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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2005

OR

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

For the transition period from to .

Commission File Number 1-5725

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

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

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

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

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

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

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

Class	Outstanding at July 31, 2005
Common Stock, par value $0.50 per share	25,268,137

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Item 6: Exhibits

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2005	October 31, 2004
	(In thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 8,827	$ 41,743
Accounts and notes receivable, net of allowance of $11,182 and $6,882	171,584	176,358
Inventories	132,742	115,367
Deferred income taxes	10,870	10,744
Other current assets	4,030	2,363
Current assets of discontinued operations	132	9,759
Total current assets	328,185	356,334
Property, plant and equipment	962,951	842,147
Less accumulated depreciation and amortization	(533,314)	(491,165)
Property, plant and equipment, net	429,637	350,982
Goodwill	199,603	134,670
Cash surrender value insurance policies, net	23,724	24,439
Intangible assets, net	84,130	27,556
Other assets	9,231	9,391
Assets of discontinued operations	2,679	26,150
Total assets	$ 1,077,189	$ 929,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 134,275	$ 161,674
Accrued liabilities	65,697	45,844
Income taxes payable	8,421	4,127
Current maturities of long-term debt	2,669	456
Current liabilities of discontinued operations	330	4,102
Total current liabilities	211,392	216,203
Long-term debt	165,167	130,496
Deferred pension credits	8,813	8,804
Deferred postretirement welfare benefits	7,590	7,745
Deferred income taxes	48,563	53,983
Non-current environmental reserves	7,520	8,188
Other liabilities	2,971	2,973
Liabilities of discontinued operations	—	423
Total liabilities	452,016	428,815
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	—	—
Common stock, $0.50 par value, shares authorized 50,000,000; issued 25,356,443 and 24,976,293	12,673	12,486
Additional paid-in-capital	205,114	187,513
Retained earnings	415,251	307,754
Unearned compensation	(1,593)	(824)
Accumulated other comprehensive loss	(4,466)	(4,463)
	626,979	502,466
Less common stock held by rabbi trust, 88,307 and 87,208 shares	(1,806)	(1,759)
Total stockholders' equity	625,173	500,707
	$ 1,077,189	$ 929,522

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

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			

Net sales	$ 498,796	$ 403,017	$ 1,502,737	$ 1,027,936
Cost of sales	378,824	337,637	1,157,784	880,142
Selling, general and administrative expense	27,300	17,734	75,036	46,158
Depreciation and amortization	16,275	13,178	48,402	38,040
Gain on sale of land	—	—	—	(454)
Operating income	76,397	34,468	221,515	64,050
Interest expense	(2,491)	(1,735)	(7,841)	(4,491)
Other, net	(749)	(209)	(2,088)	613
Income from continuing operations before income taxes	73,157	32,524	211,586	60,172
Income tax expense	(28,166)	(12,022)	(81,461)	(22,235)
Income from continuing operations	44,991	20,502	130,125	37,937
Income (loss) from discontinued operations, net of tax of $(40), $223, $(1,031) and $565	(60)	348	(1,611)	884
Loss on sale of discontinued operations, net of tax of $395, $(1,816), $(1,931) and $(1,816)	(216)	(3,092)	(4,579)	(3,092)
Net income	$ 44,715	$ 17,758	$ 123,935	$ 35,729
Basic earnings per common share:				
Earnings from continuing operations	$ 1.78	$ 0.83	$ 5.18	$ 1.54
Income (loss) from discontinued operations	$ (0.01)	$ (0.11)	$ (0.25)	$ (0.09)
Basic earnings per share	$ 1.77	$ 0.72	$ 4.93	$ 1.45
Diluted earnings per common share:				
Earnings from continuing operations	$ 1.71	$ 0.82	$ 4.98	$ 1.52
Income (loss) from discontinued operations	$ (0.01)	$ (0.11)	$ (0.23)	$ (0.09)
Diluted earnings per share	$ 1.70	$ 0.71	$ 4.75	$ 1.43
Weighted average common shares outstanding:				
Basic	25,238	24,696	25,133	24,602
Diluted	26,630	25,086	26,394	25,002
Cash dividends per share	$ 0.0155	$ 0.1267	$ 0.4250	$ 0.3533

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

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Nine Months Ended July 31,	
	2005	**2004**
	(In thousands)	
Operating activities:		
Net income	$ 123,935	$ 35,729
Loss from discontinued operations	6,190	2,208
Income from continuing operations	130,125	37,937
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	—	(454)
Depreciation and amortization	48,851	38,439
Deferred income taxes	(4,303)	11,340
Deferred pension and postretirement benefits	(145)	(1,318)
	174,528	85,944
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
(Increase) decrease in accounts and notes receivable	16,423	(45,070)
(Increase) decrease in inventories	(6,162)	(7,031)
Increase (decrease) in accounts payable	(40,860)	34,341
Increase (decrease) in accrued liabilities	1,106	4,390
Increase (decrease) in income taxes payable	19,204	(2,947)
Other, net	(775)	1,408
Operating cash flow from discontinued operations	(2,730)	2,482
Cash provided by operating activities	160,734	73,517
Investment activities:		
Acquisitions, net of cash acquired	(200,519)	(214,579)
Proceeds from sale of discontinued operations	11,592	—
Proceeds from sale of land	—	637
Capital expenditures, net of retirements	(35,475)	(11,904)
Other, net	669	(471)
Cash used for investment activities from discontinued operations	(179)	(1,345)

Cash used for investment activities	(223,912)	(227,662)
Financing activities:		
Bank borrowings, net	29,710	175,000
Common stock dividends paid	(10,351)	(8,386)
Issuance of common stock, net	10,328	9,667
Other, net	565	(5,182)
Cash provided by financing activities	30,252	171,099
Effect of exchange rate changes on cash equivalents	10	9
Increase (Decrease) in cash and equivalents	(32,916)	16,963
Cash and equivalents at beginning of period	41,743	22,108
Cash and equivalents at end of period	$ 8,827	$ 39,071
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 7,959	$ 3,705
Cash paid during the period for income taxes	$ 58,914	$ 11,497
Cash received during the period for income tax refunds	$ 171	$ 287

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

QUANEX CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

At July 31, 2005, the Company had a minority investment in a developing enterprise in the building products segment. The Company accounts for this investment using the equity method of accounting. See Note 4 for further discussion.

