

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

FORM 10-K

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

For the fiscal year ended October 31, 2001

OR

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

Commission file number 1-5725

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

DELAWARE
State or other jurisdiction of
incorporation or organization

38-1872178
(I.R.S. Employer
Identification No.)

1900 WEST LOOP SOUTH, SUITE 1500
HOUSTON, TEXAS
(Address of principal executive offices)

77027
(Zip Code)

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

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

Title of
each class
Name of each
exchange on
which
registered -

COMMON
STOCK, \$.50
PAR VALUE
NEW YORK
STOCK
EXCHANGE,
INC. RIGHTS
TO PURCHASE
SERIES A
JUNIOR
PARTICIPATING
PREFERRED
STOCK NEW
YORK STOCK
EXCHANGE,
INC. 6.88%
CONVERTIBLE
SUBORDINATED
DEBENTURES
NEW YORK
STOCK
EXCHANGE,
INC.

Securities registered pursuant to Section 12(g) of the Act:
NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to

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

The aggregate market value of the registrant's voting stock held by non-affiliates as of December 31, 2001, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$376,508,322. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At December 31, 2001, there were outstanding 13,455,580 shares of the registrant's Common Stock, \$.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement, to be filed with the Commission within 120 days of October 31, 2001, for its Annual Meeting of Stockholders to be held on February 28, 2002, are incorporated herein by reference in Items 10, 11, 12, and 13 of Part III of this Annual Report.

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PART I

ITEM 1. BUSINESS

GENERAL

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

The Company's businesses are managed on a decentralized basis. Each operating group has administrative, operating and marketing functions. Financial reporting systems measure each group's return on investment, and the Company seeks to reward superior performance with incentive compensation, which is a significant portion of total employee compensation. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by corporate officers and key division executives. Also, a small corporate staff provides corporate accounting, financial and treasury management, tax, and human resource services to the operating divisions.

Quanex is a technological leader in the production of engineered carbon and alloy steel bars, aluminum flat-rolled products, and precision-formed metal products which primarily serve the vehicular products and building products markets. The Company uses state-of-the-art manufacturing technologies, low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications. Quanex believes these capabilities also provide the Company with unique competitive advantages. The Company's growth strategy is focused on the continued penetration of its two core markets: vehicular products and building products.

BUSINESS DEVELOPMENTS IN FISCAL 2001

In November 2000, Quanex completed the purchase of Temroc Metals, Inc. ("Temroc"), an aluminum extrusion and fabrication company based in Hamel, Minnesota. Temroc's products are used primarily in the outdoor recreational vehicle market. Temroc expands the Company's offerings in its core vehicular products market. The Company also has invested significant capital internally to grow its technologically advanced, low-cost continuous manufacturing processes to meet growing demand in its vehicular products and building products markets.

In the Company's MACSTEEL operations, rotary centrifugal continuous casters are used with an in-line manufacturing process to produce bearing grade quality, seam-free, engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets within its vehicular products market. Since 1992, the Company has invested approximately \$257 million to enhance its steel bar manufacturing and refining processes, to improve rolling and finishing capability, and to expand manufacturing capacity at its MACSTEEL operations to approximately 700,000 tons per year. Phases I through V of the MACSTEEL expansions have been completed. In Phase V, finished in December 2000, the Company installed additional equipment at each of the MACSTEEL plants in Jackson, Michigan, and Ft. Smith, Arkansas to increase their capacity. This project increased engineered steel bar shipping capacity by approximately 13% to 700,000 tons annually. Phase V also included projects at MACSTEEL Heat Treating, based in Huntington, Indiana, where a third processing line was built, and at Kenosha, Wisconsin-based MACSTEEL NitroSteel, where efficiency enhancing equipment has been installed. In May 2000, the Company announced Phase VI, a project that will boost capacity for MACPLUS cold-finished steel bars. The project includes installation of two additional bar turning and polishing lines, one at the plant in Jackson, which was completed in December of 2001 and the other at the Ft. Smith plant, which is scheduled for completion by 2002 year-end. After the project is complete, MACSTEEL will have a total of six value-added MACPLUS lines capable of producing 270,000 tons of cold finished steel bars for its vehicular products markets.

In November 2000, Quanex completed a \$4 million capital project at AMSCO, which provides an additional 40,000 square feet of manufacturing space and equipment to expand existing lines and produce new products for its building products markets.

MANUFACTURING PROCESSES, MARKETS, AND PRODUCT SALES BY BUSINESS SEGMENT

Information with respect to major markets for the Company's products, expressed as a percentage of consolidated net sales, is shown under the heading "Sales by Major Markets" on the following table. Although Quanex has attempted to estimate its sales by product and market categories, many products have multiple end uses

for several industries and sales are not recorded on the basis of product or

market categories. A portion of sales is made to distributors who sell to different industries. Net sales by principal market are based upon the total dollar volume of customer invoices. For the years ended October 31, 2001 and 2000, no one customer accounted for 10% or more of the Company's sales. For the year ended October 31, 1999, one customer, Autoliv Inc., accounted for 12% of Company's sales.

SALES BY MAJOR MARKETS

MARKET SALES (\$
MILLIONS)
MARKETS
DESCRIPTION
QUANEX PRODUCTS
Fiscal Year
Ended October
31, 2001 2000
1999 1998 1997 -

--

VEHICULAR
Auto/Truck Steel
bars, impact-
\$332.1 \$408.8
\$396.9 \$ 364.1 \$
332.7 extruded
components,
aluminum 35.9%
42.4% 47.5%
44.3% 43.3%
sheet Other
Transportation
Steel bars,
treated \$35.7
\$35.6 \$31.4 \$
33.2 \$ 34.2
(including ship/
tubes and bars,
aluminum sheet
3.9% 3.7% 3.8%
4.1% 4.4%
railroad,
recreational
vehicles and
military
transportation)
TOTAL VEHICULAR
\$367.8 \$444.4
\$428.3 \$ 397.3 \$
366.9 39.8%
46.1% 51.3%
48.4% 47.7%

BUILDING
Residential and
Aluminum sheet,
fabricated
\$336.6 \$326.7
\$301.6 \$ 343.7 \$
335.9 PRODUCTS
Commercial
Building
aluminum
products, 36.4%
33.9% 36.1%
41.8% 43.7%
Materials, Other
aluminum coil
,coated aluminum
coil INDUSTRIAL
General
Industrial
Specialized
forgings, \$34.6
\$47.3 \$39.1 \$
31.2 \$ 26.0
MACHINERY
Machinery
(including

impact-extruded			
3.7%	4.9%	4.7%	
3.8%	3.4%	AND	
CAPITAL	mining,		
agriculture			
products, steel			
bars	EQUIPMENT		
and			
construction)			
Capital			
Equipment	Steel		
bars, treated			
bars	\$32.9	\$17.5	
\$13.0	\$ 11.0	\$	
18.5	(including		
material and			
tubes, partition			
3.6%	1.8%	1.6%	
1.3%	2.4%		
handling,			
machine			
products,			
impact-extruded			
tools, and			
products			
office/household)			
TOTAL INDUSTRIAL			
MACHINERY	\$67.5		
\$64.8	\$52.1	\$	
42.2	\$ 44.5	AND	
CAPITAL			
EQUIPMENT	7.3%		
6.7%	6.3%	5.1%	
5.8%	OTHER		
\$152.5	\$128.6		
\$52.9	\$ 38.3	\$	
21.4	16.5%	13.3%	
6.3%	4.7%	2.8%	
TOTAL SALES			
\$924.4	\$964.5		
\$834.9	\$ 821.5	\$	
768.7	100.0%		
100.0%	100.0%		
100.0%	100.0%		

Quanex operates 16 manufacturing facilities in ten states in the United States. These facilities feature efficient plant design and flexible manufacturing processes, enabling the Company to produce a wide variety of engineered products and materials for the Company's vehicular products and building products markets. The Company is generally able to maintain minimal levels of finished goods inventories at most locations because it typically manufactures products to customer specifications upon order.

During fiscal 2001, the Company's operations were grouped into four business segments: (1) engineered steel bars, (2) aluminum mill sheet products, (3) engineered products, and (4) Piper Impact. General corporate expenses are classified as "Corporate and Other". During the latter portion of the fiscal year ending October 31, 2001, the Company completed a strategic review of its business, which resulted in a shift of strategy away from primarily a "process" oriented enterprise to a more "market focused" enterprise. The review underscored a high concentration of sales in two market segments - vehicular products and building products. Beginning in fiscal 2002, the Company will report operations in those two market focused segments. For financial information regarding each of Quanex's business segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and Note 13 to the Consolidated Financial Statements.

VEHICULAR PRODUCTS

The vehicular products segment is comprised of the former engineered steel bar segment (MACSTEEL), Piper Impact and Temroc. The segment includes engineered steel bar operations, impact extrusion operations, steel bar and tube heat-treating services, steel bar and tube corrosion and wear resistant finishing services, and aluminum extrusion and fabricated metal products.

MACSTEEL

The Company's engineered steel bar operations are conducted through its MACSTEEL division, consisting of two plants, one located in Ft. Smith, Arkansas, and the other located in Jackson, Michigan. These plants can manufacture up to 700,000 tons of hot finished, precision engineered, carbon and alloy steel bars. The Company believes that MACSTEEL has the only two plants in North America using continuous rotary centrifugal casting technology. This casting process produces seam-free bars, without surface defects or inclusions, thereby reducing the need for subsequent surface conditioning. The continuous casting and automated in-line manufacturing operations at the MACSTEEL plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most larger, and particularly integrated steel mills. The Company typically sells only complete heat lots, or batches, which are made to specific customer requirements.

MACSTEEL produces various grades of customized, engineered steel bars by melting steel scrap and casting it in a rotary centrifugal continuous caster. MACSTEEL's molten steel is further processed through secondary refining processes that include argon stirring, ladle injection, and vacuum arc degassing prior to casting. These processes enable MACSTEEL to produce higher quality, "cleaner" steel.

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

MACSTEEL products are custom manufactured primarily for the vehicular product markets serving the passenger car, light truck, sport utility vehicle (SUV), heavy truck, anti-friction bearing, off-road and farm equipment, and seamless tubular industries. These industries use engineered steel bars in critical applications such as camshafts, crankshafts, transmission gears, wheel spindles and hubs, bearing components, steering components, hydraulic mechanisms and seamless tube production. Also, MACSTEEL engineered steel bars are used for the manufacture of components for safety critical steel air bag inflators at the Company's Piper Impact plant in New Albany, Mississippi.

Also included in the MACSTEEL division are a heat treating plant in Huntington, Indiana ("Heat Treat") and a plant in Kenosha, Wisconsin that improves the wear and corrosion resistance properties of steel bars and tubes ("NitroSteel").

The Heat Treat facility uses custom designed, in-line equipment to provide tube and bar heat-treating and related services, such as quench and temper, stress relieving, normalizing, "cut-to-length", and metallurgical testing. This plant primarily serves customers in the vehicular products and energy markets.

The NitroSteel plant processes steel bars and tubes using the patented Nitrotec treatment to improve corrosion and wear resistance while providing an environmentally friendly, non-toxic alternative to chrome plating. NitroSteel's products are made for specific customer applications and are used for fluid power applications in primarily the vehicular products markets.

Piper Impact

The Piper Impact division of the vehicular products segment includes two impact-extrusion facilities in New Albany, Mississippi, dedicated to aluminum and steel impact-extruded products.

Piper Impact is a manufacturer of custom designed, impact extruded aluminum and steel parts primarily for vehicular and defense applications. Piper Impact's operations use impact extrusion technology to produce highly engineered near-net shaped components from aluminum and steel slugs. The pressure resulting from the impact of the extrusion presses causes metal to flow into the desired shape. This cost efficient, cold forming of the metal results in a high quality, work hardened product with a superior finish. Products may be further processed with heat-treating and precision machining. The parts are then delivered to customers' assembly lines, requiring little or no additional processing. The majority of Piper Impact's sales are to one customer, Autoliv Inc., for use in automotive air bag systems.

Temroc Metals

The Temroc Metals division of the vehicular products segment is located in Hamel, Minnesota. Temroc Metals is an aluminum extruder and fabricator of metal products. The single facility manufactures engineered products that primarily serve the outdoor recreational vehicular products market.

BUILDING PRODUCTS

The building products segment is comprised of the former aluminum mill sheet products segment (Nichols Aluminum) as well as the divisions comprising the former Engineered Products segment (AMSCO, Homeshield and Imperial), excluding Temroc. The segment includes two aluminum sheet casting and finishing operations and fabricated metal components operations.

Nichols Aluminum

Nichols Aluminum manufactures mill finished and coated aluminum sheet for the building products market and the food packaging market. The division comprises five plants: a thin-slab casting and hot rolling mill ("NAC") located in Davenport, Iowa, three cold rolling and finishing plants located in Davenport, Iowa ("NAD"), Lincolnshire, Illinois ("NAL"), and Decatur, Alabama ("NAA"), and Nichols Aluminum-Golden ("NAG"), an aluminum production facility located in Fort Lupton, Colorado.

NAC's mini-mill uses an in-line casting process that can produce 400 million pounds of reroll (hot-rolled aluminum sheet) annually. The mini-mill converts aluminum scrap to sheet through melting, continuous casting, and in-line hot rolling processes. NAC has shredding and blending capabilities, including two rotary barrel furnaces that broaden its sources of raw material and allow it to melt cheaper grades of scrap. Delacquering equipment improves the quality of the raw material before it reaches the melting furnaces by burning off combustibles in the scrap. Scrap is blended using computerized processes to most economically achieve the desired molten aluminum alloy composition. The molten metal flows into a Hazelett thin-slab caster, which casts an aluminum slab up to 52-inches wide and .75 inches thick. The slab is fed directly to a hot mill where three in-line rolling stands reduce the slab to gauges as thin as .045 inches. This hot rolling process substantially reduces subsequent cold rolling requirements. NAC also has an efficient, in-house dross recovery system to improve raw material yields.

The Company believes the combination of base capacity increases and technological enhancements directed at producing higher quality reroll results in a significant manufacturing advantage with savings derived from reduced raw material costs, optimized scrap utilization, reduced unit energy cost, reduced cold rolling requirements and lower labor costs.

Further processing of the reroll occurs at NAD, NAL or NAA, where customers' specific product requirements can be met through cold rolling to various gauges, annealing for additional mechanical and formability properties, tension leveling to improve the flatness of the sheet, and slitting to specific widths. Products at the NAD and NAA plants can also be custom painted, an important value-added feature for the applications of certain customers in the building products market.

Operations at NAG include melting and casting aluminum into sheet, cold rolling to specific gauge, annealing, leveling, custom coating and slitting to width. NAG manufactures high quality aluminum sheet from scrap, then manufactures the sheet into engineered applications primarily for the food packaging markets.

Engineered Products

AMSCO in Rice Lake, Wisconsin, Homeshield ("HFP"), with 2 plants in Chatsworth, Illinois, and Imperial ("IFP") in Richmond, Indiana produce various engineered products for the building products markets. These products include aluminum window and patio door screens, window frames, residential exterior door products, and a broad line of custom designed, roll formed products and stamped shapes for manufacturers of premium wood windows and vinyl windows for the home improvement, residential, and commercial construction markets. AMSCO combines strong product design and development expertise with reliable, just-in-time delivery. HFP also coats and/or paints aluminum sheet in many colors, sizes, and finishes, and it fabricates aluminum coil into rain carrying systems, soffit, exterior housing trim and roofing products. IFP produces sophisticated residential exterior door thresholds, astragals, patio door systems and other miscellaneous door components.

RAW MATERIALS AND SUPPLIES

The Company's MACSTEEL plants purchase on the open market their principal raw material, steel scrap or substitutes such as pig iron, beach iron and hot briquetted iron. Collection and transportation

of these raw materials to the Company's plants can be adversely affected by extreme weather conditions. Prices for scrap also vary in relation to the general business cycle, typically declining in periods of slow economic activity.

Temroc's raw material consists primarily of aluminum billet, which it purchases from several suppliers on the open market.

Piper Impact's raw material consists of aluminum bars and slugs that it purchases on the open market, and steel bars that it purchases from MACSTEEL.

Nichols Aluminum's principal raw material is aluminum scrap purchased on the open market, which can also be adversely affected by extreme weather conditions. Nichols purchases and sells aluminum ingot futures contracts on the London Metal Exchange to hedge against fluctuations in the price of aluminum scrap required to manufacture products for fixed-price sales contracts.

AMSCO and HFP's primary raw material is coated and uncoated aluminum sheet purchased primarily from Nichols Aluminum. Raw materials utilized at IFP include aluminum, wood and vinyl that are available from a number of suppliers. Prices for aluminum are typically set on a monthly basis based upon market rates. In addition, IFP purchases two types of wood materials - hardwood and softwood, which it purchases at market prices.

BACKLOG

At October 31, 2001, Quanex's backlog of orders to be shipped in the next twelve months was approximately \$185 million. This compares to approximately \$158 million at October 31, 2000. Because many of the markets in which Quanex operates have short lead times, the Company does not believe that backlog figures are reliable indicators of annual sales volume or operating results.

COMPETITION

The Company's products are sold under highly competitive conditions. Quanex competes with a number of companies, some of which have greater financial and other resources. Competitive factors include product quality, price, delivery, and the ability to manufacture to customer specifications. The amounts of engineered steel bars, aluminum mill sheet products, engineered products and impact extruded products manufactured by the Company generally represent a small percentage of annual domestic production.

The Company's engineered steel bar group (MACSTEEL) competes primarily with one large integrated steel producer and two large non-integrated steel producers. Although these producers may be larger and have greater resources than the Company, Quanex believes that the technology used at MACSTEEL facilities permits it to compete effectively in the markets it serves.

The Company's aluminum mill sheet group (Nichols Aluminum) competes with many small and large aluminum sheet manufacturers. Some of these competitors are divisions or subsidiaries of major corporations with substantially greater resources than the Company. The Company also competes with major aluminum producers in coil-coated and mill finished products, primarily on the basis of the breadth of product lines, the quality and responsiveness of its services, and price.

