical Corporation and Bellville Tube Division (See Note 2).

Quanex Corporation
SCHEDULE VI -- ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Description	Balance at beginning of year	Additions charged to costs and expenses	Retirements and sales	Other	Balance at end of year
	(In thousands)				
YEAR ENDED OCTOBER 31, 1994:					
Land improvements	$ 3,725	$ 403	$ --	$ --	$ 4,128
Leasehold improvements	71	9	3	--	77
Buildings	22,556	2,453	--	--	25,009
Machinery and equipment	190,456	23,941	1,810	(4,264)	208,323
	$216,808	$26,806	$1,813	$ (4,264)(1)	$237,537
YEAR ENDED OCTOBER 31, 1993:					
Land improvements	$ 4,246	$ 463	$ 33	$ (951)	$ 3,725
Leasehold improvements	60	11	--	--	71
Buildings	21,950	2,498	47	(1,845)	22,556
Machinery and equipment	191,109	23,747	3,610	(20,790)	190,456
	$217,365	$26,719	$3,690	$(23,586)(2)	$216,808
YEAR ENDED OCTOBER 31, 1992:					
Land improvements	$ 3,813	$ 433	$ --	$ --	$ 4,246
Leasehold improvements	49	11	--	--	60
Buildings	19,634	2,333	17	--	21,950
Machinery and equipment	161,901	22,685	677	7,200	191,109
	$185,397	$25,462	$ 694	$ 7,200(1)	$217,365

(1) Relates to Facilities Realignment (See Note 2).
(2) $(20,650) relates to sale of Viking Metallurgical Corporation and sale of Bellville Tube Division; $(2,936) relates to Facilities Realignment (See Note 2).

Quanex Corporation
SCHEDULE VIII -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description	Balance at beginning of year	Charged to costs and expenses	Write-offs	Other	Balance at end of year
	(In thousands)				
Allowance for doubtful accounts:					
Year ended October 31, 1994	$2,025	$1,805	$(237)	$ --	$3,593
Year ended October 31, 1993	$2,610	$ 13	$ (8)	$(590)(1)	$2,025
Year ended October 31, 1992	$2,711	$ 750	$(851)	$ --	$2,610

(1) Relates to sale of Viking Metallurgical Corporation and Bellville Tube Division (See Note 2).

QUARTERLY FINANCIAL RESULTS

	1994	1993	1992	1991	1990
NET SALES (millions)					
January	149.52	141.43	124.88	142.51	145.03
April	172.23	161.37	148.41	142.64	165.53
July	181.09	153.50	141.90	152.28	169.27
October	196.47	159.85	156.90	151.46	170.49
Total	699.31	616.15	572.09	588.89	650.32
GROSS PROFIT (millions)					
January	14.33	11.64	12.04	16.30	20.11
April	20.38	16.37	18.38	16.81	24.86
July	23.54	16.92	15.20	20.68	24.61
October	27.51	20.25	19.69	20.20	28.81
Total	85.76	65.18	65.31	73.99	98.39
NET INCOME (LOSS) (millions)					
January	1.77	.49	(24.55)	2.45	3.85
April	3.78	1.90	3.15	2.10	7.27
July	5.77	2.68	2.23	3.49	7.78
October	7.53	3.36	.26	4.40	9.12
Total	18.85	8.43	(18.91)	12.44	28.02
NET EARNINGS (LOSS) PER PRIMARY COMMON SHARE					
January	.02	(.07)	(2.05)	.16	.25
April	.17	.03	.25	.19	.53
July	.32	.09	.08	.29	.57
October	.45	.13	(.09)	.38	.68
Total	.96	.18	(1.70)	1.02	2.03
QUARTERLY COMMON STOCK DIVIDENDS					
January	.14	.14	.13	.12	.10
April	.14	.14	.13	.12	.10
July	.14	.14	.13	.12	.10
October	.14	.14	.13	.12	.10
Total	.56	.56	.52	.48	.40
COMMON STOCK SALES PRICE (High and Low)					
January	21 1/4-16 1/8	21-17 5/8	27-16 1/8	13 3/4-10 1/4	15 1/2-11 1/2
April	22 3/8-19 1/8	20 7/8-14 1/4	29 7/8-24 3/4	18 5/8-13 1/2	16 5/8-11 7/8
July	23-18 1/8	17 3/4-14	31 3/4-21 1/2	17 3/4-14 1/8	18 5/8-15 1/4
October	27 1/4-20 3/4	20 3/4-16 1/2	24 3/4-15 1/2	23-15 1/4	17- 9 1/8

EXHIBIT 21

Subsidiaries of QUANEX CORPORATION	Jurisdiction of Incorporation
LaSalle Steel Company	Delaware
Michigan Seamless Tube Company	Delaware
Quanex Foreign Sales Corporation	U.S. Virgin Islands
Quanex Metals, Inc.	Delaware
Quanex Wire, Inc.	Delaware
Verdi Springs Water Co., Inc.	Nevada

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-23474, No. 33-29585, No. 33-22550, No. 33-35128, No. 33-38702, No. 33-46824, No. 33-57235, No. 33-54081, No. 33-54085 and No. 33-54087 on Form S-8 of our report dated November 23, 1994 (December 29, 1994 as to Note 17) appearing in the Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 1994.

DELOITTE & TOUCHE LLP

Houston, Texas
January 23, 1995

This schedule contains summary financial information extracted from the balance sheet as of October 31, 1994 and the income statement for the twelve months ended October 31, 1994 and is qualified in its entirety by reference to such financial statements.

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YEAR
OCT-31-1994
NOV-01-1993
OCT-31-1994
34,041
54,070
83,082
3,593
81,800
259,396
499,798
237,537
564,008
134,751
107,442
6,688
0
86,250
139,311
564,008
699,314
699,314
613,553
613,553
0
1,805
13,944
32,503
13,651
18,852
0
0
0
18,852
.96
1.16