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

In the first quarter of fiscal year 2005, the Company began including in diluted earnings per share all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price. The only such instruments were issued in the third quarter of fiscal year 2004. Diluted earnings per share for fiscal year 2004 have been retroactively computed for such instruments. See Note 2 and Note 7 for further explanation.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition and the Consolidated Financial Statements and notes thereto included in the Quanex Corporation Form 10-K/A filed with the U.S. Securities and Exchange Commission for the year ended October 31, 2004.

2. New Accounting Pronouncements

In September 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effects on Diluted Earnings Per Share," that was then ratified by the Financial Accounting Standards Board ("FASB") in October 2004. The consensus that was reached requires that all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the

market conditions have been met. The consensus should be applied to reporting periods ending after December 15, 2004. The consensus reached should be applied retroactively to instruments outstanding at the date of adoption of this consensus. The Company adopted the consensus reached by the EITF on Issue 04-8 on January 31, 2005. The adoption of the consensus has not had a material impact on the Company's consolidated financial position or results of operations. See Note 7 for further discussion of the impact of such adoption.

In December 2004, the FASB issued Statements of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company's consolidated financial statements. The provisions of SFAS No. 123R are effective for the first annual reporting period that begins after June 15, 2005; therefore, Quanex will adopt the new requirements no later than the beginning of the first quarter of fiscal 2006. The fair value concepts were not changed significantly in SFAS No. 123R; however, in adopting SFAS No. 123R, companies must choose among alternative valuation models. The Black-Scholes option pricing model which the Company has used for the pro forma effect on net income disclosed in Note 3 continues to be available, but the Company has not yet completed its assessment of the alternatives. Adoption of the expensing requirements will reduce the Company's reported earnings. Management is currently evaluating the specific impacts of adoption, including which valuation model is most appropriate.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 is an interpretation of SFAS No. 143, "Asset Retirement Obligations", which was issued in June 2001. FIN 47 was issued to address diverse accounting practices that have developed with regard to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of FIN 47 will be effective for the Company as of October 31, 2006. The Company is currently evaluating the impact, if any, of implementing FIN 47, but it is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

3. Stock Based Employee Compensation

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

	Three Months Ended July 31, 2005	Three Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Nine Months Ended July 31, 2004
	(In thousands, except per share amounts)			
Net income, as reported	$ 44,715	$ 17,758	$ 123,935	$ 35,729
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(542)	(525)	(1,523)	(1,631)
Pro forma net income	$ 44,173	$ 17,233	$ 122,412	$ 34,098
Earnings per common share:				
Basic as reported	$ 1.77	$ 0.72	$ 4.93	$ 1.45
Basic pro forma	$ 1.75	$ 0.70	$ 4.87	$ 1.39
Diluted as reported	$ 1.70	$ 0.71	$ 4.75	$ 1.43
Diluted pro forma	$ 1.68	$ 0.69	$ 4.69	$ 1.36

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

4. Business Acquisitions

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

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

Mikron has been integrated into the Building Products segment. The Company acquired Mikron to further expand the broad range of high quality components and products currently supplied to existing customers and to expand the customers served. Mikron has a broad presence in the vinyl window market, the fastest growing segment of the industry, and increases the Company's diversification within the window market. The Company now has a broad product offering serving all three markets: wood, vinyl and aluminum. As consideration for the acquisition of all of the outstanding capital stock of Mikron, the Company paid $198.3 million in cash, net of a working capital adjustment of $(0.3) million and a

purchase price adjustment of $0.4 million, and assumed $7.2 million of debt. The Company also incurred $0.7 million in transaction fees, including legal, valuation and accounting fees.

During the third quarter of fiscal 2005, a wholly owned subsidiary of Mikron entered into an agreement that resulted in it increasing its interest from 7.6% to 49.0% in a developing enterprise focused on the development of equipment used to manufacture vinyl windows. The increase to 49.0% ownership resulted from the reclassification of a loan receivable to an equity interest. As the loan receivable was valued at zero by Mikron prior to acquisition and by Quanex as part of the purchase price allocation, the Company continues to value the converted investment at zero as of July 31, 2005.

The preliminary allocation of assets and liabilities acquired and assumed is summarized below. The preliminary allocation was based on independent appraisal and management's estimates of fair values. Because the allocation below is preliminary, the allocation of certain assets could change materially upon finalization of the purchase price adjustments and transaction fees.

		As of Date of Opening Balance Sheet (In thousands)
Cash and equivalents	$	1,485
Accounts receivable, net of allowance for doubtful accounts		13,808
Inventories		9,941
Other current assets		1,041
Total current assets		26,275
Property, plant and equipment		86,571
Goodwill		62,456
Other intangible assets:		
Trade names		29,700
Patents		10,600
Customer relationships		21,200
Total other intangible assets		61,500
Other assets		183
Total assets	$	236,985
Accounts payable	$	12,920
Accrued liabilities		17,858
Total current liabilities		30,778
Other liabilities		7,175
Total liabilities		37,953
Investment		199,032
Total liabilities and equity	$	236,985

The preliminary allocations resulted in goodwill of $62.5 million, all of which is expected to be deductible for tax purposes. The other intangible assets are being amortized over periods which reflect the pattern in which the economic benefits of the assets are expected to be realized. Specifically, the trade names are being amortized over an average estimated useful life of 25 years, the patents are being amortized over an average of 7 years and the customer relationships are being amortized over an average of 20 years. The weighted average useful life of intangible assets, excluding goodwill, created as a result of the acquisition, is 20 years. No residual value is estimated for the intangible assets.

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

The following table provides actual results for the three months ended July 31, 2005, and unaudited proforma results of operations for the three months ended July 31, 2004, as well as the nine months ended July 31, 2005 and July 31, 2004, as if Mikron had been acquired as of the beginning of each fiscal year presented. The proforma results include certain adjustments including estimated interest impact from the funding of the acquisition, estimated depreciation and amortization of fixed and identifiable intangible assets and estimated income taxes based upon an effective tax rate of 38.5%. However, the proforma results presented do not include any anticipated cost savings or other synergies related to the acquisition. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

	Actual		Pro forma					
	Three Months Ended July 31,				Nine Months Ended July 31,			
	2005		2004		2005		2004	
	(In thousands, except per share amounts)							
Net sales	$	498,796	$	461,922	$	1,525,304	$	1,175,461
Net income		44,715		19,403		123,555		37,626
Diluted net earnings per common share	$	1.70	$	0.77	$	4.74	$	1.50

5. Inventories

Inventories consist of the following:

	July 31, 2005		October 31, 2004	
	(In thousands)			
Raw materials	$	29,559	$	24,562
Finished goods and work in process		88,791		78,088
	$	118,350		102,650

Other	14,392	12,717
	$ 132,742	$ 115,367

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

	July 31, 2005	October 31, 2004
	(In thousands)	
LIFO	$ 53,251	$ 50,382
FIFO	79,491	64,985
	$ 132,742	$ 115,367

For purposes of valuing LIFO inventories, a projection of the year-end LIFO reserve is calculated each quarter. Based on this projection, the Company records an estimate of the LIFO change during the year. At the end of the fiscal year, the actual LIFO inventory change is calculated and recorded. With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $40.4 million as of July 31, 2005 and $34.4 million as of October 31, 2004.