The Company's engineered products group (AMSCO, Homeshield, Imperial, and Temroc) competes with many small metal fabricators and aluminum extrusion facilities, primarily on the basis of custom engineering, quality, service, and price.

Piper Impact competes with several other impact extrusion companies, and companies that offer other technologies that can provide similar products, on the basis of design, quality, price and service.

SALES AND DISTRIBUTION

The Company has sales organizations with sales representatives in many parts of the U.S. MACSTEEL sells engineered steel bars primarily to tier one suppliers through its sales organization and manufacturers' representatives. Nichols Aluminum products are sold directly to original equipment manufacturers ("OEMs") and through metal service centers. The engineered products group's products are sold primarily to OEMs, except for some residential building products, which are also sold through distributors. Piper Impact sells directly to OEMs.

SEASONAL NATURE OF BUSINESS

Nichols Aluminum and the Company's engineered products businesses are seasonal.

The primary markets of these businesses are in the Northeast and Midwest regions of the United States, where winter

weather reduces homebuilding and home improvement activity. Historically in these businesses, lowest sales have occurred during the Company's first fiscal quarter. Profits for the operations in these businesses tend to be lower in quarters with lower sales because a high percentage of their manufacturing overhead and operating expense is due to labor and other costs that are generally fixed throughout the year. The other businesses in which the Company competes are generally not seasonal. However, due to the holidays in the Company's first fiscal quarter and steel plant shutdowns for vacations and maintenance in the Company's third fiscal quarter, sales have historically been lower in those periods. As a result of these trends, combined with the effects of seasonality, the Company generally expects that, absent unusual activity or changes in economic conditions, its lowest sales will occur in the first fiscal quarter.

SERVICE MARKS, TRADEMARKS, TRADE NAMES, AND PATENTS

The Company's Quanex, Quanex design, Seam-Free design, NitroSteel, MACGOLD, MACSTEEL, MACSTEEL design, MAC+, Ultra-Bar, Homeshield, Homeshield design, and "The Best Alloy & Specialty Bars" marks are registered trademarks or service marks. The Company's Piper Impact name is used as a service mark, but is not yet registered in the United States. The trade name Nichols-Homeshield and the Homeshield design trademarks are used in connection with the sale of the Company's aluminum mill sheet products and residential building products. The Homeshield, Piper Impact, MACSTEEL and Quanex word and design marks and associated trade names are considered valuable in the conduct of the Company's business. The businesses conducted by the Company generally do not depend upon patent protection. Although the Company holds numerous patents, in many cases, the proprietary technology that the Company has developed for using the patents is more important than the patents themselves.

RESEARCH AND DEVELOPMENT

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

ENVIRONMENTAL MATTERS

As a manufacturer of specialized metal products, Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. Quanex is required to make capital and other expenditures on an ongoing basis in order to satisfy such requirements. 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 or financial condition.

Under applicable state and federal laws, the Company may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations Quanex has owned or operated at any time. The Company is currently participating in environmental assessments or remediation at a number of those locations.

From time to time, Quanex also has been alleged to be liable for all or part of the costs incurred to clean up third-party sites where it is alleged to have arranged for disposal of hazardous substances. The Company's allocable share of liability at those sites, taking into account the likelihood that other parties will pay their shares, has not been material to its operations or financial condition.

Total remediation reserves, at October 31, 2001, for Quanex's current plants, former operating locations, and disposal facilities were approximately \$18 million. Of that, approximately 80% is allocated to the cleanup of historical soil and groundwater contamination and other corrective measures at a plant operated by the Company's Piper Impact division in New Albany, Mississippi. Depending upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences, final remediation costs may be more or less than amounts accrued; however, management believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities.

Environmental agencies continue to develop regulations implementing the Federal Clean Air Act. Depending on the nature of the regulations adopted, Quanex may be required to incur additional capital and other expenditures sometime in the next several years for air pollution control equipment, to maintain or obtain operating permits and approvals, and to address other air

emission-related issues. Based upon its analysis and experience to date, Quanex does not believe that its compliance with Clean Air Act requirements will have a material effect on its operations or financial condition. The Company plans to have capital expenditures in fiscal 2002 for equipment upgrades in

order to comply with secondary aluminum production emissions standards at two of its Nichols Aluminum facilities.

Quanex incurred approximately \$3 million and \$5 million during fiscal 2001 and 2000, respectively, in expenses in order to comply with existing or proposed environmental regulations. The Company estimates expenses at various of its facilities during fiscal 2002 will be approximately \$5 million for continuing compliance with environmental regulations. Capital expenditures for these environmental regulations during fiscal 2001 and 2000 were immaterial. Capital expenditures for fiscal 2002 are expected to be approximately \$5 million including upgrades related to secondary aluminum production emissions standards at two of its Nichols Aluminum facilities. 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 2002, but it is not possible at this time to reasonably estimate the amount of these expenditures.

EMPLOYEES

At October 31, 2001, the Company employed 3,321 persons. Of the total employed, 32% were covered by collective bargaining agreements. In November 2001, a five-year agreement was ratified by the United Steel Workers representing 95 employees at Nichols Aluminum Alabama. Temroc's collective bargaining agreement expires January 31, 2002 and negotiations will begin mid-January.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

For financial information on the Company's foreign and domestic operations, see Note 13 of the Financial Statements contained in this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

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

SQUARE LOCATION PLANT FOOTAGE ---- -----
Owned:
ENGINEERED STEEL BARS Fort Smith, Arkansas MACSTEEL 614,000 Jackson, Michigan MACSTEEL 386,000 Huntington, Indiana Heat Treating 96,000 Kenosha, Wisconsin NitroSteel 35,000
Owned:
ALUMINUM MILL SHEET PRODUCTS Lincolnshire, Illinois Nichols Aluminum 142,000 Davenport, Iowa Nichols Aluminum 236,000 Davenport,

Iowa Nichols
Aluminum
Casting
245,000 Fort
Lupton,
Colorado
Nichols
Aluminum
Golden
238,000
Leased (4
leases
expiring
2003, 2004,
2005 and
2018):
Decatur,
Alabama
Nichols
Aluminum
Alabama
410,000
Owned:
ENGINEERED
PRODUCTS
Rice Lake,
Wisconsin
AMSCO
336,000
Chatsworth,
Illinois
Homeshield
Fabricated
Products
(two plants)
218,000
Richmond,
Indiana
Imperial
Fabricated
Products
92,000
Hamel,
Minnesota
Temroc
140,000
Owned: PIPER
IMPACT New
Albany,
Mississippi
Piper Impact
(two plants)
683,000
Leased
(expires
2010):
EXECUTIVE
OFFICES
Houston,
Texas Quanex
Corporation
21,000

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

PART II

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

Quanex's common stock, \$.50 par value, is traded on the New York Stock Exchange, under the ticker symbol: NX. Quarterly stock price information and annual dividend information for the common stock is as follows:

QUARTERLY COMMON STOCK
DIVIDENDS Quarter Ended:
2001 2000 1999 1998 1997

Quarter	2001	2000	1999	1998	1997
January	.16	.16	.16	.16	.15
April	.16	.16	.16	.16	.15
July	.16	.16	.16	.16	.15
October	.16	.16	.16	.16	.15
TOTAL	.64	.64	.64	.64	.61

QUARTERLY COMMON STOCK
SALES PRICE (High & Low)
Quarter Ended: 2001 2000
1999 1998 1997

Quarter	2001	2000	1999	1998	1997
January	21.0625	26.5625	23.875	30.4375	29.125
April	24.25	24.25	24.25	24.25	24.25
July	27.55	18.625	29.32	32.1875	34.125
October	27.48	20.6875	27.375	27.875	36.50

The terms of Quanex's revolving credit arrangements with certain banks limit the total amount of common and preferred stock dividends and other distributions on such stock. Under the most restrictive test under such credit facilities, the total common stock dividends the Company may declare and pay is limited to \$21 million, plus 50% of consolidated net income earned after October 31, 1989, adjusted for other factors as set forth in the credit agreement. As of October 31, 2001, the aggregate amount available for dividends and other restricted payments under its credit facilities was approximately \$26 million.

There were 5,538 holders of Quanex common stock on record as of December 31, 2001.

ITEM 6. SELECTED FINANCIAL DATA

GLOSSARY OF TERMS

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

Capital expenditures: Additions to property, plant and equipment.

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

Asset turnover: Net sales divided by average total assets.

Current ratio: Current assets divided by current liabilities.

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

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

ITEM 6. SELECTED FINANCIAL DATA

FINANCIAL
SUMMARY 1996
- 2001 (\$
THOUSANDS,
EXCEPT PER
SHARE DATA)
Fiscal years
ended October
31, 2001 2000
1999 1998
1997 1996 ---

- - - - -

- - - - -

REVENUES AND
EARNINGS Net
sales(1), (8)
924,353
964,518
834,902
821,507
768,743
640,121 Cost
of sales
including
operating
depreciation
and
amortization
809,027
841,047
706,607
707,971
666,691
546,938 -----

Gross profit
115,326
123,471
128,295
113,536
102,052
93,183 Piper
Impact Asset
Impairment
Charge --
56,300(2) --
58,500(2) --
-- Loss on
sale of Piper
Impact Europe
-- 14,280(3)
-- - - - -
Other
depreciation
and
amortization
3,808 3,308
3,434 5,059
3,669 1,791
Selling,
general and
administrative
expenses
54,202 53,545
53,104 47,713
43,375 44,959

Operating

income (loss)
 57,316
 (3,962)
 71,757 2,264
 55,008 46,433
 Percent of
 net sales(8)
 6.2 (0.4) 8.6
 0.3 7.2 7.3
 Other income
 - net 2,623
 1,870 1,383
 2,278 1,637
 4,544
 Interest
 expense-net
 14,889 13,314
 12,791 10,506
 14,002 11,360

Income (loss)
 before income
 taxes,
 extraordinary
 items,
 cumulative
 effect of
 accounting
 change, and
 income from
 discontinued
 operations
 45,050
 (15,406)
 60,349
 (5,964)
 42,643 39,617
 Income taxes
 (credit)
 16,228
 (5,383)
 21,048
 (2,087)
 14,925 16,639

Income (loss)
 from
 continuing
 operations
 28,822
 (10,023)
 39,301
 (3,877)
 27,718 22,978

Income from
 discontinued
 operations --
 -- -- --
 5,176 9,912
 Gain on sale
 of
 discontinued
 operations --
 -- -- 13,046
 36,290 --

Extraordinary
 items - early
 extinguishment
 of debt, net
 of taxes 372
 358 415 -- --
 (2,522) -----

----- Net
income (loss)
29,194
(9,665)
39,716 9,169
69,184 30,368
Percent of
net sales(8)
3.2 (1.0)(7)
4.8 1.1(6)
9.0(5) 4.7 --

PER SHARE
DATA Basic
Earnings per
share: Income
(loss) from
continuing
operations
2.15 (0.73)
2.76 (0.27)
2.01 1.70
Income from
discontinued
operations --
-- -- -- 0.37
0.73 Gain on
sale of
discontinued
operations --
-- -- 0.92
2.63 --

Extraordinary
items and
cumulative
effect of
accounting
change 0.03
0.03 0.03 --
-- (0.19) Net
earnings
(loss) 2.18
(0.70)(7)
2.79 0.65(6)
5.01 2.24
Cash

dividends
declared 0.64
0.64 0.64
0.64 0.61
0.60 Book
value 20.88
19.90 21.24
19.19 19.13
14.50 Average
shares
outstanding
(000) 13,399
13,727 14,234
14,149 13,807
13,524 Market
closing price
range High
27.38 26.56
28.94 33.50
36.50 28.63
Low 17.00
14.38 15.50
16 23.38
18.38 -----

FINANCIAL
POSITION -
YEAR END
Working

capital		
102,288		
104,944		
76,247	62,979	
52,818	88,238	
Property,		
plant and		
equipment -		
net	357,635	
338,248		
406,841		
395,054		
379,071		
319,165	Other	
assets		
103,118		
71,665	71,218	
69,422		
119,738		
117,142	Total	
assets		
697,631		
645,859		
690,446		
674,288		
685,705		
638,948	-----	

Noncurrent		
deferred		
income taxes		
29,282	27,620	
43,910	33,412	
48,111	40,454	

Long-term		
debt	219,608	
191,657		
179,121		
188,302		
201,858		
253,513		

Stockholders'		
equity		
279,977		
266,497		
301,061		
272,044		
268,823		

197,009	Total	
capitalization		
499,585		
458,154		
480,182		
460,346		
470,681		

450,522	Long-	
term debt		
percent of		
capitalization		
44.0	41.8	
37.3	40.9	
42.9	56.3	---

OTHER DATA		
Asset		
turnover(8)		
1.4	1.4	1.2
1.2	1.2	1.2
Current ratio		
1.8	TO 1	1.8
to 1	1.6	to 1
1.4	to 1	1.4
to 1	1.8	to 1
Return on		
average		

investment -		
percent	8.1	
(0.2)(7)	10.0	
3.4(6)		
16.7(5)	9.8	
Return on		
average		
common equity		
- percent		
10.7	(3.4)(7)	
13.9	3.4(6)	
29.7(5)	16.4	

Working		
capital		
provided by		
operations(4)		
73,858	90,441	
94,905	82,830	
73,321	60,378	
Depreciation		
and		
amortization		
43,910	48,445	
45,883	42,400	
37,865	36,499	
Capital		
expenditures		
55,640	42,355	
60,934	60,936	
69,146	34,737	
Backlog for		
shipment in		
next 12		
months		
185,000		
157,830		
164,128		
183,847		
225,498		
123,382	-----	

Number of		
stockholders		
5,313	5,697	
5,113	5,720	
5,488	3,425	
Average		
number of		
employees		
3,340	3,361	
3,393	3,261	
2,994	1,950	
Sales per		
employee(8)		
277	287	246
252	257	328
-		

Note: Several acquisitions and divestitures have been made in past years. See Notes 2 and 3 to the financial statements for a description of these transactions.

- (1) Excludes sales from discontinued operations for the years 1997 and 1996, respectively of \$187,123 and \$275,641.
- (2) During fiscal 2000 and 1998, Piper Impact recorded a \$56.3 million and \$58.5 million, respectively, asset impairment charge as described by Statement of Financial Accounting Standards No. 121. See Footnote 4 to the financial statements for further information.

- (3) See Note 3 to the financial statements for further information regarding the loss on the sale of Piper Impact Europe.
- (4) Working capital provided by operations is a supplemental financial measurement used in the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital. Working capital from operations is calculated as income from continuing operations, net of taxes, adjusted for non-cash and nonrecurring items.
- (5) Includes gain on sale of discontinued operations.
- (6) Includes effect of Piper Impact's asset impairment charge (\$58.5 million in FY 1998) and gain on sale of discontinued operations (\$13 million in FY 1998).
- (7) Includes effect of Piper Impact's asset impairment charge (\$56.3 million in FY 2000) and the loss on sale of Piper Impact Europe (\$14.3 million in FY 2000).
- (8) Beginning in fiscal 2001, freight costs are no longer netted against sales, they are included in cost of sales. Prior year's net sales and sales ratios have been restated to conform to this presentation.

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

GENERAL

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Selected Financial Data and the 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 our 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, energy costs, interest rates, construction delays, market conditions for the Company's customers, any material changes in purchases by the Company's principal customers, 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, 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.

RESULTS OF OPERATIONS

Overview

Summary Information as % of Sales: (Dollars in millions)

FISCAL YEAR ENDED		
OCTOBER 31, 2001	2000	
1999 Dollar		
% of Dollar		
% of Dollar		
% of Amount		
Sales Amount		
Sales Amount		
Sales	-----	
-----	-----	
-	-----	---

Net Sales		
\$924.3	100%	
\$964.5	100%	
\$834.9	100%	
Cost of		
Sales	769.3	
83	796.4	83
664.7	80	
Selling,		

general and			
admin	54.2	6	
	53.5	5	53.1
		6	
Depreciation			
and			
amortization			
	43.5	5	47.9
		5	45.3
Piper Impact			
Impairment			
Charge	--	--	
	56.3	6	--
Loss on sale			
of Piper			
Impact			
Europe	--	--	
	14.3	1	--

-			

Operating			
Income			
(Loss)	57.3		
6%	(3.9)	0%	
	71.8	9%	
Interest			
Expense			
	(16.6)	(1)	
	(15.3)	(2)	
	(14.4)	(2)	
Capitalized			
Interest	1.7		
	0	1.9	0
	0	1.6	
Other, net			
	2.6	0	1.9
	0		
Income	1.4	0	
tax benefit			
(expense)			
	(16.2)	(2)	
	5.4	1	(21.1)
	(2)	-----	-

-			

Income			
(Loss)			
before			
extraordinary			
gain	\$ 28.8		
	3%	\$(10.0)	
	(1)%	\$ 39.3	
	5%	=====	
		=====	
		=====	

Despite a slow business environment, Quanex achieved relatively strong earnings for the fiscal year ended October 31, 2001. The Company was able to achieve sequentially better earnings quarter-

to-quarter during the year. A focus on reducing conversion and overhead costs, coupled with the introduction of new products, were the three key drivers, which helped the Company achieve these results.

Acquisitions / Divestitures Since October 31, 1998

In January 2000, the Company purchased from Alcoa, Inc. the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for \$9 million plus working capital valued at approximately \$13 million. The newly acquired facility became part of Quanex's flat-rolled aluminum sheet business - Nichols Aluminum (the aluminum mill sheet products segment). It was renamed Nichols Aluminum - Golden, Inc., ("Nichols Aluminum - Golden"), a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum-Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum-Golden can produce more than 50 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

In April 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately \$15 million. Imperial Products, Inc., now doing business as Imperial Fabricated Products ("Imperial"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's Engineered Products Group.

In July 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in The Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of \$14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a notional amount of 30 million Guilders was closed. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the charge on the sale of Piper Impact Europe.

On November 30, 2000, the Company completed the purchase of all of the Capital stock of Temroc Metals, Inc., a Minnesota corporation for approximately \$22 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Temroc has production facilities in Hamel, Minnesota, where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's Engineered Products Group and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products.