6. Goodwill and Acquired Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended July 31, 2005 are as follows (in thousands):

	Vehicular Products	Building Products	Consolidated
Balance at October 31, 2004	$ 13,496	$ 121,174	$ 134,670
Acquisitions		64,933	64,933
Balance at July 31, 2005	$ 13,496	$ 186,107	$ 199,603

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

	As of July 31, 2005		As of October 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete Agreements	$ 313	$ 234	$ 313	$ 187
Patents	25,877	3,280	15,277	883
Trademarks and Trade Names	37,930	1,590	8,230	420
Customer Relationships	23,691	1,503	2,491	416
Other intangibles	1,201	475	1,201	250
Total	$ 89,012	$ 7,082	$ 27,512	$ 2,156
Unamortized intangible assets:				
Trade Name	$ 2,200		$ 2,200	

The aggregate amortization expense for the three and nine month periods ended July 31, 2005 was $1,768 thousand and $4,926 thousand, respectively. The aggregate amortization expense for the three and nine month periods ended July 31, 2004 was $581 thousand and $1,374 thousand, respectively. Estimated amortization expense for the next five years, based upon the amortization of preexisting intangibles, as well as amortization estimates for the intangibles acquired as part of Mikron, follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization
2005 (remaining three months)	$ 1,769
2006	7,075
2007	7,033
2008	5,757
2009	3,874

7. Earnings Per Share

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

	For the Three Months Ended July 31, 2005			For the Three Months Ended July 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Earnings Per Share Computation	$ 44,991	25,238	$ 1.78	$ 20,502	24,696	$ 0.83
Effect of Dilutive Securities						

Effect of common stock equivalents arising from stock options	—	397		—	306	
Effect of common stock equivalents arising from settlement of contingent convertible debentures	480	907		—	—	
Effect of common stock held by rabbi trust	—	88		—	84	
Diluted Earnings Per Share Computation						
Total diluted net earnings	$ 45,471	26,630	$ 1.71	$ 20,502	25,086	$ 0.82

	For the Nine Months Ended July 31, 2005			For the Nine Months Ended July 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Earnings Per Share Computation	$ 130,125	25,133	$ 5.18	$ 37,937	24,602	$ 1.54
Effect of Dilutive Securities						
Effect of common stock equivalents arising from stock options	—	412		—	318	
Effect of common stock equivalents arising from settlement of contingent convertible debentures	1,441	761		—	—	
Effect of common stock held by rabbi trust	—	88		—	82	
Diluted Earnings Per Share Computation						
Total diluted net earnings	$ 131,566	26,394	$ 4.98	$ 37,937	25,002	$ 1.52

On January 26, 2005, the Company announced that it had irrevocably elected to settle the principal amount of its 2.50% Convertible Senior Debentures due 2034 (the "Debentures") in cash when they become convertible and are surrendered by the holders thereof. The Company retains its option to satisfy any premium obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. On January 31, 2005, the Company adopted the consensus reached by the EITF on Issue 04-8 which requires that the Company include in diluted earnings per share all instruments that have embedded conversion features that are contingent on market conditions indexed to an issuer's share price. As a result of the Company's election, diluted earnings per share include only the amount of shares it would take to satisfy the premium obligation, assuming that all of the Debentures were surrendered. For calculation purposes, the average closing price of the Company's common stock for each of the periods presented is used as the basis for determining dilution.

8. Comprehensive Income

Comprehensive income is defined as the sum of net income and all other non-owner changes in equity, including realized and unrealized gains and losses on derivatives, minimum pension liability adjustments and foreign currency translation adjustments. Total comprehensive income for the three and nine months ended July 31, 2005 is $44.7 million and $123.9 million, respectively. Total comprehensive income for the three and nine months ended July 31, 2004 is $17.8 million and $35.8 million, respectively.

9. Long-term Debt

Long-term debt consists of the following:

	July 31, 2005	October 31, 2004
	(In thousands)	
"Bank Agreement" Revolver	$ 30,000	$ —
2.50% Convertible Senior Debentures due 2034	125,000	125,000
City of Huntington, Indiana Economic Development Refunding Revenue Bonds	1,665	1,665
City of Richmond, Kentucky Industrial Building Revenue Bonds	7,175	—
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	1,800	2,000
Temroc Industrial Development Revenue Bonds	1,870	2,027
Other	326	260
	$ 167,836	$ 130,952
Less maturities due within one year included in current liabilities	2,669	456
	$ 165,167	$ 130,496

Bank Agreement

In November 2002, the Company entered into a secured $200 million Revolving Credit Agreement ("Bank Agreement"). The Bank Agreement is secured by all Company assets, excluding land and buildings. The Bank Agreement was originally scheduled to expire on November 15, 2005 and provided up to $25 million for standby letters of credit, limited to the undrawn amount available under the Bank Agreement. All borrowings under the Bank Agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate.

On December 19, 2003, the Company executed an agreement with the banks to increase the Bank Agreement revolver from $200 million to $310 million to provide funds necessary for acquisitions. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of the Bank Agreement from November 15, 2005 to February 28, 2007. The aggregate availability under the Bank Agreement was $264.2 million at July 31, 2005, which is net of $15.8 million of outstanding letters of credit.

The Bank Agreement requires maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of July 31, 2005, the Company was in compliance with all current Bank Agreement covenants.

Convertible Senior Debentures

On May 5, 2004, the Company issued $125 million of the Debentures in a private placement to Credit Suisse First Boston, Bear, Stearns & Co. Inc., Robert W. Baird & Co., and KeyBanc Capital Markets as initial purchasers. The Debentures were offered only to “qualified institutional buyers,” in accordance with Rule 144A under the Securities Act of 1933. The Debentures are convertible into shares of Quanex common stock, upon the occurrence of certain events, at an adjusted conversion rate of 26.1113 shares of common stock per $1,000 principal amount of notes. This conversion rate is equivalent to an adjusted conversion price of $38.2976 per share of common stock, subject to adjustment in some events such as a common stock split or dividend, or an increase in the cash dividend. Adjustments to the conversion rate are made when the cumulative adjustments exceed 1% of the conversion rate.

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

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

On January 26, 2005, the Company announced that it had irrevocably elected to settle the principal amount of its Debentures in cash when they become convertible and are surrendered by the holders thereof. The Company retains its option to satisfy any premium obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash.

Effective August 1, 2005, the Debentures became convertible during the quarter ending October 31, 2005, in accordance with the terms of the indenture. The convertibility was triggered during the quarter ended July 31, 2005, when the closing price of the Company’s common stock exceeded the contingent conversion threshold price of approximately $45.96 for at least 20 of the last 30 trading days of the third fiscal quarter.

10. Pension Plans and Other Postretirement Benefits

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

	Three Months Ended July 31, 2005	Three Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Nine Months Ended July 31, 2004
	(In thousands)			
Pension Benefits:				
Service cost	$ 1,496	$ 864	$ 3,208	$ 2,650
Interest cost	918	866	2,634	2,656
Expected return on plan assets	(1,216)	(724)	(2,651)	(2,222)
Amortization of unrecognized transition asset	29	(33)	(36)	(100)
Amortization of unrecognized prior service cost	32	57	145	175
Amortization of unrecognized net loss	286	201	684	615
Net periodic pension cost	$ 1,545	$ 1,231	$ 3,984	$ 3,774

	Three Months Ended July 31, 2005	Three Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Nine Months Ended July 31, 2004
	(In thousands)			
Postretirement Benefits:				
Service cost	$ 3	$ 55	$ 74	$ 108
Interest cost	65	228	366	452
Net amortization and deferral	60	(85)	(51)	(168)
Net periodic postretirement benefit cost	$ 128	$ 198	$ 389	$ 392

During the nine months ended July 31, 2005, the Company made the maximum IRS allowed contributions to its defined benefit plans. These contributions amounted to $2.7 million, including $2.4 million of voluntary contributions. The Company estimates that it will contribute a total of $2.7 million to its defined benefit plans during fiscal 2005.

11. Industry Segment Information

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

	Three Months Ended July 31, 2005	Three Months Ended July 31, 2004	Nine Months Ended July 31, 2005	Nine Months Ended July 31, 2004
	(In thousands)			
Net Sales				
Vehicular Products(1)	$ 239,923	$ 225,956	$ 803,943	$ 570,484
Building Products(2)	258,873	177,061	698,794	457,452
Consolidated	$ 498,796	$ 403,017	$ 1,502,737	$ 1,027,936
Operating Income (Loss)				
Vehicular Products(1)	$ 48,109	$ 24,952	$ 153,331	$ 47,530
Building Products(2)	42,803	19,406	96,267	35,718
Corporate & Other(3)	(14,515)	(9,890)	(28,083)	(19,198)
Consolidated	$ 76,397	$ 34,468	$ 221,515	$ 64,050

	July 31, 2005	October 31, 2004
	(In thousands)	
Identifiable Assets		
Vehicular Products(1)	$ 449,940	$ 475,493
Building Products(2)	628,326	378,688
Corporate & Other(3)	(3,888)	39,432
Discontinued Operations(4)	2,811	35,909
Consolidated	$ 1,077,189	$ 929,522
Goodwill		
Vehicular Products	$ 13,496	$ 13,496
Building Products(2)	186,107	121,174
Consolidated	$ 199,603	$ 134,670

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

12. Treasury Stock and Stock Option Exercises

On August 26, 2004, the Company's Board of Directors approved an increase in the number of authorized shares in the Company's existing stock buyback program, up to 1 million shares. No shares were purchased during the nine months ended July 31, 2005, nor were any purchased during fiscal 2004. At July 31, 2005 there were no shares in treasury stock.

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

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 2004	663,693	1,207,670	$ 21
Granted		319,326	40
Exercised		(351,058)	18
Cancelled / Lapsed		(21,074)	26
Balance at July 31, 2005	534,663	1,154,864	$ 27

13. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book versus tax differences, and tax credits. It also includes the effect of any valuation allowance expected to be necessary during year. The Company's estimated annual effective tax rate increased to 38.5% in fiscal 2004, primarily due to an increase in state tax expense. The Company continues to use an estimated annual effective tax rate of 38.5% in fiscal 2005.

Included in income taxes payable as of July 31, 2005, is $7.4 million of income tax contingencies primarily associated with the Company's case before the Tax Court. See Note 14 for further explanation.

14. Contingencies

Environmental

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management

is not aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations, financial condition or cash flows.

During the third quarter of 2005, the United States Department of Justice filed a complaint against the Company for recovery of cleanup costs incurred at the "Jepscor" Superfund site in Dixon, Illinois. The United States Environmental Protection Agency has indicated that it has incurred approximately $2.6 million to remove processing residue and other materials from that former metal recovery plant. Of the Jepscor site's former owners, operators, and many customers, the government is asserting liability for cleanup only against the Company. The Company intends to defend itself vigorously against the government's Jepscor allegations.

Total remediation reserves, at July 31, 2005, for Quanex's current plants, former operating locations, and disposal facilities were approximately $8.8 million, which is within $0.3 million of the reserve at October 31, 2004. Of the current remediation reserve, approximately $2.0 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. On the balance sheet, $7.5 million of the remediation reserve is included in non-current liabilities with the remainder in accrued liabilities (current).

Approximately 53% of the total remediation reserve is currently allocated to cleanup work related to Piper Impact. During the first quarter of 2005, the Company sold substantially all of the assets of the Piper Impact business, including its sole operating facility on Barkley Drive in New Albany, Mississippi, although the Company retained ownership of the currently non-operational Highway 15 plant site (the "Highway 15 location"). Subsequent to the third fiscal quarter of 2005, the Company sold the Highway 15 location, but as part of the sale retained environmental liability for pre-closing contamination. At present, the largest component of the Piper Impact remediation reserve is for remediation of soil and groundwater contamination from prior operators of the Highway 15 location in New Albany. The Company voluntarily implemented a state-approved remedial action plan that includes natural attenuation together with a groundwater collection and treatment system. The Company continues to investigate site conditions and evaluate performance of the remedy.