Business Segments

Business segments are reported in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131. SFAS No. 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

During fiscal 2001, the Company's operations were grouped into four business segments: (1) engineered steel bars, (2) aluminum mill sheet products, (3) engineered products, and (4) Piper Impact. General corporate expenses are classified as "Corporate and Other". During the latter portion of the fiscal year ending October 31, 2001, the Company completed a strategic review of its business, which resulted in a shift of strategy away from primarily a "process" oriented enterprise to a more "market focused" enterprise. The review underscored a high concentration of sales in two market segments - vehicular products and building products. Beginning in fiscal 2002, the Company will report operations in those two market focused segments. For financial information regarding each of Quanex's business segments as well as a presentation under the new segments, see Note 13 to the Consolidated Financial Statements.

The Company's engineered steel bar segment consists of manufacturing engineered steel bars, steel bar and tube heat treating services and steel bar

and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures aluminum window and patio door screens, window frames,

exterior door components and other roll formed products and stamped shapes. The Piper Impact segment manufactures impact-extruded aluminum and steel parts.

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

Years Ended October 31, ---	-----	-----	-----
-----	2001	2000	1999
-----	----	----	----
- (In thousands) Engineered Steel Bars: Net sales			
.....			
\$ 336,318	\$ 360,437	\$	
311,342	Operating income		
.....			
41,955	57,702	60,446	
Depreciation and amortization			
21,017	18,775	16,293	
Identifiable assets			
.....			
\$			
291,220	\$ 267,476	\$ 241,783	
Aluminum Mill Sheet Products:(1) Net sales			
.....			
\$ 380,068	\$ 415,777	\$	
320,283	Operating income		
.....		5,934	
21,529	15,306	Depreciation and amortization	
13,193	12,965	12,334	
Identifiable assets			
.....			
\$			
207,104	\$ 227,365	\$ 200,733	
Engineered Products:(2) Net sales			
.....			
\$ 146,487	\$ 106,865	\$	
94,476	Operating income		
.....			
19,983	14,301	13,006	
Depreciation and amortization			
5,070	3,443	3,349	
Identifiable assets			
.....			
\$			
88,424	\$ 65,527	\$ 46,977	
Piper Impact:(3) Net sales			
.....			
\$ 85,514	\$ 106,416	\$	
135,201	Operating income (loss)	3,256	
(82,470)	(853)	Depreciation and amortization	
3,686	12,362	12,836	
Identifiable assets			
.....			
\$ 47,490			
\$ 54,518	\$ 162,176		

- (1) Fiscal 2000 results include Nichols Aluminum-Golden operations since the acquisition date of January 25, 2000. See Note 2 to the consolidated financial statements.
- (2) Results include Imperial operations, acquired April 2000, and Temroc operations, acquired November 2000. See Note 2 to the consolidated financial statements.
- (3) Fiscal 2000 results include the one-time \$14.3 million loss on the sale of Piper Impact Europe and \$56.3 million asset impairment charge relating to Piper Impact facilities in New Albany, Mississippi. See Note 3 and 4 to the consolidated financial statements.

The engineered steel bar business, MACSTEEL, had a surprisingly strong fourth quarter finish to the year. Overall results for the year were excellent given the difficult steel market environment. MACSTEEL's sales for the year are off about 7% from the prior year, but the group gained market share within its vehicular products market. MACSTEEL continues to be rated number one in customer

service and quality in the engineered bar market and remains the supplier of choice for bar products. One of MACSTEEL's strengths is its ability to adjust to a changing marketplace. When business activity softens in its core market, as it did this year, MACSTEEL is able to shift into secondary markets such as energy and defense. While these markets and products typically don't have as good of a mix as traditional markets, these sales help improve overall results in difficult times. For fiscal 2001, MACSTEEL maintained strict control over its costs and the group benefited from favorable scrap pricing.

The aluminum mill sheet products business, Nichols Aluminum, operated profitably in a very difficult business environment. The group not only reported its highest operating income for the year in the fourth quarter, it also improved financial results sequentially throughout the year. Estimates from the Aluminum Association indicate that flat roll demand in our markets was down some 22% year over year, while at Nichols, output was off about 10% for the same period. Superior customer service along with excellent, consistent quality made the difference with customers.

The engineered products business set all-time records in net sales, cash from operations and operating income. While somewhat softer than this time last year, attractive interest rates continue to draw buyers into the housing market, and remodeling spending has held up well. The combination of improved productivity, profitable acquisitions (Imperial and Temroc), cost control and new product development all contributed to an outstanding performance for fiscal 2001.

Piper Impact reported four consecutive quarters of profitability in fiscal 2001 and demonstrated a substantial turnaround since 2000 for this business. More work and improvement are needed at Piper, but they are making progress. Focus remains on leaning-out manufacturing processes, fixed cost reductions and new product development. As business activity continues to shift away from

traditional air bag components to other vehicular product offerings, Piper has the management team to make this transition successful. It will not happen overnight, but the Company is confident they have the people, assets and processes in place to make a successful transition and improve results.

Outlook

Given the current uncertainty in the economy, it remains difficult to predict the demand level for the Company's two core markets, vehicular products and building products, in fiscal 2002.

The Company believes that the North American automotive build rate for fiscal 2002 will be in a range of 15 to 15.5 million units, certainly a bit slower than 2001, but still a good level. This build rate assumes some recovery will take place in the first half of 2002. Given this set of assumptions, taking into account new programs and the benefit of increased "in house" value added capacity at MACSTEEL, (a result of the Phase VI expansion at Michigan) as well as the lean manufacturing and continuing cost reduction programs at Piper, the Company's management is upbeat about fiscal 2002 and expects the vehicular segment's results to exceed fiscal 2001.

Demand during 2002 in the Company's building products market is anticipated to remain stable considering that projections for new home construction and residential remodeling activities remain at levels similar to 2001. Nichols Aluminum, however, continues to face a very difficult market environment as the aluminum market's capacity exceeds demand. Looking to the first half of 2002, the extreme pricing pressures and the resulting narrow spreads together with lower seasonal demand will continue to challenge them. The engineered products division, with its focus on increasing market share and reducing costs, anticipates improved results.

The Company's fiscal first quarter (November, December and January) is historically its least profitable of the year as there are fewer production days, the Company's vehicular and building products customers take holiday shutdowns and customers manage year-end inventories closely. First quarter 2002 earnings per share are expected to be near this year's \$0.27. For the year, we expect to again show sequentially improving quarterly results.

2001 Compared to 2000

Net sales - Consolidated net sales for fiscal 2001 were \$924.4 million, representing a decrease of \$40.2 million, or 4%, when compared to fiscal 2000. All operating segments, with the exception of the engineered products group experienced decreased net sales.

Net sales from the Company's engineered steel bar business for fiscal 2001 were \$336.3 million, representing a decrease of \$24.1 million, or 7%, when compared to fiscal 2000. This decrease was principally due to lower volume resulting from weaker markets in the transportation and capital goods industries as well as lower sales prices. The business continued to experience pricing pressures; however, due to the increased proportion of MACPLUS volume, a value added product, the impact on overall average sales price was lessened.

Net sales for fiscal 2001 from the Company's aluminum mill sheet products business decreased by \$35.7 million, or 9%, to \$380.1 million when compared to fiscal 2000. Fiscal 2001 included a full year of Nichols Aluminum Golden, which was acquired January 25, 2000. The decrease in net sales was due to lower volume as well as lower sales prices. Volume was affected by more severe winter weather during the first fiscal quarter than was experienced in the prior year, as well as a general economic slowdown. These factors negatively affected the building and construction and truck-trailer markets that Nichols Aluminum serves. Sales prices were also negatively impacted by the extremely competitive pricing environment, and the fact that other mills were aggressively seeking available business during the economic slowdown.

Net sales from the Company's engineered products business for fiscal 2001 were \$146.5 million, representing an increase of \$39.6 million, or 37%, from last year. The increase was largely due to the acquisition of Imperial in April of 2000 and Temroc, acquired November 2000. Additionally, the group's net sales improved at the other facilities, benefiting from the capital expansion project at AMSCO, which was completed in November 2000, and new product development initiatives.

Net sales for fiscal 2001 for the Company's Piper Impact business declined by \$20.9 million, or 20%, to \$85.5 million when compared to fiscal 2000. Net sales for the period ending October 31, 2000 included sales from Piper Impact Europe which was sold in July of 2000. Comparable net sales of Piper's operations, excluding Piper Europe, decreased 3% over the same prior year

periods. These results were impacted by declining aluminum air bag product sales and competitive pricing pressures.

Operating income - Consolidated operating income for fiscal 2001 was \$57.3 million, compared to \$66.6 million in 2000, excluding the \$14.3 million loss on the sale of Piper Impact Europe and the

\$56.3 million asset impairment charge. This represents a decrease of \$9.3 million, or 14%. During fiscal 2001, the engineered steel bar business and the aluminum mill sheet products business had decreased operating income while the engineered products and Piper Impact businesses had higher operating income.

Operating income from the Company's engineered steel bar business was \$42.0 million for fiscal 2001, representing a decrease of \$15.7 million, or 27%, when compared to fiscal 2000. The decrease was due largely to lower net sales resulting from the sluggish demand in the transportation and capital goods markets as well as competitive pricing pressures. Lower material scrap prices helped offset some of the impact of reduced volume and lower selling price. The business experienced increased utility costs as energy prices rose and recognized higher depreciation expense with the completion of capital projects.

Operating income for fiscal 2001 from the Company's aluminum mill sheet products business was \$5.9 million, representing a decrease of \$15.6 million, or 72%, from last year. This decrease was largely due to significantly lower net sales, lower spreads and higher energy costs.

Operating income from the Company's engineered products business was \$20.0 million for fiscal 2001, representing an increase of \$5.7 million, or 40%, from last year. This increase was due in part to the acquisition of Imperial, acquired in April of 2000 and Temroc, acquired in November of 2000. Additionally, operating income increased at the other facilities as a result of new product development and higher net sales along with cost control and improved productivity.

Operating income from the Company's Piper Impact business for fiscal 2001 was \$3.3 million, compared to an operating loss of \$11.9 million, excluding the one-time loss on the sale of Piper Impact Europe of \$14.3 million and the \$56.3 million asset impairment charge in the prior year. The fiscal 2000 operating loss also included operating losses from Piper Europe before its sale in July 2000. Comparative operating income excluding Piper Europe, improved \$12.7 million from the prior year's results, despite a decline in net sales. This improvement is a result of lower costs realized from cellular manufacturing and cost cutting efforts as well as a \$6.3 million reduction of depreciation expense. Depreciation expense decreased due to the asset impairment charge recorded in the fourth quarter of fiscal 2000.

In addition to the four operating segments mentioned above, operating expenses for corporate and other for fiscal 2001 were \$13.8 million, representing a decrease of \$1.2 million from the \$15.0 million recorded in fiscal 2000. Included in corporate and other are the corporate office expenses, impact of inventory accounting using LIFO method and inter-segment eliminations. See Notes 8 and 13 to the financial statements regarding LIFO valuation method of inventory accounting.

Selling, general and administrative expenses - Selling, general and administrative expenses increased by \$657 thousand, or 1%, in fiscal 2001 as compared to last year. This increase largely resulted from the following items: 1) acquisitions of Imperial in April 2000 and Temroc in November 2000 2) write-down of assets held for disposition to estimated realizable value in the corporate and other segment and 3) severance costs. These increases were partially offset, however, by 1) reduced expenses due to the sale of Piper Europe in July 2000, and 2) cost cutting initiatives throughout the Company.

Depreciation and amortization - Depreciation and amortization decreased by \$4.4 million, or 9%, in fiscal 2001 as compared to last year. The engineered steel bar, aluminum mill sheet products and engineered products segments' depreciation expense all increased as compared to last year due to the completion of capital projects as well as recent acquisitions. Piper Impact's depreciation and amortization decreased substantially from the prior year due to the sale of Piper Europe in July of 2000, as well as the reduced asset base, which resulted from the asset impairment charge recorded in the fourth quarter of fiscal 2000.

Interest expense - Interest expense increased by \$1.3 million, or 9%, in fiscal 2001 as compared to the prior year. The increase was primarily due to 1) higher outstanding debt balances during fiscal 2001 (resulting largely from the Temroc acquisition) and 2) the ineffective portion of the loss on certain interest rate swap derivatives recognized during that period. (See Note 11 and 17 to the financial statements.)

Capitalized interest - Capitalized interest decreased by \$275 thousand in fiscal 2001 as compared to fiscal 2000 primarily due to the completion of the Phase V capital project at MACSTEEL in December of 2000.

Other, net - "Other, net" increased by \$753 thousand in fiscal 2001 as

compared to last year primarily as a result of increased investment income.

Income before extraordinary gain - The Company earned income before extraordinary gain of \$28.8 million in fiscal 2001 compared to \$35.9 million in the prior year, excluding the \$9.3 million (net of tax) loss on the sale of Piper Impact Europe and the \$36.6 million (net of tax) asset impairment charge. This represents a decrease of \$7.0 million, or 20%, when compared to fiscal 2000. The decrease was largely due to lower operating income and increased interest expense. Additionally, the Company's effective income tax rate was 36% for fiscal 2001 compared to 35% in fiscal 2000.

Net income / loss - Fiscal 2001 net income was \$29.2 million, compared to a net loss of \$9.7 million for fiscal 2000. Included in the net loss for fiscal 2000 was a \$9.3 million (after-tax) loss on the sale of Piper Impact Europe and a \$36.6 million (after-tax) impairment charge associated with Piper Impact. Additionally, fiscal 2001 net loss included a \$372 thousand extraordinary gain on the early extinguishment of debt. Included in net income for fiscal 2000 was a \$358 thousand extraordinary gain on early extinguishment of debt.

2000 Compared to 1999

Net sales - Consolidated net sales for fiscal 2000 were \$964.5 million, representing an increase of \$129.6 million, or 16%, when compared to fiscal 1999. This increase reflects higher net sales at all of the business segments except Piper Impact. The acquisitions of Nichols Aluminum-Golden in January of 2000 and Imperial in April of 2000 contributed to this increase.

Net sales from the Company's engineered steel bar business for fiscal 2000, were \$360.4 million, representing an increase of \$49.1 million, or 16%, when compared to fiscal 1999. This increase was principally due to increased sales volumes as a result of strong primary transportation markets.

Net sales for fiscal 2000 from the Company's aluminum mill sheet products business increased by \$95.5 million, or 30%, to \$415.8 million when compared to fiscal 1999. This increase was due to increased volume from the seasonally strong construction market, increased selling prices resulting from sales of more value-added painted product and the acquisition of Nichols Aluminum-Golden in January 2000.

Net sales from the Company's engineered products business for fiscal 2000 were \$106.9 million, representing an increase of \$12.3 million, or 13%, from last year. The increase was largely due to the acquisition of Imperial in April of 2000.

Net sales for fiscal 2000 for the Company's Piper Impact business declined by \$28.8 million, or 21%, to \$106.4 million when compared to fiscal 1999. These results were impacted by the sale of Piper Impact Europe in July of 2000 as well as declining aluminum air bag product sales and competitive pricing pressures.

Operating income - Consolidated operating income for fiscal 2000 was \$66.6 million, excluding the \$14.3 million loss on the sale of Piper Impact Europe and the \$56.3 million asset impairment charge. This represents a decrease of \$5.1 million, or 7%, when compared to the operating income of \$71.8 million in fiscal 1999. During fiscal 2000, the aluminum mill sheet products business and the engineered products business had increased operating income while the engineered steel bar and Piper Impact businesses had lower operating income.

Operating income from the Company's engineered steel bar business was \$57.7 million for fiscal 2000, representing a decrease of \$2.7 million, or 5%, when compared to fiscal 1999. This lower operating income resulted despite higher net sales. The major factors in such decrease were lower realized spread as a result of higher material costs and pricing pressures as well as higher costs associated with outside processing. Depreciation expense for fiscal 2000 was also higher than the prior year due to the recent completion of certain capital projects.

Operating income for fiscal 2000 from the Company's aluminum mill sheet products business was \$21.5 million, representing an increase of \$6.2 million, or 41%, from last year. This increase was largely due to significantly higher sales attributable to increased volume and sale of more value-added products, stable spreads and contribution from Nichols Aluminum-Golden, acquired in January 2000.

Operating income from the Company's engineered products business was \$14.3 million for fiscal 2000, representing an increase of \$1.3 million, or 10%, from last year. The increase was due largely to increased volume and sale of more value-added, higher margin products, as well as the acquisition of Imperial in April 2000.

Operating losses from the Company's Piper Impact business for fiscal 2000 were \$11.9 million, excluding the one-time loss on the sale of Piper Impact Europe of \$14.3 million and the \$56.3 million asset impairment charge. See Note 4 to the financial statements. The operating loss for fiscal 1999 was \$853 thousand. The declining results are largely due to reduced sales of aluminum automotive airbag components, higher material costs and higher manufacturing costs associated with new product development as well as cellular manufacturing implementation.

In addition to the four operating segments mentioned above, operating expenses for corporate and other for fiscal 2000 were \$15.0 million, representing a decrease of \$1.1 million from the \$16.1 million recorded in fiscal 1999. Included in corporate and other are the corporate office expenses, impact of inventory accounting using LIFO method and inter-segment eliminations. See Notes 8 and 13 to the financial statements regarding LIFO valuation method of inventory accounting.

Selling, general and administrative expenses - Selling, general and administrative expenses increased by \$441 thousand, or 1%, in fiscal 2000 as compared to last year. This increase is largely a result of the acquisitions of Nichols Aluminum-Golden and Imperial as well as increased sales volume at most business segments.

Depreciation and amortization - Depreciation and amortization increased by \$2.6 million, or 6%, in fiscal 2000 as compared to last year. The increase is principally due to increased depreciation at the engineered steel bar, aluminum mill sheet products and engineered products businesses for recently completed projects, partially offset by lower depreciation at the Piper Impact business.