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

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

For fiscal 2005, the Company estimates expenses at its facilities will be approximately $2.9 million for continuing environmental compliance. In addition, the Company estimates that capital expenditures for environmental compliance in fiscal 2005 will be approximately $2.7 million. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex

and its facilities of future regulations and government decisions. Quanex will continue to have expenditures in connection with environmental matters beyond fiscal 2005, but it is not possible at this time to reasonably estimate the amount of those expenditures except as discussed above. Based upon its analysis and experience to date, Quanex does not believe that its compliance with the Clean Air Act or other environmental requirements will have a material adverse effect on its operations or financial condition.

Tax Liability

As reported in the annual report on Form 10-K for the year ended October 31, 2004, the Company is currently involved in a case in Tax Court regarding the disallowance of a capital loss realized in 1997 and 1998. During 2004, the Company made a tax payment of $10.0 million related to the case to curtail the accumulation of interest on the disputed amounts. Adequate provision for such payment had been made in prior years and the Company believes the outcome of the case will not have a material impact on its financial position or results of operation.

Other

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

15. Discontinued Operations

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

During the third quarter of fiscal 2005, $0.3 million of expenses were incurred with respect to the remaining non-operating Highway 15 facility, in addition to some carryover items resulting from the sale of the Nichols Aluminum – Golden and Piper Impact businesses. Expenses at the remaining Highway 15 facility were incurred to make the facility ready for sale.

In August 2005 (subsequent to the third fiscal quarter) the Company sold the Highway 15 facility. The Company retained the existing pre-closing environmental liability associated facility and as such has recorded it as part of continuing operations.

Comparative balance sheets of the discontinued operations were as follows:

	July 31, 2005	October 31, 2004
	(In thousands)	
Accounts and notes receivable, net	$ 92	$ 2,658
Inventories	—	2,695
Deferred income taxes	—	492
Other current assets	40	3,914
Total current assets	132	9,759
Property, plant and equipment, net	500	10,796
Other assets	2,179	15,354
	$ 2,811	$ 35,909
Accounts payable	$ —	$ 1,763
Accrued and other	330	2,339
Total current liabilities	330	4,102
Other liabilities	—	423
Total liabilities	$ 330	$ 4,525

Operating results of the discontinued operations were as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2005	2004	2005	2004
	(In thousands)			
Net sales	$ —	$ 30,637	$ —	$ 93,079
Income (loss) from discontinued operations	(100)	571	(2,642)	1,449
Gain (loss) on sale of discontinued operations	179	(4,908)	(6,510)	(4,908)
Income tax benefit (expense)	(355)	1,593	2,962	1,251
Net income (loss) from discontinued operations	$ (276)	$ (2,744)	$ (6,190)	$ (2,208)

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

General

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

Private Securities Litigation Reform Act

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

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

Consolidated Results of Operations

Summary Information

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2005	2004	Change	%	2005(1)	2004(2)	Change	%
	(Dollars in millions)							
Net sales	$ 498.8	$ 403.0	$ 95.8	23.8%	$ 1,502.7	$ 1,027.9	$ 474.8	46.2%
Cost of sales	378.8	337.6	41.2	12.2	1,157.8	880.1	277.7	31.6
Selling, general and administrative	27.3	17.7	9.6	54.2	75.0	46.2	28.8	62.3
Depreciation and amortization	16.3	13.2	3.1	23.5	48.4	38.0	10.4	27.4
Gain on sale of land	—	—	—	—	—	(0.5)	0.5	—
Operating income	76.4	34.5	41.9	121.5	221.5	64.1	157.4	245.6
Operating income margin	15.3%	8.6%	6.7%		14.7%	6.2%	8.5%	
Interest expense	(2.5)	(1.8)	(0.7)	38.9	(7.8)	(4.5)	(3.3)	73.3
Other, net	(0.7)	(0.2)	(0.5)	250.0	(2.1)	0.6	(2.7)	(450.0)
Income tax expense	(28.2)	(12.0)	(16.2)	135.0	(81.5)	(22.3)	(59.2)	265.5
Income from continuing operations	$ 45.0	$ 20.5	$ 24.5	119.5%	$ 130.1	$ 37.9	$ 92.2	243.3%

(1) Fiscal 2005 includes Mikron's results beginning December 9, 2004.
(2) Fiscal 2004 includes TruSeal's and MACSTEEL Monroe's results beginning January 1, 2004.

Overview

Net sales for the three months ended July 31, 2005, were a record third quarter for Quanex, up 23.8% over a year ago. Operating income was also a record for the third quarter and income from continuing operations was up 119.5% compared to last year's third quarter.

Third quarter 2005 diluted earnings per share from continuing operations of $1.71 include the operating results from Mikron of approximately $0.17 per share.

Business Segments

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

Three & Nine Months Ended July 31, 2005 Compared to Three & Nine Months Ended July 31, 2004

Vehicular Products

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2005	2004	Change	%	2005	2004(1)	Change	%
	(Dollars in millions)							
Net sales	$ 239.9	$ 226.0	$ 13.9	6.2%	$ 803.9	$ 570.5	$ 233.4	40.9%
Cost of sales	177.0	187.5	(10.5)	(5.6)	606.8	485.5	121.3	25.0
Selling, general and administrative	6.4	5.2	1.2	23.1	18.4	13.5	4.9	36.3
Depreciation and amortization	8.4	8.4	—	—	25.4	24.0	1.4	5.8
Operating income	48.1	24.9	23.2	93.2	153.3	47.5	105.8	222.7
Operating income margin	20.1%	11.0%	9.1%		19.1%	8.3%	10.8%	

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

While the average selling price was up in the quarter, demand in the Vehicular Products segment was off in the quarter versus a year ago due to inventory adjustments and significant production cutbacks by two of our major end users – General Motors and Ford. Consequently, engineered steel bar shipments were down from year ago levels. The Company now expects the original equipment manufacturers ("OEM's") to build vehicle stocks to more normalized levels in the back half of the calendar year, and are therefore looking for improved bar shipments in the fourth quarter over the third, although down from the frenzied pace of the fourth quarter 2004. Margins remained excellent in the segment during the third quarter 2005 and operating income nearly doubled compared to the year ago quarter, the benefit of higher base selling prices and falling scrap costs.

Net sales for the third quarter of 2005 were higher than the third quarter of 2004 by 6.2% due to a 25.0% increase in price, partially offset by a 15.0% decrease in volume. Net sales for the first nine months of 2005 were 40.9% higher than the same period of 2004 due to a 42.9% increase in average prices, partially offset by a 1.3% decrease in volume. Excluding MACSTEEL Monroe, sales volumes for the first nine months of 2005 actually decreased 11.2% compared to the first nine months of 2004. The higher selling prices were comprised of increased base prices combined with higher quarterly scrap surcharges, in addition to an improved mix, as the Company continues to focus on increasing sales of the segment's value-added MACPLUS products. As a result of the increased steel scrap costs that occurred over the latter half of calendar 2003 and all of fiscal 2004, surcharges came into effect on January 1, 2004, and have been adjusted quarterly. The highest surcharges were recorded in the second quarter of 2005, even as steel scrap costs have declined because of the Company's lagging surcharge (see further discussion of surcharge lag in "Commodity Price Risk" of Item 3). The quarterly scrap surcharge was reduced April 1, 2005 and again July 1, 2005.

Operating income for the third quarter of 2005 and first nine months of 2005 increased 93.2% and 222.7% over the same periods last year, respectively, as a result of new customer programs, cost improvements, higher selling prices and declining scrap costs. All of the previously mentioned favorable items more than compensated for the smaller increase in selling, general and administrative costs, which are primarily associated with increased incentive costs expected to be incurred as a result of the growth in the segment's operating income.

The increases in the operating income margin for the three and nine month periods ending July 31, 2005 are directly attributable to the higher selling prices realized during a period when steel scrap costs declined. The result is an increased spread or operating income margin. It is important to note that while the margin increases as steel scrap costs decline, the opposite is true as steel scrap costs increase, as

occurred during 2003 and 2004. As raw material prices rise, the Company experiences short term compression of the operating margin since the surcharges are adjusted on a quarterly basis based upon a raw material index from the previous three months. As raw material prices level off, the Company would expect the Vehicular Products segment's operating income margin to improve, particularly after a period of rapidly escalating costs. Declines in raw material costs will increase the margin in the short term as the surcharge adjustments always lag by a three-month average. Over time, if raw material pricing remains steady, margins will also display stability.

During the third quarter of fiscal 2005, the Company recalculated its alloy inventory based upon much higher alloy prices. While on a consolidated LIFO basis there was minimal impact, the Vehicular Products segment's inventory value increased and cost of goods sold decreased. There was a corresponding decrease in the Corporate & Other segment's inventory value. Specifically, the Company recognized a nearly offsetting $6.0 million (pre-tax) expense on the Corporate and Other segment as a LIFO adjustment.

Building Products

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2005	2004	Change	%	2005(1)	2004(2)	Change	%
				(Dollars in millions)				
Net sales	$ 258.9	$ 177.1	$ 81.8	46.2%	$ 698.8	$ 457.4	$ 241.4	52.8%
Cost of sales	195.8	144.8	51.0	35.2	544.3	386.4	157.9	40.9
Selling, general and administrative	12.5	8.1	4.4	54.3	35.4	21.5	13.9	64.7
Depreciation and amortization	7.8	4.7	3.1	66.0	22.8	13.8	9.0	65.2
Operating income	42.8	19.5	23.3	119.5	96.3	35.7	60.6	169.8
Operating income margin	16.5%	11.0%	5.5%		13.8%	7.8%	6.0%	

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

The overall housing outlook remained positive during the Company's third quarter, with annualized housing starts hovering around the 2 million mark. Some of the Company's window and door customers were adversely impacted early in the quarter by severe weather, primarily in their Northeast markets. Offsetting this impact were excellent operating results at the Company's aluminum sheet business, which had a very strong quarter. The painted sheet sales remained very strong and accounted for nearly 45% of all sheet sales in the quarter, in part due to the excellent operating performance of the Company's Alabama facility. Also, Mikron's impact was quite positive as it is on a sharp growth curve given its new programs and the strong performance of its customer base.

Excluding the impact of Mikron, net sales for the three and nine months ended July 31, 2005 were higher than the same periods last year by 8.4% and 20.2%, respectively. This increase in net sales for the third quarter and first nine months of 2005 compared to the same periods of 2004 was a result of the increased volume across the entire segment combined with a 13.9% and 21.9% increase in aluminum sheet prices, respectively.

Excluding the impact of Mikron, operating income for the third quarter and first nine months of 2005 was higher than the same periods of 2004 by 72.1% and 129.5%, respectively, primarily as a result of increased spreads in the aluminum sheet market. During 2005, the average selling price of aluminum sheet has increased more than the cost of aluminum scrap. This, coupled with the segment's continued focus on efficient manufacturing and more value-added sales, resulted in the operating income increases.

Corporate and Other

	Three Months Ended July 31, 2005	2004	Change	%	Nine Months Ended July 31, 2005	2004	Change	%
	(Dollars in millions)							
Cost of sales	$ 6.0	$ 5.3	$ 0.7	13.2%	$ 6.7	$ 8.2	$ (1.5)	(18.3)%
Selling, general and administrative	8.4	4.5	3.9	86.7	21.2	11.2	10.0	89.3
Depreciation and amortization	0.1	0.1	—	—	0.2	0.2	—	—
Gain on sale of land	—	—	—	—	—	(0.4)	0.4	—
Operating loss	$ (14.5)	$ (9.9)	$ (4.6)	46.5%	$ (28.1)	$ (19.2)	$ (8.9)	46.4%

Corporate and other operating expenses, which are not in the two operating segments mentioned above, include the consolidated LIFO inventory adjustments (calculated on a combined pool basis), corporate office expenses and inter-segment eliminations. The LIFO inventory adjustments are included in corporate cost of sales and were $6.0 million and $5.0 million for the three month periods ending July 31, 2005 and 2004, respectively. The primary cause for the increase in corporate office expense in both the three month period and nine month period ending July 31, 2005, were the costs associated with the Company's Sarbanes-Oxley Section 404 implementation efforts. For the nine months ended July 31, 2005, the Company incurred $6.2 million of external consulting fees and external audit fees associated with the Sarbanes-Oxley Act. For fiscal 2005, all of these fees are being recorded in the Corporate and Other segment.

Interest expense for the three and nine months ended July 31, 2005 increased $0.7 million and $3.3 million, respectively, from the same period a year ago. The increase is a result of an increase in the average debt outstanding for the comparative periods primarily associated with the borrowings made to fund the acquisition of Mikron.