Interest expense - Interest expense increased by \$853 thousand in fiscal 2000 primarily resulting from additional borrowings made during the fiscal year to finance the acquisitions as well as higher interest rates.

Capitalized interest - Capitalized interest increased by \$330 thousand in fiscal 2000 as compared to fiscal 1999 primarily due to the completion of the Phase V capital project underway at MACSTEEL during 2000.

Other, net - "Other, net" increased by \$487 thousand in fiscal 2000 as compared to last year primarily as a result of increased investment income.

Income before extraordinary gain - The Company earned income before an extraordinary gain of \$35.9 million in fiscal 2000 excluding the \$9.3 million (net of tax) loss on the sale of Piper Impact Europe and the \$36.6 million (net of tax) asset impairment charge. This represents a decrease of \$3.4 million, or 9%, when compared to fiscal 1999 income before extraordinary gain of \$39.3 million. The decrease (excluding the loss on the sale of Piper Impact Europe and the Piper Impact asset impairment charge) in fiscal 2000 was principally due to lower operating earnings at the engineered steel bar and Piper Impact business segments partially offset by improved results in the other two business segments.

Net income / loss - Fiscal 2000 net loss was \$9.7 million, compared to net income of \$39.7 million for fiscal 1999. Included in the net loss for fiscal 2000 was a \$9.3 million (after-tax) loss on the sale of Piper Impact Europe and a \$36.6 million (after-tax) impairment charge associated with Piper Impact. Additionally, fiscal 2000 net loss included \$358 thousand extraordinary gain on the early extinguishment of debt. Included in net income for fiscal 1999 was a \$415 thousand extraordinary gain on early extinguishment of debt.

LIQUIDITY AND CAPITAL RESOURCES

Total capitalization at October 31, 2001 was \$500.0 million, consisting of \$220.0 million of debt and \$280.0 million of equity. The debt-to-capitalization ratio at the end of fiscal 2001 was 44.0% compared with 41.9% at the end of fiscal 2000. The higher debt-to-capitalization ratio results primarily from the borrowings made to finance the Temroc acquisition and the repayment of borrowings against life insurance policies.

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement currently consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003 and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. As of October 31, 2001, there was \$140 million outstanding under the Revolver. See footnote 11 to the financial statements for a detailed description of all of the Company's debt instruments, outstanding balances and aggregate maturities over each of the next

five years and beyond. The Company has started negotiations with a group of banks to replace the existing Bank Agreement with a new one during the fiscal year ending October 31, 2002.

The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. At October 31, 2001, retained earnings of approximately \$26 million were available for dividends and other restricted payments. As of October 31, 2001, the Company was in compliance with all covenants under the Bank Agreement.

The Company accepted unsolicited block offers to buy back \$4.6 and \$10.4 million principal amount of the 6.88% Convertible Subordinated Debentures for \$3.9 and \$9.6 million in cash during the years ended October 31, 2001 and 2000, respectively. An after tax extraordinary gain of \$372 and \$358 thousand was recorded on these transactions in those years, respectively. The outstanding balance of these debentures as of October 31, 2001 was \$58.7 million.

On June 1, 1999, the Company borrowed \$3 million through unsecured Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999.

On December 9, 1999, the Company announced that its Board of Directors approved a program to repurchase shares of the Company's common stock. Under terms of the program, the Company may periodically purchase up to a total of 2 million shares of its common stock in the open market or in privately negotiated transactions. The repurchase plan does not have a time limit, and funds for the program will be provided from the Company's available working capital and bank credit line. During the fiscal year ended October 31, 2001, the Company repurchased 119,000 shares for \$2.2 million. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares for \$17.2 million. See Note 15 to the financial statements.

At October 31, 2001, the Company had commitments of \$15 million for the purchase or construction of capital assets. The most significant project included in this total relates to the Company's continued expansion of value added product capability at MACSTEEL. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

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

Operating Activities

Cash provided by operating activities during fiscal 2001 was \$85.0 million, compared to \$77.9 million the prior year. This represents an increase of \$7.1 million, or 9%, compared to fiscal 2000, due largely to lower working capital requirements as a result of slowing business and a focused effort to optimize investment in working capital. The year ended October 31, 2001 included a tax refund of \$219 thousand, compared to a \$7.3 million refund in the prior year, which resulted from an overpayment in fiscal 1999.

Investment Activities

Net cash used by investment activities in fiscal 2001 was \$77.1 million compared to a use of cash of \$79.6 million in fiscal 2000. Fiscal 2001 cash from investing activities included the acquisition of Temroc Metals, whereas fiscal 2000 cash from investing activities included the acquisitions of Nichols Aluminum-Golden and Imperial. Net capital expenditures increased from \$42.3 million in 2000 to \$55.6 million in 2001. The Company estimates that fiscal 2002 capital expenditures will approximate \$43 million.

Financing Activities

Net cash used by financing activities for fiscal 2001 was \$692 thousand, compared to \$1.8 million in the prior year. During fiscal 2001, the Company had net bank borrowings of \$30 million, however it used \$3.9 million to purchase subordinated debentures and \$2.2 million to purchase Quanex common stock. Additionally, in fiscal 2001, Quanex repaid \$17.3 million of life insurance cash surrender value policy loans. During fiscal 2000, the Company had net bank borrowings of \$33.4 million and used \$9.6 million to purchase subordinated debentures and \$17.2 million to purchase Quanex common stock. Dividend payments amounted to \$8.6 million in fiscal 2001 and \$8.9 million in fiscal 2000. Proceeds from the issuance of stock totaled \$2.5 million in fiscal 2001 compared to \$1.0 million in fiscal 2000.

EFFECTS OF INFLATION

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

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards

for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which deferred the effective date of SFAS No. 133 until the Company's year ending October 31, 2001. The Company adopted SFAS No. 133, as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133", issued in June 2000, as of November 1, 2000. See Note 17 to the financial statements for further discussion.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101. SAB No. 101 provides the staff's views in applying Generally Accepted Accounting Principles ("GAAP") to revenue recognition in financial statements. It does not change any of the existing rules on revenue recognition. All registrants are expected to apply the accounting and disclosures described in this bulletin. SAB No. 101B delayed the implementation of SAB No. 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company adopted SAB No. 101B in the fourth fiscal quarter of the Company's year ending October 31, 2001. The impact was considered immaterial.

In coordination with SAB No. 101B, the Company also adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs". This EITF gives specific guidance related to recording shipping and handling fees such as freight. Prior to adoption of this EITF, the Company reflected freight costs in the "Net sales" item of the income statement. This EITF specifically states that freight costs are not to be netted against revenues. In accordance with this EITF, the Company now reflects freight costs as part of the "Cost of sales" item on the income statement. Prior periods information has been reclassified throughout this document.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations". SFAS No. 141 addresses financial accounting and reporting for business combinations. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The Company will follow the guidance of this statement for any future acquisitions it may undertake.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). Early application is permitted for entities with fiscal years beginning after March 15, 2001 (Quanex's fiscal year beginning November 1, 2001). The Company adopted this statement on November 1, 2001 for its fiscal year ended October 31, 2002. The Company is required to complete the initial step of a transitional impairment test within six months of adoption of SFAS No. 142 and to complete the final step of the transitional impairment test by the end of the fiscal year, if necessary. Any impairment loss resulting from the transitional impairment test would be recorded as a cumulative effect of a change in accounting principle for the quarter ended January 31, 2002. Subsequent impairment losses will be reflected in operating income or loss in the consolidated statements of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). The Company is currently evaluating the effects of adopting this pronouncement.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning

November 1, 2002). The Company is currently evaluating the effects of adopting this pronouncement.

ITEM 7A. QUANTITATIVE / QUALITATIVE DISCLOSURE

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. For a description of the Company's significant accounting policies associated with these activities, see Notes 1 and 17 to the Consolidated Financial Statements.

Interest Rate Risk

The Company and its subsidiaries have a Revolving Credit Facility, Convertible Subordinated Debentures, interest rate swap agreements and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates.

At October 31, 2001 and 2000, the Company had fixed-rate debt totaling \$73 and \$74 million, respectively. This debt is fixed-rate and, therefore, does not expose the Company to the risk of earnings loss due to changes in market interest rates. See Notes 11 and 17 to the Company's Consolidated Financial Statements. The conversion feature of the Company's Subordinated Debentures makes it impractical to estimate the effect of a hypothetical 10% change in interest rates. This is due to the correlation between the market value of these instruments and the market value of the Company's common stock. In general, any changes in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations total \$147.1 and \$117.6 million at October 31, 2001 and 2000, respectively. See Note 11 to the Company's Consolidated Financial Statements. The exposure of these obligations to increases in short-term interest rates is limited for \$100 million of this variable rate debt by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate, thus limiting the potential impact that increasing interest rates would have on earnings. Under these swap agreements, payments are made based on a fixed rate (\$50 million at 7.025%, and \$50 million at 6.755%) and received on a LIBOR based variable rate (2.31% and 6.76% at October 31, 2001 and 2000, respectively). At October 31, 2001 and 2000, the fair market value related to the interest rate swap agreements was a loss of \$7.3 million and \$918 thousand, respectively. If the floating rates were to change by 10% from October 31 levels, the fair market value of these swaps would change by approximately \$411 thousand and \$1.5 million as of October 31, 2001 and 2000, respectively. However, it should be noted that any change in value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the value of the underlying hedged item.

As mentioned above, \$100 million of the floating rate obligations are protected by interest swap agreements. To the extent these obligations exceed \$100 million, the Company is subject to changes in the underlying interest rates. For the years ended October 31, 2001 and 2000, the Company's floating rate obligations exceeded the amount covered by the swap agreements by \$47.1 and \$17.6 million, respectively. Increases or decreases in the underlying interest rates of the obligations would have a direct impact on interest expense for those uncovered balances.

Foreign Currency Exchange Rate Risk

The Company utilized a range forward zero-cost agreement to protect its initial equity investment in its Netherlands subsidiary, Piper Impact Europe, from fluctuations in US Dollar/Dutch Guilder exchange rates. This agreement, which was entered into with a major financial institution, had a notional value of 30 million guilders. By establishing minimum and maximum exchange rates, this agreement limited the potential devaluation of the Company's initial investment in its subsidiary while also limiting any potential appreciation. During the third quarter ended July 31, 2000, the Company sold the Piper Impact Europe subsidiary. As such, this range forward agreement was closed, realizing a gain of approximately \$1.7 million. This gain was offset against the loss on the sale of Piper Impact Europe, as the investment in Piper Impact Europe was the underlying hedged item.

Commodity Price Risk

In the normal course of business, the Company enters into long-term firm price

aluminum sheet sales contracts. In order to hedge the risk of higher prices for the anticipated aluminum purchases required to fulfill these long-term contracts, the Company enters into long futures positions. At October 31, 2001 and 2000, the Company had open futures contracts for aluminum pounds with fair values of \$27.1 and \$17.6 million, respectively. The contracts had fair value losses of \$1.8 million and \$372 thousand at October 31, 2001 and 2000, respectively, and covered a notional volume of 45,415,185 and 25,738,940 pounds of aluminum, respectively. A hypothetical 10% change from the

October 31, 2001 and 2000 average London Metal Exchange ("LME") ingot price on open contracts of \$.596 and \$.682, respectively, per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately \$2.7 million and \$1.8 million, respectively. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap. See Note 17 to the financial statements for further information.

Item 8. Financial Statements and Supplementary Data

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Quanex Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2001. Our audits also included the financial statement schedule listed in the index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Houston, Texas
November 27, 2001

RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

/s/ Raymond A. Jean

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

/s/ Terry M. Murphy

Terry M. Murphy
Vice President - Finance and Chief
Financial Officer

Quanex Corporation
CONSOLIDATED BALANCE SHEETS

October 31, 2001		2000		(In thousands)		ASSETS		
Current assets: Cash and equivalents								
						\$	29,573	
\$ 22,409								
Accounts and notes receivable, less allowance for doubtful accounts of \$8,953,000 in 2001 and \$11,240,000 in 2000								
	109,706	98,465						
Inventories								
	83,109	101,274						
Deferred income taxes								
						10,907		
Other current assets								
						3,583		
1,027	----- Total current assets							
						236,878		
Property, plant and equipment, net								
						357,635	338,248	
Goodwill, net								
59,226	47,539							
Cash surrender value insurance policies, net								
						37,300	15,909	
Other assets								
6,592	8,217			\$ 697,631	\$ 645,859	=====	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY								
Current liabilities: Accounts payable								
						\$		
	76,831	\$ 77,339						
Accrued expenses								
	50,659	50,189						
Current maturities of long-term debt								
						420	256	
Income taxes payable								
	1,087	3,218						
Other current liabilities								
						5,593	-- --	
----- Total current liabilities								
						134,590	131,002	
Long-term debt								
	219,608	191,657						
Deferred pension credits								
						7,962		
Deferred postretirement welfare benefits								
	7,026					7,777	7,634	
Deferred income taxes								
						29,282		
Other liabilities								
	18,435	14,423						
----- Total liabilities								
						417,654		
Stockholders' equity: Preferred stock, no par value, 1,000,000 shares authorized; issued & outstanding - none in 2001 and 2000								
				-- --				
Common stock, \$.50 par value, 50,000,000 shares authorized; 14,085,642 and 14,220,666 shares issued in 2001 and 2000, respectively								
						7,043	7,110	
Additional paid-in capital								
						108,314		
Retained earnings								
	186,274	165,841						
Unearned compensation								
						(897)		
(467) Accumulated other comprehensive income								
				(7,212)	(301)	-----	-----	
293,522	283,244							
Less common stock held by rabbi trust - 42,484 and 147,689 shares in 2001 and 2000, respectively								
						(873)	(3,349)	
Less cost of shares of common stock in treasury (633,935 and 677,526 shares in 2001 and 2000, respectively)								
						(12,672)	(13,398)	
----- Total stockholders' equity								
						279,977	266,497	
----- \$ 697,631 \$ 645,859 ===== =====								

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF INCOME

```

=====
Years ended October 31, 2001 2000 1999 -----
----- (In thousands, except per
share amounts) Net sales
.....
$ 924,353 $ 964,518 $ 834,902 Costs and expenses:
Cost of sales
.....
769,328 796,434 664,719 Selling, general and
administrative ..... 54,202
53,545 53,104 Depreciation and amortization
..... 43,507 47,921 45,322
Loss on sale of Piper Impact Europe
..... -- 14,280 -- Piper Impact
asset impairment charge ..... --
56,300 -- -----
Operating income (loss)
..... 57,316
(3,962) 71,757 Other income (expense): Interest
expense .....
(16,555) (15,255) (14,402) Capitalized interest
..... 1,666 1,941
1,611 Other, net
.....
2,623 1,870 1,383 -----
- Income (loss) before income taxes and
extraordinary gain ... 45,050 (15,406) 60,349
Income tax benefit (expense)
..... (16,228) 5,383
(21,048) ----- Income
(loss) before extraordinary gain
..... 28,822 (10,023) 39,301
Extraordinary gain on early extinguishment of
debt, net of income taxes
..... 372 358 415
----- Net income
(loss) attributable to common stockholders .....
$ 29,194 $ (9,665) $ 39,716 =====
===== Earnings (loss) per common share:
Basic: Before extraordinary gain
..... $ 2.15 $ (0.73) $
2.76 Extraordinary gain
..... 0.03 0.03
0.03 ----- Total basic
net earnings (loss) ..... $ 2.18 $
(0.70) $ 2.79 =====
Diluted: Before extraordinary gain
..... $ 2.05 $ (0.73) $
2.56 Extraordinary gain
..... 0.02 0.03
0.03 ----- Total
diluted net earnings (loss) ..... $
2.07 $ (0.70) $ 2.59 =====
===== Weighted average number of shares
outstanding Basic
.....
13,399 13,727 14,234 Diluted
.....
15,426 13,727 16,776
=====

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See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollar amounts in thousands)

Additional Years
Ended October
31, 2001,
Comprehensive
Common Paid-in
Retained 2000,
and 1999 Income
Stock Capital
Earnings -----

---- Balance at
October 31, 1998

\$ 7,090 \$
108,624 \$
156,278

Comprehensive
income: Net
income \$ 39,716
39,716

Adjustment for
minimum pension
liability (net
of tax expense
of \$395) 618

Foreign currency
translation
adjustment
(1,435) -----

- Total

Comprehensive
income \$ 38,899

Common dividends
(\$.64 per share)

(9,124) Common
stock held by
Rabbi Trust

Other 45 1,693
(3) -----

Balance at

October 31, 1999

\$ 7,135 \$
110,317 \$
186,867

Comprehensive
loss: Net loss \$
(9,665) (9,665)

Adjustment for
minimum pension
liability (net
of tax expense
of \$103) 161

Foreign currency
translation
adjustment 303 -

Total

Comprehensive
loss \$ (9,201)

Common dividends
(\$.64 per share)

(8,884) Common
stock held by
Rabbi Trust

Cost
of common stock
in treasury
Other (25) 744
(2,477) -----

Balance at

October 31, 2000

\$ 7,110 \$
 111,061 \$
 165,841
 Comprehensive
 income: Net
 income \$ 29,194
 29,194
 Adjustment for
 minimum pension
 liability (net
 of tax expense
 of \$965) (1,508)
 Adoption of SFAS
 133: Current
 period hedging
 transactions
 (7,478)
 Reclassifications
 into earnings
 2,075 -----
 Total
 Comprehensive
 income \$ 22,283
 Common dividends
 (\$.64 per share)
 (8,621) Common
 stock held by
 Rabbi Trust Cost
 of common stock
 in treasury
 Other (67)
 (2,747) (140) --

 ----- Balance at
 October 31, 2001
 \$ 7,043 \$
 108,314 \$
 186,274
 Accumulated
 Other
 Comprehensive
 Income -----

 Minimum Foreign
 Derivative
 Treasury Total
 Years Ended
 October 31,
 2001, Pension
 Currency Gain
 Stock and
 Stockholders'
 2000, and 1999
 Liability
 Translation
 (Loss) Other
 Equity -----

 Balance at
 October 31, 1998
 \$ (1,080) \$
 1,132 \$ -- \$ --
 \$ 272,044
 Comprehensive
 income: 39,716
 Net income
 Adjustment for
 minimum pension
 liability (net
 of tax expense
 of \$395) 618 618
 Foreign currency
 translation
 adjustment
 (1,435) (1,435)
 Total
 Comprehensive

income Common
dividends (\$.64
per share)
(9,124) Common
stock held by
Rabbi Trust
(2,322) (2,322)
Other (171)
1,564 -----

----- Balance
at October 31,
1999 \$ (462) \$
(303) \$ -- \$
(2,493) \$
301,061

Comprehensive
loss: Net loss
(9,665)

Adjustment for
minimum pension
liability (net
of tax expense
of \$103) 161 161
Foreign currency
translation
adjustment 303
303 Total

Comprehensive
loss Common
dividends (\$.64
per share)
(8,884) Common
stock held by
Rabbi Trust
(1,027) (1,027)
Cost of common
stock in
treasury
(13,398)
(13,398) Other
(296) (2,054) --

----- Balance at
October 31, 2000
\$ (301) \$ -- \$ -
- \$ (17,214) \$
266,497

Comprehensive
income: Net
income 29,194
Adjustment for
minimum pension
liability (net
of tax expense
of \$965) (1,508)
(1,508) Adoption
of SFAS 133:

Current period
hedging
transactions
(7,478) (7,478)
Reclassifications
into earnings
2,075 2,075
Total

Comprehensive
income Common
dividends (\$.64
per share)
(8,621) Common
stock held by
Rabbi Trust
2,476 2,476 Cost
of common stock
in treasury 726
726 Other (430)
(3,384) -----

Balance at
October 31, 2001
\$ (1,809) \$ -- \$
 (5,403) \$
 (14,442) \$
 279,977

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONT.)

Preferred
Shares
Common
Shares ----

Years Ended
October 31,
2001, Rabbi
Net 2000
and 1999
Issued
Issued
Treasury
Trust
Outstanding

- Balance
at October
31, 1998 --
14,179,834
-- --

14,179,834
Stock
issued -
options
exercised
14,000
14,000

Stock
issued -
compensation
plans
75,966
75,966

Rabbi Trust
(94,606)
(94,606) --

Balance at
October 31,
1999 --

14,269,800
-- (94,606)
14,175,194

Shares
purchased
and
cancelled
(156,700)
(156,700)

Treasury
shares
purchased
(677,600)
(677,600)

Stock
issued -
options
exercised

3,337 74
 3,411 Stock
 issued -
 compensation
 plans
 104,229
 104,229
 Rabbi Trust
 (53,083)
 (53,083) --

 Balance at
 October 31,
 2000 --
 14,220,666
 (677,526)
 (147,689)
 13,395,451
 Treasury
 shares
 purchased
 (119,000)
 (119,000)
 Stock
 issued -
 options
 exercised
 47,960
 47,960
 Stock
 issued -
 compensation
 plans
 84,812
 84,812
 Rabbi Trust
 (135,024)
 29,819
 105,205 --

 Balance at
 October 31,
 2001 --
 14,085,642
 (633,935)
 (42,484)
 13,409,223

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended October 31, 2001	2000	1999	(In thousands)
OPERATING ACTIVITIES: Net Income (Loss)			
\$ 29,194	\$ (9,665)	\$ 39,716	Adjustments to reconcile net income (loss) to cash provided by operating activities: Piper Impact asset impairment charge (net of deferred taxes of \$19,705 in fiscal 2000)
36,595	--	--	Loss on sale of Piper Impact Europe (net of taxes of \$4,998)
--	9,282	--	Extraordinary gain on early extinguishment of debt (net of taxes of \$200, \$192 and \$223 in fiscal 2001, 2000 and 1999, respectively)
(372)	(358)	(415)	Depreciation and amortization
48,445	45,883		Deferred income taxes
		2,357	5,483
10,150			Deferred pension and postretirement benefits
	(1,231)	659	(429)
			Changes in assets and liabilities net of effects from acquisitions and dispositions: Increase in accounts and notes receivable
(7,917)	(9,149)	(2,665)	Decrease (increase) in inventory
		20,808	(12,474)
			6,485
			Increase (decrease) in accounts payable
	(2,569)	5,412	(4,648)
			Decrease in accrued expenses
(911)	(6,314)	(1,510)	Other, net (including income tax refund)
		1,681	9,954
			(14,879)
			Cash provided by operating activities
		84,950	77,870
			77,688
INVESTMENT ACTIVITIES: Acquisition of Temroc Metals, Inc., net of cash and equivalents acquired			
(17,922)	--	--	Acquisition of Golden Aluminum, net of cash and equivalents acquired
(20,148)	--	--	Acquisition of Imperial Fabricated Products, net of cash and equivalents acquired
	(15,303)	--	Capital expenditures, net of retirements
	(42,327)	(60,848)	Other, net
(3,597)	(1,809)	(1,832)	Cash used by investment activities
(79,587)	(62,680)		Cash provided (used) by operating and investment activities
		7,856	(1,717)
		15,008	FINANCING ACTIVITIES: Bank borrowings, net
			30,000
33,394	1,035		Repayment of borrowing on insurance policies
	(17,273)	--	Purchase of subordinated debentures
(3,942)	(9,586)	(8,799)	Purchase of Quanex common stock
		(2,226)	(17,185)
			Common stock dividends paid
	(8,621)	(8,884)	
(9,124)			Issuance of common stock, net
		2,473	1,002
			1,567
			Other, net
(1,103)	(556)	(60)	Cash used by financing activities
(15,381)			Effect of exchange rate changes on cash and equivalents
		67	(32)
			Increase (decrease) in cash and equivalents
		7,164	(3,465)
			(405)
			Cash and equivalents at beginning of period
		22,409	25,874
			26,279
			Cash and equivalents at end of period
		\$ 29,573	\$ 22,409
		\$ 25,874	\$ 22,409

See notes to consolidated financial statements.

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1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

SCOPE OF OPERATIONS

The Company operates primarily in four industry segments: manufacturing of engineered steel bars, aluminum mill sheet products, engineered products and Piper Impact's impact extrusion products. The Company's products include engineered steel bars, coiled aluminum sheet (mill finish and coated), aluminum and steel fabricated products and impact extrusions. The Company's manufacturing operations are conducted primarily in the United States.

REVENUES

The Company recognizes revenues when products are shipped and the title and risk of ownership pass to the customer.

STATEMENTS OF CASH FLOWS

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 2001, 2000, and 1999, cash paid for income taxes was \$11,324,000, \$10,650,000, and \$22,005,000, respectively. These amounts are before refunds of \$219,000, \$7,290,000, and \$1,181,000, respectively. Cash paid for interest for fiscal 2001, 2000, and 1999 was \$15,894,000, \$14,421,000, and \$13,931,000, respectively.

INVENTORIES

Inventories are valued at the lower of cost or market. The accounting methods used in valuing the Company's inventories are described in Note 8.

LONG-LIVED ASSETS

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

Years -----	Land
	improvements
.....	10 to
	25 Buildings
.....	
	10 to 40 Machinery and
	equipment
	3
	to 20

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years for the goodwill resulting from the acquisition of Nichols Homeshield in 1989, and over twenty-five years for the goodwill resulting from all other acquisitions (See Note 2). At October 31, 2001 and 2000, accumulated amortization was approximately \$14,069,000 and \$11,746,000, respectively. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142 as of November 1, 2002. This standard requires that goodwill no longer be amortized. See further discussion about this SFAS in the "New Accounting Pronouncements" discussion of this footnote.

In accordance with SFAS No. 121, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the

carrying amount of such assets may not be recoverable. See Note 4 regarding the impact of this statement.

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HEDGING

The Company enters into various derivative instruments to protect itself from fluctuating prices and interest rates. The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. The Company enters into interest rate swap agreements, which effectively exchange variable interest rate debt for fixed interest rate debt. The agreements are used to reduce the exposure to possible increases in interest rates. The Company enters into these swap agreements with major financial institutions. Prior to the sale of Piper Impact Europe, the Company used foreign currency swap agreements to protect the value of its investment in Piper Impact Europe as well as to protect itself from currency fluctuations on certain sales and purchases. The impact of the foreign currency instruments, which protected the investment in Piper Impact Europe, was recorded as a foreign currency translation adjustment in the equity section of the financial statements when exchange rates went outside of the limits set forth in the agreement.

As of November 1, 2000, the Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Prior to November 1, 2000, the gains and losses on the forward contracts related to the sales and purchases were deferred off-balance sheet and included as a component of the related transaction when recorded. See Note 17 for further discussion of such financial instruments.

EARNINGS PER SHARE DATA

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates, and income and expense items are translated at the average exchange rates for the year. Resulting translation adjustments are reported as a separate component of stockholders' equity.

USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to fiscal 2001 presentations.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133", which deferred the effective date of SFAS No. 133

until the Company's year ending October 31, 2001. The Company adopted SFAS No. 133, as amended by SFAS No. 138 "Accounting for Certain

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Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133", issued in June 2000, as of November 1, 2000. See Note 17 to the financial statements for further discussion.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101. SAB No. 101 provides the staff's views in applying Generally Accepted Accounting Principles ("GAAP") to revenue recognition in financial statements. It does not change any of the existing rules on revenue recognition. All registrants are expected to apply the accounting and disclosures described in this bulletin. SAB No. 101B delayed the implementation of SAB No. 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company adopted SAB No. 101B in the fourth fiscal quarter of the Company's year ending October 31, 2001. The impact was considered immaterial.

In coordination with SAB No. 101B, the Company also adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs". This EITF gives specific guidance related to recording shipping and handling fees such as freight. Prior to adoption of this EITF, the Company reflected freight costs in the "Net sales" item of the income statement. This EITF specifically states that freight costs are not to be netted against revenues. In accordance with this EITF, the Company now reflects freight costs as part of the "Cost of sales" item on the income statement. Prior periods information has been reclassified throughout this document.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations". SFAS No. 141 addresses financial accounting and reporting for business combinations. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement also applies to all business combinations accounted for using the purchase method for which the date of acquisition is July 1, 2001, or later. The Company will follow the guidance of this statement for any future acquisitions it may undertake.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets. It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS No. 142, goodwill is no longer amortized, but reviewed for impairment annually, or more frequently if certain indicators arise. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). Early application is permitted for entities with fiscal years beginning after March 15, 2001 (Quanex's fiscal year beginning November 1, 2001). The Company adopted this statement on November 1, 2001 for its fiscal year ended October 31, 2002. The Company is required to complete the initial step of a transitional impairment test within six months of adoption of SFAS No. 142 and to complete the final step of the transitional impairment test by the end of the fiscal year, if necessary. Any impairment loss resulting from the transitional impairment test would be recorded as a cumulative effect of a change in accounting principle for the quarter ended January 31, 2002. Subsequent impairment losses will be reflected in operating income or loss in the consolidated statements of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). The Company is currently evaluating the effects of adopting this pronouncement.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). The Company is currently evaluating the effects of adopting

this pronouncement.

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2. ACQUISITIONS

On January 25, 2000, the Company completed the purchase from Alcoa, Inc. of the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for \$9 million plus working capital valued at approximately \$13 million. The newly acquired facility has become part of Quanex's flat-rolled aluminum sheet business - Nichols Aluminum (the aluminum mill sheet products segment). It has been renamed Nichols Aluminum-Golden, Inc., ("Nichols Aluminum-Golden"), a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum-Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum-Golden can produce more than 50 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

On April 3, 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately \$15 million. Imperial Products, Inc., now doing business as Imperial Fabricated Products ("Imperial"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's Engineered Products Group. Goodwill associated with Imperial is approximately \$11 million.

On November 30, 2000, Quanex completed the purchase of all of the capital stock of Temroc Metals, Inc., ("Temroc"), a Minnesota corporation, for approximately \$22 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Goodwill associated with Temroc is approximately \$14 million.

Temroc is a leading aluminum extrusion and fabrication company based in Hamel, Minnesota where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's Engineered Products Group and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products. To finance the acquisition, the Company borrowed against its existing \$250 million unsecured revolving credit and term loan facility with a group of six banks.

3. DISPOSED OPERATIONS

On July 19, 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in The Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of \$14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a notional amount of 30 million Guilders was cashed in. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the loss on the sale of Piper Impact Europe.

4. PIPER IMPACT IMPAIRMENT DISCLOSURE

Under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", companies must review the carrying amount of long-lived assets and certain intangibles, including related goodwill, whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable.

Fiscal 1998

During the year ended October 31, 1998, the Company recorded an asset impairment/restructuring charge of \$58.5 million related to Piper Impact. Components of this special charge included \$51.2 million for goodwill impairment; \$6.7 million for impairment of property, plant and equipment; and \$600 thousand for severance benefits to be paid to employees of the Park City, Utah plant. The charge resulted in an after-tax impact on net income of \$38.0 million or \$2.68 per share.

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Piper Impact experienced significant changes in market conditions and the relationship with its major customer in fiscal 1998, which led to substantial declines in sales and operating cash flow. Management began an evaluation of the operations of Piper Impact in August 1998. As a result of this evaluation, in September 1998, management approved a plan to close the Park City, Utah Quanex Corporation facility and move its production to the New Albany, Mississippi facility. Production ceased at the Utah facility and its operations were consolidated in Mississippi by May 1999.

Due to the significance of the changes discussed above and the decision to close one of the acquired production facilities, management performed an evaluation of the recoverability of all of the assets of Piper Impact, excluding the steel plant which was new at the time, as described in SFAS No. 121. Management concluded from the results of this evaluation that a significant impairment of intangible as well as long-lived assets had occurred. An impairment charge was required because the estimated fair value was less than the carrying value of the assets. Fair value of Piper Impact's net assets was determined by discounting estimated future cashflows using a discount rate commensurate with the risks involved. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results may vary significantly from management's estimates.

Fiscal 2000

An asset impairment charge in the amount of \$56.3 million was recorded in the fourth quarter of fiscal 2000 related to the property, plant and equipment of Piper Impact. The impairment charge resulted in an after-tax impact on net income of \$36.6 million or \$2.67 per share.

Piper Impact experienced declines in sales and operating cash flow during fiscal 1999 and fiscal 2000. The declining results were primarily due to decreased demand for aluminum airbag components from Piper Impact's most significant customer. Although the management of Piper Impact conducted negotiations with this customer in an attempt to obtain a price increase and a commitment for future sourcing of impacted aluminum and steel airbag components, management became less optimistic about any near-term prospects for price increase without losing a significant amount of business from this customer. Additionally, opportunities for new products did not materialize at a rate necessary to offset the continued declining volume of airbag components. Consequently, in the fourth quarter of fiscal 2000, it became necessary to once again assess Piper Impact for asset impairment as required under SFAS No. 121.

Management again performed an evaluation of the recoverability of all of the assets of Piper Impact, this time including the steel plant, as described in SFAS No. 121. Management concluded from the results of this evaluation that a significant impairment of long-lived assets had occurred. An impairment charge was required because the estimated fair value was less than the carrying value of the assets. Fair value of Piper Impact's net assets was determined by discounting estimated future cashflows using a discount rate commensurate with the risks involved. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results may vary significantly from management's estimates.