Other, net for the three months ended July 31, 2005 was an expense of $0.7 million compared to an expense of $0.2 million in the third quarter of 2004. Other, net for the nine months ended July 31, 2005, was an expense of $2.1 million compared to income of $0.6 million for the same period in 2004. The additional $2.7 million of expense for the nine month period is primarily related to the change in the market value of the Company's Deferred Compensation Plan. Each quarter, the Company values its liability for the Deferred Compensation Plan based upon the value of the underlying investment units, primarily Quanex common stock. For the nine months ended July 31, 2005, the market value of the Deferred Compensation Plan increased $5.1 million, due to deferrals and an 80.5% increase in the Company's common stock price from October 31, 2004, to July 31, 2005.

The Company's effective tax rate of 38.5% for the three and nine months ended July 31, 2005 is consistent with the Company's effective rate for the fiscal year 2004. The higher effective rate in the fourth quarter 2004 led to the effective rate increasing from 37.0% for the nine months ended July 31, 2004 to 38.5% for the fiscal year ended October 21, 2004.

The year-over-year changes in income (loss) from discontinued operations, net of taxes, for the three and nine months ended July 31, 2005, are the result of several items. During the third quarter of fiscal 2004, the Company recognized a $4.9 million loss associated with the reduction of Piper Impact's carrying value. Fiscal 2004 also includes the result of operations of Nichols Aluminum – Golden while fiscal 2005 does not. Finally, fiscal 2005 includes the loss associated with the sale of the Piper Impact operation coupled with operating expenses of the Piper Impact facility that the Company retained held until August 2005 (subsequent to the Company's third fiscal quarter).

Outlook

Consistent with a strong housing market and the acquisition of Mikron, the Company expects an excellent fourth quarter from its window and door components businesses.

At its engineered steel bar business, the Company enters the fourth quarter with lower backlogs compared to the year ago period. However, the vehicular supply chain inventory correction is coming to an end and production schedules are expected to increase to replenish low dealer stocks with 2006 models. While the precise timing remains an issue, the Company does expect demand at its engineered steel bar business to regain momentum through calendar year 2005.

At the aluminum sheet business, demand is off modestly from year ago levels as customers rebalance inventories. However, with robust end markets, combined with strong margins and a healthy mix of value-added products, the Company expects the business to have an excellent quarter.

Consolidating expected segment results, Quanex looks to report record fiscal 2005 diluted earnings per share from continuing operations in a range of $6.10 to $6.20, up from fiscal 2004's $2.30, and higher than the Company's previous guidance of $5.75 to $6.00 issued on May 26, 2005. The Company cautions that its combination of short cycle businesses and volatile raw material costs, particularly for steel scrap, makes forecasting problematic.

Liquidity and Capital Resources

Sources of Funds

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its secured $310.0 million Revolving Credit Agreement ("Bank Agreement"). On December 19, 2003, the Company executed an agreement with our credit facility banks to increase the Bank Agreement from $200.0 million to $310.0 million to provide the funds necessary for acquisitions. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of the Bank Agreement from November 15, 2005, to February 28, 2007.

In December 2004, the Company borrowed $200.0 million under the Bank Agreement to fund the acquisition of Mikron. Since then, the Company has paid off $170.0 million of the borrowings. At July 31, 2005, the Company had $30.0 million borrowed under the Bank Agreement and $125.0 million outstanding 2.50% Senior Convertible Debentures due May 15, 2034 (the "Debentures"). This represents a $30.0 million increase from October 31, 2004, borrowing levels. The aggregate availability under the Bank Agreement was $264.2 million at July 31, 2005, which is net of $15.8 million of outstanding letters of credit.

On August 25, 2005, the Board of Directors of the Company authorized an annual dividend increase of $0.08 per common share outstanding, or $0.02 increase per quarter. This increased the annual dividend from $0.54 to $0.62 and the quarterly dividend from $0.135 to $0.155 per common share outstanding.

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

The Company's working capital was $116.8 million on July 31, 2005 compared to $140.1 million on October 31, 2004. Excluding the impact of the acquisition of Mikron and the impact of discontinued operations, working capital decreased $13.0 million from October 31, 2004, to July 31, 2005 primarily from a $34.4 million decline in the cash balance and an $18.6 million decline in accounts receivable, partially offset by a $40.3 million reduction in accounts payable. The cash balance decreased as the Company has been consistently reducing the outstanding revolver balance. Accounts receivable declined because of two items. The first is that July is a relatively low revenue month for the Vehicular Products segment due to industry-wide shutdowns during the month. Lower sales for the month of July compared to October of the previous year resulted in approximately $13.5 million of the reduction. Second, $4.5 million of the reduction relates to the increase of the allowance for doubtful accounts recognized during fiscal 2005 primarily due to a bankrupt account and changing market conditions of the Company's customers. The reduction in accounts payable is directly related to lower raw material prices across both segments combined with lower purchase volumes in the Vehicular Products segment as a result of the annual shutdowns in July.

Operating Activities

Cash provided by operating activities during the nine months ended July 31, 2005, was $160.7 million compared to $73.5 million for the same period of 2004. The increase is largely due to the increase in operating income, partially offset by the decline in accounts payable discussed above.

Investment Activities

Net cash used for investment activities during the nine months ended July 31, 2005, was $223.9 million compared to $227.7 million for the same period of 2004. Investment activities for the nine months ended July 31, 2005, included the acquisition and related costs for Mikron of $197.5 million, net of cash acquired. Capital expenditures increased $23.6 million to $35.5 million in the nine months ended July 31, 2005 from $11.9 million in the same period of the previous year. Capital spending in the Building Products segment increased by $14.7 million primarily due to $11.2 million of capital expenditures at the recently acquired Mikron operation coupled with $2.5 million of additional spending at the Company's window and door component businesses. Additionally, the engineered steel bar business increased capital spending by $7.6 million for value added capacity projects. The Company estimates that fiscal 2005 capital expenditures will be approximately $55.0 million. At July 31, 2005, the Company had commitments of approximately $42.2 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures with cash flow from operations.

Financing Activities

Net cash provided by financing activities for the nine months ended July 31, 2005, was $30.3 million compared to $171.1 million during the same prior year period. The Company made net borrowings of $29.7 million on the Bank Agreement in the first nine months of 2005 compared to net borrowings of $175.0 million against the Bank Agreement during the same nine month period of fiscal 2004. Additionally, the Company received $10.3 million in the nine months ended July 31, 2005, for the issuance of common stock related to the exercise of options, versus $9.7 million in the same period last year. The $2.0 million increase in dividends paid for the nine months of 2005, compared to 2004, is a result of the increases to the Company's dividend rate authorized by the Board of Directors in fiscal 2004.