5. EXTRAORDINARY ITEM

During the twelve months ended October 31, 2001, the Company accepted unsolicited block offers to buy back \$4.6 million principal amount of the 6.88% Convertible Subordinated Debentures for \$3.9 million in cash. An after tax extraordinary gain of \$372 thousand was recorded on this transaction. The principal amount of the convertible subordinated debentures outstanding as of October 31, 2001 was \$58,727,300.

During fiscal 2000, the Company accepted unsolicited block offers to buy back \$10.4 million principal amount of the 6.88% Convertible Subordinated Debentures for \$9.6 million in cash. An after-tax extraordinary gain of \$358 thousand was recorded on these transactions.

During fiscal 1999, the Company accepted unsolicited block offers to buy back \$9.7 million principal amount of the 6.88% Convertible Subordinated Debentures for \$8.8 million in cash. An after-tax extraordinary gain of \$415 thousand was recorded on these transactions in the second fiscal quarter of 1999.

6. EARNINGS PER SHARE

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

For the Year Ended October 31, 2001		Numerator		Denominator Per Share		(Income) (Shares) Amount	
BASIC EPS							
Income before extraordinary gain	.....	\$28,822	13,399	\$	2.15		
Extraordinary gain on early extinguishment of debt	.....	372	0.03				
Total basic net income							
	.....	\$29,194		\$	2.18		
EFFECT OF DILUTIVE SECURITIES							
Effect of common stock equivalents arising from stock options	.....					
-- 58 Effect of common stock held by rabbi trust	.....					
-- 74 Effect of conversion of subordinated debentures	.....	2,810	1,895				
DILUTED EPS							
Income before extraordinary gain	.....	31,632	15,426	\$	2.05		
Extraordinary gain on early extinguishment of debt	.....	372	0.02				
Total diluted net income							
	.....	\$32,004		\$	2.07		

For the Year Ended October 31, 2000		Numerator		Denominator Per Share		(Loss) (Shares) Amount	
BASIC AND DILUTED(1) EPS							
Loss before extraordinary gain	.....	\$(10,023)	13,727	\$	(0.73)		
Extraordinary gain on early extinguishment of debt	.....	358	0.03				
Total basic and diluted net loss							
	.....	\$(9,665)		\$	(0.70)		

For the Year Ended October 31, 1999		Numerator		Denominator Per Share		(Income) (Shares) Amount	
BASIC EPS							
Income before extraordinary gain	.....	\$ 39,301	14,234	\$	2.76		
Extraordinary gain on early extinguishment of debt	.....	415	0.03				
Total basic net income							
	.....	\$ 39,716		\$	2.79		
EFFECT OF DILUTIVE SECURITIES							
Effect of common stock equivalents arising from stock options	.....					
-- 56 Effect of common stock held by rabbi trust	.....					
-- 16 Effect of conversion of subordinated debentures	.....	3,663	2,470				
DILUTED EPS							
Income before extraordinary gain	.....	42,964	16,776	\$	2.56		
Extraordinary gain on early extinguishment of debt	.....	415	0.03				
Total diluted net income							
	.....	\$ 43,379		\$	2.59		

(1) The effect of certain securities or debentures are anti-dilutive and, therefore, not included in the diluted earnings per share calculation. As a result, diluted EPS is the same as basic EPS.

7. INCOME TAXES

Income taxes are provided on taxable income at the statutory rates applicable to such income.

Income tax expense (benefit) consists of the following:

Years Ended October 31, -----	-----	-----
- 2001 2000 1999 -----	-----	-----
----- (In thousands)	-----	-----
Current: Federal		
.....		
\$ 7,901 \$ 10,890 \$ 17,819 State		
.....		
1,105 847 1,066 Foreign		
.....		
-- (1,067) (372) -----		
----- 9,006 10,670		
18,513 Deferred		
.....		
7,222 (16,053) 2,535 -----		
----- Income tax		
expense (benefit)		
16,228 (5,383) 21,048 Income		
taxes from extinguishment of		
debt 200 192 223 -----		
----- Total		
.....		
\$ 16,428 \$ (5,191) \$ 21,271		
=====		

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's net deferred tax liability are as follows:

October 31, -----	-----	2001
2000 -----	-----	(In thousands)
Deferred tax liability: Property, plant and		
equipment	\$ 40,791	\$
34,555 Other		
.....		
21,050 24,002 -----	-----	61,841
58,557 -----	-----	Deferred tax
assets: Intangibles		
.....		
13,800 15,221 Postretirement benefit		
obligation	3,472	3,381
Other employee benefit obligations		
.....	9,535	10,281
Environmental		
accruals	7,583	
7,662 Other		
.....		
9,076 7,163 -----	-----	43,466 43,708
-----	-----	Net deferred tax liability
.....	\$ 18,375	\$ 14,849
=====	=====	Deferred income tax non-
current liability	\$ 29,282	\$
27,620 Deferred tax current assets		
.....	(10,907)	(12,771)
-----	-----	Net deferred tax liability
.....	\$ 18,375	\$ 14,849
=====	=====	

No U.S. deferred taxes were provided on the Company's foreign subsidiary's cumulative undistributed losses of \$(1,782,000). The foreign subsidiary was sold in July 2000.

Income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income before income taxes and extraordinary gain for the following reasons:

Years Ended October 31, -----	2001	2000	1999	-----
----- (In thousands) Income tax expense (benefit) at statutory tax rate	.... \$ 15,768	\$ (5,392)	\$ 21,123	Increase
(decrease) in taxes resulting from: State income taxes, net of federal effect	..... 772	(148)	1,118	Goodwill
..... 664	420	334	Other items, net	
..... (976)				
(263) (1,527) -----				\$
16,228 \$ (5,383) \$ 21,048	=====	=====	=====	
	=====			

The Company reached a settlement with the Internal Revenue Service with respect to the tax audits of fiscal year 1996 and certain portions of fiscal year 1997. The Company has filed a petition in Tax Court regarding the disallowance of a capital loss generated in 1997.

During 2001, the Company made tax and interest payments of \$1,745,000. Adequate provision had been made in prior years and the settlement did not have a material effect on earnings.

8. INVENTORIES

Inventories consist of the following:

October 31, -----	2001	2000	---
----- (In thousands) Raw materials	..... \$ 20,097	\$	
26,473 Finished goods and work in process	..... 55,757	67,981	-----
..... 75,854	94,454	Other	
..... 7,255			
6,820 -----			Total
..... \$ 83,109			
\$101,274 =====	=====	=====	The values of
inventories in the consolidated balance sheets are based on the following accounting methods:			
LIFO.....	\$ 56,691	\$ 69,028	
FIFO.....	26,418	32,246	-----
Total.....	\$ 83,109	\$101,274	=====

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$5,400,000 and \$10,000,000 at October 31, 2001 and 2000, respectively.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

October 31, -----		
--- 2001 2000 -----		
(In thousands) Land and land		
improvements	\$	
20,389	\$	19,435
Buildings		
106,876		98,031
Machinery and		
equipment		
564,300		535,841
Construction in		
progress		
45,387		28,685
Less accumulated		
depreciation and amortization		
(379,317)		(343,744)
-----		-----
---- \$ 357,635		\$ 338,248
=====		=====

The Company had commitments for the purchase or construction of capital assets amounting to approximately \$15 million at October 31, 2001.

10. ACCRUED EXPENSES

Accrued expenses consist of the following:

October 31, -----	2001	2000	-
----- (In thousands) Accrued			
contribution to pension funds			
\$ 1,760	\$	1,492	Interest
.....			
1,653	2,314	Payroll, payroll taxes and	
employee benefits	28,609	28,298	State
and local taxes			
.....	3,892	2,910	Other
.....			
14,745	15,175	-----	\$50,659 \$50,189
-----	-----	-----	=====

11. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

October 31, -----	2001	2000	-----
----- (In thousands) "Bank Agreement" Revolver			
.....	\$140,000	\$110,000	
Convertible subordinated debentures			
.....	58,727	63,337	Industrial
Revenue and Economic Development Bonds, unsecured,			
principle due in the years 2005 and 2010, bearing			
interest ranging from 6.50% to 8.375%			
.....	3,275	3,275	State of
Alabama Industrial Development Bonds			
4,500	4,755	Scott County, Iowa Industrial Waste Recycling	
Revenue Bonds	2,600	2,800	Temroc Industrial
Development Revenue Bonds	2,608	--	
Other			
.....	8,318	7,746	-----
Less			\$220,028 \$191,913
maturities due within one year included in current			
liabilities			
.....			420
256	-----	-----	\$219,608 \$191,657
-----	-----	-----	=====

In July 1996, the Company entered into an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists

of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003, and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear

=====
 interest, at the option of the Company, at either (a) the prime rate or the federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. At October 31, 2001 and 2000, the Company had \$140 and \$110 million, respectively, outstanding under the Revolver. The weighted average interest rates on borrowings under the Revolver were 6.03%, 7.0%, and 5.7%, in 2001, 2000 and 1999, respectively. As of October 31, 2001, the Company was in compliance with all Bank Agreement covenants. Under the Company's most restrictive loan covenants, retained earnings of approximately \$26 million at October 31, 2001 were available for dividends and other restricted payments.

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

During fiscal 2001, 2000 and 1999, respectively, the Company accepted unsolicited block offers to buy back \$4.6, \$10.4 and \$9.7 million, respectively, principal amount of its Convertible Subordinated Debentures. The outstanding balance as of October 31, 2001 is \$58,727,300.

The State of Alabama Industrial Development bonds were assumed as part of the Nichols Aluminum Alabama acquisition (see Note 2). These bonds mature August 1, 2004 with interest payable monthly. The bonds bear interest at the weekly interest rate as determined by the remarketing agent under then prevailing market conditions to be the minimum interest rate, which, if borne by the bonds on the effective date of such rate, would enable the remarketing agent to sell the bonds on such business day at a price (without regard to accrued interest) equal to the principal amount of the bonds. The interest rate, however, may not exceed 13% per annum. The weekly interest rate during the year ended October 31, 2001 ranged from 2.05% to 5.15%. These bonds are secured by a Letter of Credit.

On June 1, 1999, the Company borrowed \$3 million through unsecured Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of \$200 thousand beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest that would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month. Interest rates on these bonds during fiscal 2001 have ranged from 2.05% to 5.1%.

The Temroc Industrial Development Revenue Bonds were obtained as part of the acquisition of Temroc. These bonds are due in annual installments through October 2012. Interest is payable semi-annually at fixed rates from 4.5% to 5.6% depending on maturity (average rate of 5.1% over the term of the bonds). These bonds are secured by a mortgage on Temroc's land and building.

During the year ended October 31, 2001, the Company borrowed on the Revolver to pay back \$17.3 million of loans taken against the cash surrender value of various officer life insurance policies. These loans had previously been netted as an offset to the cash surrender value and classified as "Other assets" on the balance sheet.

Aggregate maturities of long-term debt at October 31, 2001, are as follows (in thousands):

2002	\$	420
2003		140,444
2004		12,922
2005		428
2006		17,690
Thereafter		48,124

\$220,028
=====

=====

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company has a number of retirement plans covering substantially all employees. The Company provides both defined benefit and defined contribution plans. In general, the plant or location of his/her employment determines an employee's coverage for retirement benefits. The single employer defined benefit pension plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations. The plans invest primarily in marketable equity and debt securities.

The Company also provides certain healthcare and life insurance benefits for certain eligible retired employees employed prior to January 1, 1993. Certain employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis. For fiscal year 2001, the Company made benefit payments totaling \$411,000, compared to \$422,000 and \$348,000 in fiscal 2000 and 1999, respectively.

A reconciliation of the beginning benefit obligation to the ending benefit obligation follows:

Pension Postretirement Benefits	October 2001	October 2000	October 2001
31, -----			

----- 2001 2000 2001			
2000 -----			
----- (In			
thousands) Benefit			
obligation at beginning of			
year \$ 31,900 \$ 30,564 \$			
7,098 \$ 7,731 Service cost			
.....			
1,976 2,000 100 108			
Interest cost			
.....			
2,450 2,215 521 516			
Amendments			
.....			
-- 323 (2) (735) Actuarial			
loss (gain)			
..... 1,653			
(1,432) 15 (100) Benefits			
paid from plan assets			
..... (533) (442) (411)			
(422) Administrative			
expenses			
(295) (279) -- -- Piper			
Impact Europe benefit			
obligation -- (1,049) -- -			

-- ----- Benefit			
obligation at end of year			
..... \$ 37,151 \$ 31,900 \$			
7,321 \$ 7,098 =====			
=====			

A reconciliation of the beginning fair value of plan assets to the ending fair value of plan assets follows:

Pension Benefits	October 2001	October 2000
31, -----		

----- (In thousands) Fair value		
of plan assets at beginning of year		
..... \$ 23,996 \$ 22,205 Actual		
return on plan assets		
..... (3,517) 1,343		
Employer contributions		
..... 3,109		
1,865 Benefits paid		

.....
(533) (442) Administrative expenses
..... (295)
(279) Piper Impact Europe fair value
of plan assets -- (696) -----
-- ----- Fair value of plan
assets at end of year \$
22,760 \$ 23,996 ===== =====

Postretirement
 Benefits Benefits
 October 31, -----

 -- 2001 2000 1999
 2001 2000 1999 -----

 -- ----- (In
 thousands) Discount
 rate

 7.25% 7.75% 7.50%
 7.25% 7.75% 7.50%
 Expected return on
 plan assets
 10.00% 10.00% 10.00%
 -- -- -- Rate of
 compensation
 increase 4.00%
 4.50% 4.50% -- -- --

The assumed health care cost trend rate was 7.69% in 2001, decreasing uniformly to 5.25% in the year 2008 and remaining level thereafter. If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 2001 would be increased by 1.41%. The effect of this change on the sum of the service cost and interest cost would be an increase of 1.31%. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of October 31, 2001 would be decreased by 1.28%. The effect of this change on the sum of the service cost and interest cost would be a decrease of 1.17%.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net pension costs for the single employer defined benefit pension plans were as follows:

Years Ended October 31, -----	-----	2001	2000	1999	-----
-----	(In thousands)				
Service Cost	.....	\$		
1,976	\$ 2,000	\$ 2,092	Interest cost	.....	2,450
2,215	1,978	Expected return on plan assets	.....	(2,421)	(2,228)
		(1,978)	Amortization of unrecognized transition asset	....	(111)
		(111)	Amortization of unrecognized prior service cost	..	109
		109	63	Amortization of unrecognized net loss	.....
		--	--	119	Other
		--	104	(63)	-----
Net periodic pension cost	.....	\$ 2,003	\$ 2,089	\$ 2,100	=====
					=====

Net periodic costs for the postretirement benefit plans other than pensions were as follows:

Years Ended October 31, -----	-----	2001	2000	1999	-----
-----	(In thousands)				
Net periodic postretirement benefit cost:					
Service cost	.....	\$ 100			
\$ 109	\$ 187	Interest cost	.....	521	
516	541	Net amortization and deferral	.....	(65)	(60)
		17	Other	.....
		--	--	2	-----
Net periodic postretirement benefit cost	....	\$ 565	\$ 747	=====	=====
					=====

One of the Company's subsidiaries, Piper Impact Europe, which was sold in July of 2000, participated in two multi-employer plans. The plans provided defined benefits to substantially all of Piper Impact Europe's employees. Amounts charged to pension cost and contributed to the plans as of October 31, 2000, and 1999, totaled approximately NLG 1,302,000 and NLG 2,021,000 or approximately \$575,000 and \$1,000,000, respectively.

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately \$4,696,000, \$3,978,000, and \$3,366,000, during fiscal 2001, 2000, and 1999, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately \$5,456,000, \$5,923,000, \$4,829,000, at October 31, 2001, 2000 and 1999, respectively. These benefits are funded with life insurance policies purchased by the Company.

=====

13. INDUSTRY SEGMENT INFORMATION

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

As such, the Company had four reportable segments for the year ended October 31, 2001: engineered steel bars, aluminum mill sheet products, engineered products and Piper Impact. The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services, as well as steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures aluminum window and patio door screens, window frames, exterior door components and other roll-formed products and stamped shapes. The Piper Impact segment manufactures impact-extruded aluminum and steel parts.

The Company's reportable segments through the fiscal year ended October 31, 2001 were strategic business divisions that offer different products and services using different processes. These groups were managed separately because each business requires different expertise to manage its process oriented strategy. The Company evaluated performance based on operating income.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, with the exception of the inventory valuation method. Quanex measures its inventory at the segment level on a FIFO basis, however at the consolidated Quanex level, the majority of the inventory is measured on a LIFO basis. See Note 8 to the financial statements for more information. The Company accounts for intersegment sales and transfers as though the sales or transfers were to third parties, that is, at current market prices.

For the years ended October 31, 2001 and 2000, no one customer represented 10% or more of the consolidated net sales of the Company. For the year ended October 31, 1999, 12% of the Company's consolidated net sales were made to one customer. These sales are included in the Piper Impact segment.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

FOR THE YEARS
 ENDED OCTOBER
 31, -----

 ----- 2001
 2000 1999 ---

NET SALES(2)
 Engineered
 Steel Bars
 (Unaffiliated)
 \$ 330,692 \$
 355,540 \$
 306,058
 Engineered
 Steel Bars
 (Intersegment)
 5,626 4,897
 5,284 -----

ENGINEERED
 STEEL BARS
 (TOTAL)
 336,318
 360,437
 311,342
 Aluminum Mill
 Sheet
 Products
 (Unaffiliated)
 \$ 361,660
 395,697
 299,168
 Aluminum Mill
 Sheet
 Products
 (Intersegment)
 18,408 20,080
 21,115 -----

ALUMINUM MILL
 SHEET
 PRODUCTS
 (TOTAL)(5)
 380,068
 415,777
 320,283
 Engineered
 Products
 (Unaffiliated)
 146,487
 106,865
 94,475
 Engineered
 Products
 (Intersegment)
 -- -- 1 -----

ENGINEERED
 PRODUCTS
 (TOTAL)(4)(6)
 146,487
 106,865
 94,476 Piper
 Impact
 (Unaffiliated)
 85,514

106,416
135,201 Piper
Impact
(Intersegment)

PIPER IMPACT
(TOTAL)
85,514
106,416
135,201
Corporate and
Other
(Intersegment
elimination)
(1) (24,034)
(24,977)
(26,400) -----

CONSOLIDATED
\$ 924,353 \$
964,518 \$
834,902

=====

OPERATING
INCOME
(LOSS):

Engineered
Steel Bars \$
41,955 \$
57,702 \$
60,446

Aluminum Mill
Sheet
Products(5)
5,934 21,529
15,306

Engineered
Products(4)
(6) 19,983
14,301 13,006

Piper
Impact(7)
3,256
(82,470)
(853)

Corporate &
Other(1)
(13,812)
(15,024)
(16,148) -----

CONSOLIDATED
\$ 57,316 \$
(3,962) \$
71,757

=====

DEPRECIATION
AND
AMORTIZATION:

Engineered
Steel Bars \$
21,017 \$
18,775 \$
16,293

Aluminum Mill
Sheet
Products(5)
13,193 12,965
12,334

Engineered
Products(4)
(6) 5,070
3,443 3,349

Piper Impact
3,686 12,362
12,836
Corporate &
Other(1) 944
900 1,071 ---

CONSOLIDATED
\$ 43,910 \$
48,445 \$
45,883

=====
=====
=====
CAPITAL
EXPENDITURES:
(3)

Engineered
Steel Bars \$
45,585 \$
27,374 \$
37,750

Aluminum Mill
Sheet
Products(5)
4,904 4,709
9,873

Engineered
Products(4)
(6) 4,040

3,586 1,680
Piper Impact
946 5,290
10,948

Corporate &
Other(1) 165
1,396 683 ---

CONSOLIDATED
\$ 55,640 \$
42,355 \$
60,934

=====
=====
=====
IDENTIFIABLE
ASSETS:

Engineered
Steel Bars \$
291,220 \$
267,476 \$
241,783

Aluminum Mill
Sheet
Products(5)
207,104
227,365
200,733

Engineered
Products(4)
(6) 88,424

65,527 46,977
Piper Impact
47,490 54,518

162,176
Corporate &
Other(1)

63,393 30,973
38,777 -----

CONSOLIDATED
\$ 697,631 \$
645,859 \$
690,446

=====
=====
=====

- (1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.
- (2) Intersegment sales are conducted on an arm's length basis.
- (3) Includes capitalized interest.
- (4) Fiscal 2001 results include Temroc operations since the acquisition date of November 30, 2000. See Note 2 to the financial statements.
- (5) Fiscal 2000 results include Nichols Aluminum-Golden operations since the acquisition date of January 25, 2000. See Note 2 to the financial statements.
- (6) Fiscal 2000 results include Imperial Fabricated Products operations since the acquisition date of April 3, 2000. See Note 2 to the financial statements.
- (7) Fiscal 2000 results include the \$14.3 million pretax loss on the sale of Piper Impact Europe and the \$56.3 million pretax asset impairment charge on Piper Impact. See Notes 3 and 4 to the financial statements.

=====

INTRODUCTION OF NEW COMPANY STRATEGY AND SEGMENT REPORTING

During the latter portion of the fiscal year ending October 31, 2001, the Company completed a strategic review of its business, which resulted in a shift of strategy away from primarily a "process" oriented enterprise to a more "market focused" enterprise. The new chief operating decision maker of Quanex believes the focus on customers will provide a more effective corporate strategy to drive growth and unlock shareholder value. The review underscored a high concentration of sales in two market segments - vehicular products and building products. The Company has made organizational and reporting changes aligned to this new strategy beginning in fiscal 2002. The chief operating decision maker has started evaluating performance and allocating the Company's resources under this new segment structure.

Beginning with the first fiscal quarter of 2002, Quanex will report under these two market focused segments. The vehicular products segment is comprised of the former "engineered steel bar" segment (MACSTEEL), Piper Impact (US operations only) and Temroc. The new building products segment is comprised of the former aluminum mill sheet products segment (Nichols Aluminum) as well as the divisions comprising the former engineered products segment, excluding Temroc. Corporate and other will include corporate office charges and intersegment eliminations as well as Piper Impact Europe, which was sold in the fiscal year ended October 31, 2000. Below is a presentation of segment disclosure information under the new corporate organizational structure:

FOR THE
 YEARS ENDED
 OCTOBER 31,

 ----- 2001
 2000 1999 --

--- NET
 SALES
 Vehicular
 Products(3)
 \$ 439,307 \$
 444,124 \$
 408,210
 Building
 Products(4)
 (5) 485,046
 502,562
 393,643
 Corporate
 and Other(1)
 -- 17,832
 33,049 -----

CONSOLIDATED
 \$ 924,353 \$
 964,518 \$
 834,902
 =====
 =====
 =====

OPERATING
 INCOME
 (LOSS):
 Vehicular
 Products(3)
 (7) \$ 47,466
 \$ (8,052) \$
 59,610
 Building
 Products(4)
 (5) 23,662
 35,830

28,312
Corporate &
Other(1)(6)
(13,812)
(31,740)
(16,165) ---

--

CONSOLIDATED
\$ 57,316 \$
(3,962) \$
71,757

=====
=====
=====

DEPRECIATION
AND

AMORTIZATION:

Vehicular
Products(3)
\$ 25,905 \$
28,769 \$
25,286
Building
Products(4)
(5) 17,061
16,408
15,683

Corporate &
Other(1) 944
3,268 4,914

CONSOLIDATED
\$ 43,910 \$
48,445 \$
45,883

=====
=====
=====

CAPITAL

EXPENDITURES:

(2)
Vehicular
Products(3)
\$ 47,234 \$
31,196 \$
44,171
Building
Products(4)
(5) 8,241
8,295 11,553
Corporate &
Other(1) 165
2,864 5,210

CONSOLIDATED
\$ 55,640 \$
42,355 \$
60,934

=====
=====
=====

IDENTIFIABLE
ASSETS:

Vehicular
Products(3)
\$ 362,442 \$
321,204 \$
360,867
Building
Products(4)
(5) 269,387
291,164
245,872
Corporate &
Other(1)

65,802
 33,491
 83,707 -----

 CONSOLIDATED
 \$ 697,631 \$
 645,859 \$
 690,446
 =====
 =====
 =====

- (1) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and Piper Impact Europe's results until its sale in fiscal 2000.
- (2) Includes capitalized interest.
- (3) Fiscal 2001 results include Temroc operations since the acquisition date of November 30, 2000. See Note 2 to the financial statements.
- (4) Fiscal 2000 results include Nichols Aluminum-Golden operations since the acquisition date of January 25, 2000. See Note 2 to the financial statements.
- (5) Fiscal 2000 results include Imperial Fabricated Products operations since the acquisition date of April 3, 2000. See Note 2 to the financial statements.
- (6) Fiscal 2000 results include the \$14.3 million pretax loss on the sale of Piper Impact Europe. See Note 3 to the financial statements.
- (7) Fiscal 2000 results include the \$56.3 million pretax asset impairment charge on Piper Impact. See Notes 4 to the financial statements.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

GEOGRAPHIC INFORMATION

YEAR ENDED OCTOBER 31, --

 ----- NET SALES(1)
 2001 2000 1999 -----
 ----- United States

 \$870,163 \$895,702
 \$768,087 Mexico

 16,148 24,336 17,709
 Canada

 26,176 18,712 18,371
 European countries
 4,315
 20,423 25,231 Other
 foreign countries
 7,551 5,345
 5,504 -----
 ----- Total

 \$924,353 \$964,518
 \$834,902 =====
 =====

YEAR ENDED OCTOBER
 31, -----

 ----- NET
 SALES(2) 2001 2000
 1999 -----

 United States

 \$924,353 \$946,686
 \$801,853 The
 Netherlands

 -- 17,832 33,049 -

 ----- \$924,353
 \$964,518 \$834,902
 =====
 =====

YEAR ENDED OCTOBER
 31, -----

 OPERATING INCOME
 (LOSS)(4) 2001
 2000 1999 -----

 United States

 \$ 57,316 \$ 12,754
 (3) \$ 71,774 The
 Netherlands

 -- (16,716)(5)
 (17) -----
 ----- \$
 57,316 \$ (3,962) \$
 71,757 =====
 =====

YEAR ENDED OCTOBER 31, -	

IDENTIFIABLE ASSETS(6)	
2001	2000

--- United States	
.....	
\$697,631	\$645,859
The Netherlands	
.....	
----- Total	
.....	
\$697,631	\$645,859
=====	=====

- (1) Net Sales are attributed to countries based on location of customer.
- (2) Net sales are attributed to countries based on location of operations.
- (3) Including the asset impairment charge of \$56.3 million in FY 2000. See Note 4.
- (4) Operating income (loss) is attributed to countries based on location of operations.
- (5) Including the loss on sale of Piper Impact Europe. See Note 3.
- (6) Identifiable assets are attributed to countries based on location of operations.

14. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. On April 15, 1999, the Second Amended and Restated Rights Agreement went into effect. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of \$90. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of \$.01 or the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will entitle the holder to purchase \$120 worth of the surviving company's common stock for \$90. Additionally, if someone acquires 20% or more of the Company's common stock, each Right, not owned by the 20% or greater shareholder, would permit the holder to purchase \$120 worth of the Company's common stock for \$90. The Rights are redeemable, at the option of the Company, at \$.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire April 15, 2009.

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

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15. STOCK REPURCHASE PROGRAM

In December 1999, Quanex announced that its Board of Directors approved a program to repurchase up to 2 million shares of the Company's common stock in the open market or in privately negotiated transactions. During the fiscal year ended October 31, 2001, the Company repurchased 119,000 shares at a cost of \$2.2 million. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares at a cost of \$17.2 million. The Company retired 156,700 of these shares purchased at a cost of approximately \$3.8 million.

For shares purchased by the Company and retired: 1) Common stock is charged for the par value of the shares, 2) additional paid in capital is charged for the pro-rata portion associated with those shares and 3) retained earnings is charged for the remainder of the cost of the retired shares. For the shares purchased and retired in the year ended October 31, 2000, the equity was reduced as shown below:

Repurchase	
Common	
Additional	
Retained	
Cost Stock	
Paid in	
Capital	
Earnings -	

---- (In	
thousands)	
\$3,785	\$78
\$1,222	
\$2,485	

The Company accounted for the remaining shares purchased as treasury stock. The cost of such shares of \$12.7 million at October 31, 2001 is reflected as a reduction of stockholders' equity in the balance sheet.

16. RESTRICTED STOCK AND STOCK OPTION PLANS

Key Employee Plans:

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The awards vest over a specified time period. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. There were 44,000, 22,750 and 6,000 restricted shares granted in 2001, 2000 and 1999, respectively. The amount charged to compensation expense in 2001 and 2000 was \$368,436 and \$57,000, respectively, relating to restricted stocks granted in 2001, 2000 and 1999. No compensation expense was charged in 1999 related to the restricted stock.

Under the Company's option plans, options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. There were 388,145, 650,194, and 276,776 shares available for granting of options at October 31, 2001, 2000, and 1999, respectively. Stock option transactions for the three years ended October 31, 2001, were as follows:

Shares	Shares Under
Average Price	

Exercisable Option
 Per Share -----

 ----- Balance at
 October 31, 1998 ...
 770,075 1,219,871 \$
 23 ===== Granted

 240,700 21 Exercised

 (9,000) 15 Cancelled

 (30,300) 24 -----
 - Balance at October
 31, 1999 ... 966,391
 1,421,271 23
 ===== Granted

 244,250 18 Exercised

 (3,000) 9 Cancelled

 (40,418) 26 -----
 - Balance at October
 31, 2000 ...
 1,139,546 1,622,103
 22 ===== Granted

 382,000 24 Exercised

 (70,048) 20
 Cancelled / Lapsed
 (23,751)
 21 ----- Balance
 at October 31, 2001
 ... 1,291,129
 1,910,304 \$ 23
 =====

=====
 Non-Employee Director Plans:

The Company has various non-employee Director plans, which are described below:

1987 Non-Employee Directors Plan:

The Company's 1987 Non-employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director, as of the first anniversary of the date of his/her election as a Director of the Company, will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant. During 1998, the Board of Directors passed a resolution, which reduced the number of options to be granted from 10,000 to 6,000.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were no shares available for granting of options at October 31, 2001, 2000, or 1999. Stock option transactions for the three years ended October 31, 2001, were as follows:

Shares Share	Average Price -----	Shares Under Exercisable Option Per -----
----	Balance at October 31,	
	1998	13,332
	20,000 \$ 20 =====	Granted
.....	-- -- Exercised	
.....	-- -- Cancelled	
.....	-- -- ----- Balance at	
October 31, 1999	20,000 20,000 20 =====	Granted
.....	-- -- Exercised	
.....	-- -- Cancelled	
.....	-- -- ----- Balance at	
October 31, 2000	20,000 20,000 20 =====	Granted
.....	-- -- Exercised	
.....	-- -- Cancelled	
.....	-- -- ----- Balance at	
October 31, 2001	20,000 20,000 \$ 20 =====	=====

Director plan shall be granted on such October 31, an option to purchase such number of shares of common stock as is determined by the Board of Directors at a price equal to the fair market value of the common stock as of such October 31. These options are exercisable in full immediately upon the date of grant.

New Director Grants

While this plan is in effect and shares are available for the granting of options hereunder, there shall be granted to each non-employee Director who was not granted an option under the 1987 Non-Employee Director Stock Option Plan as of the date upon which such director shall have continuously served as a director of the Company for a period of one year an option to purchase such number of Quanex Corporation shares of stock as is determined by the Board of Directors. These Plan options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were 350,000, 364,000 and 382,000 shares available for granting of options at October 31, 2001, 2000 and 1999, respectively. Stock option transactions for the three years ended October 31, 2001, were as follows:

Shares Under Price Exercisable Share	Average Option Per Share	Under Option Per Share
---	---	---
Balance at October 31, 1998		
Granted		
.....		
18,000	\$ 21	Exercised
.....		
-- --		Cancelled
.....		
-- --		Balance at
October 31, 1999		
.....	2,000	18,000
21	====	Granted
.....		
18,000	20	Exercised
.....		
-- --		Cancelled
.....		
-- --		Balance at
October 31, 2000		
.....	25,333	36,000
21	====	Granted
.....		
14,000	26	Exercised
.....		
-- --		Cancelled
.....		
-- --		Balance at
October 31, 2001		
.....	44,666	50,000
\$ 22	====	====

Stock Based Compensation

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", 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" and discloses the required 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.

The following pro forma summary of the Company's consolidated results of operations have been prepared as if the fair value based method of accounting for stock based compensation as required by SFAS No. 123 had been applied:

Years Ended October 31, -----	2001	2000	1999	-----

(In thousands) Net income				
(loss) attributable to common stockholders				
.....	\$ 29,194	\$ (9,665)	\$ 39,716	SFAS
No. 123 adjustment				
.....				
(1,829) (1,619) (1,764)				

Pro forma net income (loss) attributable				
to common stockholders	\$ 27,365	\$ (11,284)		
\$ 37,952	====	====	====	
Earnings (loss) per common share: Basic as				
reported				
.....				
\$ 2.18	\$ (0.70)	\$ 2.79		Basic pro forma
.....				
\$ 2.04	\$ (0.82)	\$ 2.67		Diluted as reported
.....				
2.07	\$ (0.70)	\$ 2.59		Diluted pro forma

.....
\$ 1.96 \$ (0.82) \$ 2.48

Fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions.

	2001	2000	1999
Risk-free interest rate			4.28%
Dividend yield	5.75%	5.93%	
Volatility factor	3.10%	3.33%	2.80%
Weighted average expected life	5 years	5 years	5 years

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Effective November 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or

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liability, depending on the Company's rights or obligations under the applicable derivative contract. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Metal Exchange Forward Contracts

The Company's aluminum mill sheet products segment, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material for its manufacturing process. The price of this aluminum raw material 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, the Company enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133) as well as forward 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 as well as a certain level of forecasted aluminum sales, net of fixed price purchase commitments.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins 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 on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

The Company has grouped the LME contracts into two types: customer specific and non-customer specific. The customer specific contracts have been designated as cash flow hedges of forecasted aluminum raw material purchases in accordance with SFAS No. 133. The non-customer specific LME contracts that are used to manage or balance the raw material needs have not been designated as hedges and, therefore, do not receive hedge accounting under SFAS No. 133. Both types of contracts are measured at fair market value on the balance sheet.

Accounting before adoption of SFAS No. 133: At October 31, 2000, open LME forward contracts covered notional volumes of 25,738,940 pounds and had fair values of a loss of \$372 thousand. As the Company did not adopt SFAS No. 133 until November 1, 2000, the fair value of the contracts as of October 31, 2000 was not reflected on the balance sheet, and hedging gains and losses were included in "Cost of sales" in the income statement concurrently with the related sales of inventory.

Accounting after adoption of SFAS No. 133: On November 1, 2000, when the Company adopted SFAS 133, it recorded a derivative liability of \$372 thousand representing the fair value of these contracts as of that date. A corresponding amount, net of taxes of \$145 thousand, was recorded to other comprehensive income.

As of October 31, 2001, open LME forward contracts have maturity dates extending through October 2003. At October 31, 2001, these contracts covered notional volumes of 45,415,185 pounds and had a fair value net loss of approximately \$1.8 million, which is recorded as part of other current and non-current assets and liabilities in the financial statements.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of October 31, 2001, losses of approximately \$1.6 million (\$992 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts related to hedge ineffectiveness, are reflected in "Cost of sales" in the income statement. For the year ended October 31, 2001, a net loss

of \$283 thousand was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness. (No components of these gains and losses were excluded from the assessment of hedge effectiveness. Additionally, no hedge contracts were discontinued due to the determination that the original forecasted transaction would not occur. Therefore, there was no income statement impact related to that action.)

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The entire amount of gains and losses of the non-customer specific forward LME contracts not designated as hedges are reflected in "Cost of sales" in the income statement in the period in which they occur. These gains and losses include the changes in fair market value during the period for all open and closed contracts.

Interest Rate Swap Agreements

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted \$100 million of its variable rate debt under the Bank Agreement Revolver to fixed rate. The Company's risk management policy related to these swap agreements is to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the swap agreements, payments are made based on a fixed rate (\$50 million at 7.025% and \$50 million at 6.755%) and received on a LIBOR based variable rate (2.31% at October 31, 2001). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The Company has designated the interest rate swap agreements as cash flow hedges of future interest payments on its variable rate long-term debt.

Accounting before adoption of SFAS No. 133: The fair value of the swaps as of October 31, 2000 was a loss of \$918 thousand. As the Company did not adopt SFAS No. 133 until November 1, 2000, the fair value of the swap agreements as of October 31, 2000 was not reflected on the balance sheet. Hedging gains and losses were included in "Interest Expense" in the income statement based on the quarterly swap settlement.

Accounting after adoption of SFAS No. 133: On November 1, 2000, the Company recorded a derivative liability of \$918 thousand, representing the fair value of the swaps as of that date. A corresponding amount, net of income taxes of \$358 thousand, was recorded to other comprehensive income.

The fair value of the swaps as of October 31, 2001 was a loss of \$7.3 million, which is recorded as part of other current and non-current liabilities. Gains and losses related to the swap agreements will be reclassified into earnings in the periods in which the related hedged interest payments are made. As of October 31, 2001, losses of approximately \$3.8 million (\$2.3 million net of taxes) are expected to be reclassified into earnings over the next twelve months. Gains and losses on these agreements, including amounts recorded related to hedge ineffectiveness, are reflected in "Interest expense" in the income statement. A net loss of \$730 thousand was recorded in interest expense in the year ended October 31, 2001 representing the amount of the hedge's ineffectiveness. (No components of the swap instruments' losses were excluded from the assessment of hedge effectiveness. Additionally, none of the swap agreements were discontinued due to the determination that the original forecasted transaction would not occur. Therefore, there was no income statement impact related to that action.)

If the floating rates were to change by 10% from October 31, 2001 levels, the fair market value of these swaps would change by approximately \$411 thousand. In terms of the impact on cash flow to the Company, as floating interest rates decline, the market value of the swap agreement rises, thus increasing the quarterly cash settlement of the swaps paid by the Company. However, the interest paid on the floating rate debt balance decreases. The inverse situation occurs with rising interest rates.

Foreign Currency Contracts

In December 1997, the Company entered into a zero-cost range forward (foreign currency swap) agreement on a notional value of 30 million Guilders with a major financial institution to hedge its initial equity investment in its Netherlands subsidiary, Piper Impact Europe. This agreement limited the Company's exposure to large fluctuations in the US Dollar/Dutch Guilder exchange rate. Under the terms of the agreement, Quanex had the option to let the agreement expire at no cost if the exchange rate remained within an established range on the expiration date of October 25, 2000. At October 31, 1999, the Company booked a \$378 thousand gain to the stockholders' equity cumulative foreign currency translation adjustment. During the third quarter ended July 31, 2000, the Company sold the Piper Impact Europe subsidiary. As such, this range forward agreement was closed, realizing a gain of approximately \$1.7 million. This gain was offset against the loss on the sale of Piper Impact Europe as the investment in Piper Impact Europe was the underlying hedged item.

See the Statement of Stockholder's Equity for components of comprehensive income and the disclosure of accumulated other comprehensive income related to hedging transactions.

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Other Financial Assets and Liabilities

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value of long-term debt was \$220.0 million and \$184.3 million, as of October 31, 2001 and 2000, respectively, as compared to carrying values at October 31, 2001 and 2000 of \$220.0 million and \$191.9 million, respectively. The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities.

18. CONTINGENCIES

Quanex is subject to loss contingencies arising from federal, state, and local environmental laws. Environmental expenditures are expensed or capitalized depending on their future economic benefit. 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. 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 companies 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. It is management's opinion that the Company has established appropriate reserves for environmental remediation obligations at various of its plant sites and disposal facilities. Those amounts are not expected to have a material adverse effect on the Company's financial condition. Total remediation reserves, at October 31, 2001, were approximately \$18 million. These reserves include, without limitation, the Company's best estimate of liabilities related to costs for further investigations, environmental remediation, and corrective actions related to the acquisition of Piper Impact, the acquisition of Nichols Aluminum Alabama and a facility previously part of the former Tubing Operations. Actual cleanup costs at the Company's current plant sites, former plants, and disposal facilities could be more or less than the amounts accrued for remediation obligations. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals that would be material to Quanex's financial statements because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities.