Critical Accounting Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to allowances for doubtful accounts, inventory, long-lived assets, environmental contingencies, insurance, U.S. pension and other post-employment benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's management believes the critical accounting policies listed and described in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2004 Annual Report on Form 10-K are the most important to the fair presentation of the Company's financial condition and results. These policies require management's significant judgments and estimates in the preparation of the Company's consolidated financial statements.

New Accounting Pronouncements

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

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123R requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in the Company's consolidated financial statements. The provisions of SFAS No. 123R are effective for the first annual reporting period that begins after June 15, 2005; therefore, Quanex will adopt the new requirements no later than the beginning of the first quarter of fiscal 2006. The fair value concepts were not changed significantly in SFAS No. 123R; however, in adopting SFAS No. 123R, companies must choose among alternative valuation models. The Black-Scholes option pricing model which the Company has used for the pro forma effect on net income disclosed in Note 3 continues to be available, but the Company has not yet completed its assessment of the alternatives. Adoption of the expensing requirements will reduce the Company's reported earnings. Management is currently evaluating the specific impacts of adoption, including which valuation model is most appropriate.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 is an interpretation of SFAS No. 143, "Asset Retirement Obligations", which was issued in June 2001. FIN 47 was issued to address diverse accounting practices that have developed with regard to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of FIN 47 will be effective for the Company as of October 31, 2006. The Company is currently evaluating the impact, if any, of implementing FIN 47, but it is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, foreign currency rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

The Company and its subsidiaries have a Bank Agreement and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates. The Company and certain of its subsidiaries' floating-rate obligations total $39.0 million, or 23% of total debt, at July 31, 2005.

At July 31, 2005, the Company had fixed-rate debt totaling $128.8 million or 77% of total debt, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. The aggregate availability under the Bank Agreement was $264.2 million at July 31, 2005, which is net of $15.8 million of outstanding letters of credit. Based on the outstanding balance of the Bank Agreement of $30.0 million at July 31, 2005, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately $0.3 million on an annualized basis.

Commodity Price Risk

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

Within the Building Products segment, the Company uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing processes. The price of raw materials is subject to fluctuations due to many factors in the aluminum market. In the

normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, Nichols Aluminum enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") as well as option contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect. During the third quarter of 2005, the Company primarily relied upon firm price raw material purchase commitments to protect cost of sales tied to firm price sales commitments. There were no outstanding LME hedges as of July 31, 2005.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. During the last quarter, there have been no changes in internal controls that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding legal proceedings is set forth in note fourteen to the consolidated financial statements in Item 1 of Part I of this Form 10-Q, which information is hereby incorporated by reference herein.

Item 6. Exhibits

Exhibit Number	Description Of Exhibits
3.1	Restated Certificate of Incorporation of the Registrant dated as of November 10, 1995, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1995 and incorporated herein by reference.
3.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.3	Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.4	Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.5	Amended and Restated Bylaws of the Registrant, as amended June 1, 2005, filed as Exhibit 3.5 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 2005 and incorporated herein by reference.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.
4.2	Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2002. Certain schedules and exhibits to this Revolving Credit Agreement were not filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
4.3	First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2003.

Exhibit Number	Description Of Exhibits
4.4	Consent and First Amendment to Revolving Credit Agreement dated December 19, 2003, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2003. Certain schedules and exhibits to this Consent and First Amendment to Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
4.5	Waiver and Second Amendment to Revolving Credit Agreement dated March 11, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated January 31, 2004.
4.6	Form of Consent to Requested Extension to Revolving Credit Maturity Date under the Quanex Corporation Revolving Credit Agreement dated April 7, 2004, filed as Exhibit 4.7 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.7	Form of Consent and Third Amendment to Revolving Credit Agreement dated April 9, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.8	Indenture dated as of May 5, 2004 between Quanex Corporation and Union Bank of California, N.A. as trustee relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 4.9 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.

4.9	Registration Rights Agreement dated as of May 5, 2004 among Quanex Corporation, Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated, and KeyBanc Capital Markets relating to the Company’s 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 4.10 to the Registrant’s Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2004.
4.10	Third Amended and Restated Rights Agreement dated as of September 15, 2004, between the Registrant and Wells Fargo Bank, N.A. as Rights Agent, filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K (Reg. No. 001-05725) dated September 17, 2004, and incorporated herein by reference.
4.11	Form of Consent and Fourth Amendment to Revolving Credit Agreement dated November 18, 2004 by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.11 to the Registrant’s Annual Report on Form 10-K (Reg. No. 001-05725) dated December 21, 2004.
4.12	Supplemental Indenture dated as of January 25, 2005 by and between the Company and Union Bank of California, N.A., as trustee, to the indenture governing the Company’s 2.50% Convertible Senior Debentures due May 15, 2034, filed as Exhibit 99.1 to the Registrant’s Current Report on Form 8-K (Reg. No. 001-05725) dated January 26, 2005.
4.13	Fifth Amendment to Revolving Credit Agreement dated March 11, 2005 by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks, filed as Exhibit 4.12 to the Registrant’s Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated March 11, 2005.

Exhibit Number	Description Of Exhibits
† 10.1	Amendment to the Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective as of August 25, 2005, filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K (Reg. No. 001-05725) dated August 31, 2005.
* 31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
* 31.2	Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
* 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Management Compensation or Incentive Plan
* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

SIGNATURES

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

QUANEX CORPORATION

	/s/ Terry M. Murphy
Date: September 2, 2005	Terry M. Murphy Senior Vice President – Finance and Chief Financial Officer (Principal Financial Officer)
	/s/ Brent L. Korb
Date: September 2, 2005	Brent L. Korb Vice President – Corporate Controller (Principal Accounting Officer)

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Raymond A. Jean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

September 2, 2005

/s/ Raymond A. Jean

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

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Terry M. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] for the Registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

September 2, 2005

/s/ Terry M. Murphy

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

Exhibit 32.1

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

We hereby certify that the accompanying Quarterly Report of Quanex Corporation on Form 10-Q for the quarter ended July 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Corporation.

September 2, 2005

/s/ Raymond A. Jean	/s/ Terry M. Murphy
Raymond A. Jean	Terry M. Murphy
Chairman of the Board, President and Chief Executive Officer	*Senior Vice President—Finance and Chief Financial Officer*