During the second quarter of fiscal 2001, Nichols Aluminum Casting had some of its aluminum reroll product damaged in a fire at a third-party offsite warehouse storage facility. The product was covered under the Company's casualty insurance policies. To date, only the Company's cost in the material has been recovered. The Company has also filed a claim under its business interruption insurance policy, to recover lost profit on the use of this damaged material, but at this time has neither collected this portion of the claim nor reached an agreement with its insurance carrier as to the amount of such claims and therefore has not recorded any potential income associated with it.

Quanex Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth the selected quarterly information for the years ended October 31, 2001 and 2000.

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Quarter	Quarter
-----	-----	-----	-----	-----	-----
----- (In thousands except per share amounts) 2001: Net sales					
\$ 199,942	\$ 220,257	\$ 248,121	\$ 256,033		
Gross profit					
20,845	23,762	32,761	37,958	Income before extraordinary item	
3,685	4,289	9,608	11,240	Extraordinary gain	372
-- -- -- Net income					
4,057	4,289	9,608	11,240	Earnings per share: Basic: Income before extraordinary item	
..... 0.27 0.32 0.72 0.84					
Extraordinary gain					
..... 0.03 -- --					

- Net earnings					
..... 0.30					
0.32 0.72 0.84 Diluted					

\$ 0.30	\$ 0.32	\$ 0.67	\$ 0.77	2000: Net sales	
Gross profit					
22,236	30,565	19,598	(19,508)	Income (loss) before extraordinary item(1)	
..... 4,175 9,029 715 (23,942)					
Extraordinary gain					
..... -- 358 --					
-- Net income (loss)(1)					
..... 4,175 9,387					
715	(23,942)	Earnings per share: Basic: Income (loss) before extraordinary item			
..... 0.29 0.66 0.05 (1.78)					
Extraordinary gain					
..... -- 0.02 --					

- Net earnings (loss)					
..... 0.29 0.68					
0.05 (1.78) Diluted					

\$ 0.29	\$ 0.63	\$ 0.05	\$ (1.78)		

(1) Includes an after-tax loss on the sale of Piper Impact Europe in the amount of \$9,282 in the third fiscal quarter of 2000 and an after tax asset impairment charge of \$36,595 in the fourth fiscal quarter of 2000.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

BALANCE AT
CHARGED TO
BALANCE AT
BEGINNING
COSTS &
END
DESCRIPTION
OF YEAR
EXPENSES

WRITE-OFFS
OTHER OF
YEAR - - - -

----- (In
thousands)
ALLOWANCE
FOR

DOUBTFUL
ACCOUNTS:

Year ended
October
31, 2001

.....
\$11,240 \$
868

\$(3,213) \$
58 \$ 8,953

Year ended
October
31, 2000

.....
\$12,154 \$
738

\$(1,284) \$
(368)

\$11,240

Year ended
October
31, 1999

.....
\$11,752 \$
921 \$

(188) \$
(331)

\$12,154

QUARTERLY FINANCIAL RESULTS
(from continuing operations)

2001	2000	1999	----- NET SALES			
			(millions) January			
199.94	205.90	188.56	April			
220.26	251.05	209.23	July			
248.12	262.65	212.82	October			
256.03	244.92	224.29	----- Total			924.35
964.52	834.90	GROSS PROFIT (LOSS) (millions) January				
20.85	22.24	23.54	April			
23.76	30.57	32.05	July			
32.76	19.60	35.05	October			
37.96	(19.51)	37.66	----- Total			115.33
52.90	128.30	INCOME (LOSS) FROM CONTINUING OPERATIONS				
			(millions) January			
3.68	4.18	3.87	April			
4.29	9.03	9.78	July(1)			
9.61	0.71	12.33	October(2)			
11.24	(23.94)	13.32	----- Total			28.82
(10.02)	39.30	INCOME (LOSS) FROM CONTINUING OPERATIONS				
			PER BASIC COMMON SHARE January			
.27	.29	.27	April			
.32	.66	.69	July(1)			
.72	.05	.86	October(2)			
						.84
(1.78)	.94	----- Year			2.15	
(0.73)	2.76	QUARTERLY COMMON STOCK DIVIDENDS January				
.16	.16	.16	April			
.16	.16	.16	July			
.16	.16	.16	October			
.16	.16	.16	----- Total			.64 .64
			COMMON STOCK SALES PRICE (High & Low) January			
21	26.5625	23.875	16.375	19.0625	16.8125	April
21.15	23.6875	26.25	17.35	16.125	15.375	July
27.55	18.625	29	20.70	14.375	25.125	October
27.48	20.6875	27.375	20.75	17.0625	20.125	

(1) Fiscal 2000 third quarter income from continuing operations includes an after-tax loss of \$9.3 million on the sale of Piper Impact Europe.

(2) Fiscal 2000 fourth quarter loss from continuing operations includes an after-tax asset impairment charge of \$36.6 million or \$2.67 per share.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, information on directors and executive officers of the Registrant is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2001.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) to Form 10-K, information on executive compensation is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to General Instruction G(3) to Form 10-K, information on security ownership of certain beneficial owners and management is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to General Instruction G(3) to Form 10-K, information on certain relationships and related transactions is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

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Balance Sheet.....	23	
Consolidated Statements of Income.....		
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Equity.....	25-26	Consolidated Statements of Cash
Flow.....	27	Notes to Consolidated
Financial Statements.....	28	2. Financial
Statement Schedule Schedule II - Valuation and qualifying		
accounts.....	52	Schedules not listed or discussed
above have been omitted as they are either inapplicable or the required		
information has been given in the consolidated financial statements or		
the notes thereto. 3.		
Exhibits.....	56	

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 through August 26, 1999 filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, 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 Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999, and incorporated herein by reference.
- 4.3 Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.
- 4.4 \$250,000,000 Revolving Credit and Term Loan Agreement dated as of July 23, 1996, among the Company, Comerica Bank, as Agent, and Harris Trust and Savings Bank and Wells Fargo Bank (Texas), NA as Co-Agents, filed as Exhibit 4.1 of the Company's Report on Form 8-K, (Reg. No. 001-05725) dated August 9, 1996, and incorporated herein by reference.
- +10.1 Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option year Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.2 Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 1997, filed as Exhibit 10.2 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.
- +10.3 Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 9, 1999, filed as Exhibit 10.3 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.

- +10.4 Quanex Corporation Deferred Compensation Plan, as amended and restated, dated September 29, 1999, filed as Exhibit 10.4 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.
- +10.5 First Amendment to Quanex Corporation Deferred Compensation Plan, dated December 7, 1999, filed as Exhibit 10.5 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.
- +10.6 Quanex Corporation Executive Incentive Compensation Plan, as amended and restated, dated October 12, 1995, filed as Exhibit 10.8 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.
- +10.7 Quanex Corporation Supplemental Benefit Plan, as amended and restated effective June 1, 1999, filed as Exhibit 10.9 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.
- +10.8 Form of Change in Control Agreement, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.10 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.
- +10.9 Quanex Corporation 1987 Non-Employee Director Stock Option Plan, as amended, and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.10 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.13 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.
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- +10.12 Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.13 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.16 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.
- +10.14 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.17 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.
- +10.15 Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year

ended October 31, 1994, and incorporated herein by reference.

+10.16

Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.19 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.

- +10.17 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.20 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.
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- +10.20 Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.21 Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.
- +10.23 Amendment to Quanex Corporation Non-Employee Director Retirement Plan dated May 25, 1995, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- +10.24 Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1996, and incorporated herein by reference.
- +10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 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.
- +10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.27 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.
- +10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- +10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.28 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.
- +10.29 Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated herein by reference.
- +10.30 Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 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.

- +10.31 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.
- +10.32 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 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.
- +10.33 Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) as amended and restated, dated October 20, 1999, filed as Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001.
- +10.34 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) dated December 9, 1999, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.
- +10.35 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) effective July 1, 2000, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.
- *+10.36 Amendment to the Quanex Corporation 1997 Key Employee Stock Option Plan effective October 25, 2001.
- *+10.37 Quanex Corporation Long-Term Incentive Plan effective November 1, 2001.
- *+10.38 Agreement for Adoption and Merger of the Temroc Metals, Inc. Bargaining Unit Employees 401(k) Plan into the Nichols 401 (k) Savings Plan for Hourly Employees, effective July 1, 2001.
- *+10.39 Agreement for Adoption and Merger of the Temroc Metals, Inc. Non-Bargaining Unit Employees 401(k) Plan into the Nichols 401(k) Savings Plan, effective July 1, 2001.
- *+10.40 Quanex Corporation Employee Savings Plan - Amendment and Restatement effective January 1, 1998.
- 10.41 Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., a Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.
- 10.42 Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.
- 10.43 Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.
- 10.44 Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated

herein by reference.

10.45

First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.

- 10.46 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.47 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.48 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.49 Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.50 Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.51 Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- *21 Subsidiaries of the Registrant.
- *23 Consent of Deloitte & Touche LLP.

- - - - -

+ 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 Annual Report on Form 10-K certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed by the Company during the quarter ended October 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUANEX CORPORATION

By: /s/ RAYMOND A. JEAN January 4, 2002

RAYMOND A. JEAN
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

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

By: /s/ RAYMOND A. JEAN January 4, 2002

RAYMOND A. JEAN
Chairman of the Board, President and
Chief Executive Officer

By: /s/ CARL E. PFEIFFER January 4, 2002

CARL E. PFEIFFER
Director

By: /s/ DONALD G. BARGER, JR. January 4, 2002

DONALD G. BARGER, JR.
Director

By: /s/ VINCENT R. SCORSONE January 4, 2002

VINCENT R. SCORSONE
Director

By: /s/ MICHAEL J. SEBASTIAN January 4, 2002

MICHAEL J. SEBASTIAN
Director

By: /s/ RUSSELL M. FLAUM January 4, 2002

RUSSELL M. FLAUM
Director

By: /s/ SUSAN F. DAVIS

January 4, 2002

SUSAN F. DAVIS
Director

By: /s/ JOSEPH J. ROSS

January 4, 2002

JOSEPH J. ROSS
Director

By: /s/ TERRY M. MURPHY

January 4, 2002

TERRY M. MURPHY
Vice President-Finance and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ VIREN M. PARIKH

January 4, 2002

VIREN M. PARIKH
Controller
(Principal Accounting Officer)

INDEX TO 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 through August 26, 1999 filed as Exhibit 3 to the

Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, 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 Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit

4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999,

and incorporated herein by reference.

4.3 Form of Indenture relating to the

Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007

between the Registrant and Chemical Bank, as Trustee, filed as

19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992,

and

incorporated
herein by
reference.

4.4

\$250,000,000

Revolving
Credit and
Term Loan
Agreement
dated as of
July 23,
1996, among
the Company,
Comerica
Bank, as
Agent, and
Harris Trust
and Savings
Bank and
Wells Fargo
Bank
(Texas), NA
as Co-
Agents,
filed as
Exhibit 4.1
of the
Company's
Report on
Form 8-K,
(Reg. No.
001-05725)
dated August
9, 1996, and
incorporated
herein by
reference.

+10.1 Quanex
Corporation
1988 Stock
Option Plan,
as amended,
and form of
Stock Option
year

Agreement
filed as
Exhibit 10.4
to the
Registrant's
Annual
Report on
Form 10-K
for the year
ended

October 31,
1988,
together
with the
amendment
filed as
Exhibit

10.17 of the
Registrant's
Quarterly
Report on
Form 10-Q
(Reg. No.
001-05725)
for the
quarter
ended

January 31,
1995, and
incorporated
herein by
reference.

+10.2

Amendment to
the Quanex
Corporation

1988 Stock
Option Plan,
dated as of
December
1997, filed
as Exhibit
10.2 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.

+10.3

Amendment to
the Quanex
Corporation
1988 Stock
Option Plan,
dated as of
December 9,
1999, filed
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Registrant's
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- +10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 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.
- +10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.27 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.
- +10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- +10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000 filed as Exhibit 10.28 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 2000 and incorporated herein by reference.
- +10.29 Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated

herein by reference.

+10.30

Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 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.

- +10.31 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.
- +10.32 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 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.
- +10.33 Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) as amended and restated, dated October 20, 1999, filed as Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001.
- +10.34 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) dated December 9, 1999, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.
- +10.35 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) effective July 1, 2000, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725), dated June 11, 2001 and incorporated herein by reference.
- *+10.36 Amendment to the Quanex Corporation 1997 Key Employee Stock Option Plan effective October 25, 2001.
- *+10.37 Quanex Corporation Long-Term Incentive Plan effective November 1, 2001.
- *+10.38 Agreement for Adoption and Merger of the Temroc Metals, Inc. Bargaining Unit Employees 401(k) Plan into the Nichols 401(k) Savings Plan for Hourly Employees, effective July 1, 2001.
- *+10.39 Agreement for Adoption and Merger of the Temroc Metals, Inc. Non-Bargaining Unit Employees 401(k) Plan into the Nichols 401(k) Savings Plan, effective July 1, 2001.
- *+10.40 Quanex Corporation Employee Savings Plan - Amendment and Restatement effective January 1, 1998.
- 10.41 Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., a Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.
- 10.42 Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.
- 10.43 Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.
- 10.44 Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on

Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated herein by reference.

10.45

First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.

- 10.46 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.47 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.48 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.49 Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.50 Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.51 Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- *21 Subsidiaries of the Registrant.
- *23 Consent of Deloitte & Touche LLP.

- -----
+ Management Compensation or Incentive Plan

* Filed herewith

AMENDMENT TO
THE QUANEX CORPORATION
1997 KEY EMPLOYEE STOCK PLAN

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

WITNESSETH:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1997 Key Employee Stock Plan" (the Plan);

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

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

NOW, THEREFORE, Article IV of the Plan is hereby amended and restated in its entirety to provide as follows:

The total amount of the Common Stock with respect to which Awards may be granted shall not exceed in the aggregate 400,000 shares. The class and aggregate number of shares which may be subject to the Options granted under this Plan shall be subject to adjustment under Section 5.5. The class and aggregate number of shares which may be subject to the Restricted Stock Awards granted under the Plan shall also be subject to adjustment under Section 7.4. Shares may be treasury shares or authorized but unissued shares. If any Award under the Plan shall expire or terminate for any reason without having been exercised in full, or if any Award shall be forfeited, the shares subject to the unexercised or forfeited portion of such Award shall again be available for the purposes of the Plan.

Dated: October 25, 2001

QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN

WHEREAS, Quanex Corporation, A Delaware corporation ("Quanex"), desires to establish the Quanex Corporation Long-Term Incentive Plan (the "Plan") to advance the best interests of Quanex by providing key executives of Quanex who have substantial responsibility for the management and growth of Quanex an additional incentive to remain in the employ of Quanex and to contribute materially to the continued growth, development and financial success of Quanex; and

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

NOW, THEREFORE, Quanex adopts the Plan as follows:

QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN

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ARTICLE I

PLAN PURPOSE AND TERM

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

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

ARTICLE II

DEFINITIONS

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

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

2.2. "AWARD AGREEMENT" means the written agreement between Quanex and a Grantee that sets forth the terms of a Performance Award.

2.3. "BOARD" means the board of directors of Quanex.

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

2.5. "CHANGE OF CONTROL" means the occurrence of one or more of the following events after November 1, 2001:

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

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

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

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

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

2.6 "CODE" means the Internal Revenue Code of 1986, as amended.

2.7 "COMMITTEE" means members of the Compensation Committee of the Board.

2.8 "COMMON STOCK" means Quanex's common stock, \$.50 par value.

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

2.10 "FISCAL YEAR" means November 1 through October 31.

2.11 "GRANTEE" means a person who has been granted a Performance Award under the Plan.

2.12 "MAXIMUM PERFORMANCE LEVEL" means the most stringent Performance Standard established by the Committee with respect to a Performance Award.

2.13 "PERFORMANCE AWARD" means an incentive compensation opportunity granted under the Plan.

2.14 "PERFORMANCE OBJECTIVES" means the criteria established by the Committee for a Fiscal year as the basis for determining the amount payable to a Grantee under a Performance Award.

2.15 "PERFORMANCE OBJECTIVE PERCENTAGE" has the meaning specified in Section 4.2.

2.16 "PERFORMANCE PERIOD" means the period that commences on the first day of a Fiscal Year and ends on the day before the third anniversary of such first day of a Fiscal Year.

2.17 "PERFORMANCE STANDARD" means a level of performance established by the Committee with respect to a Performance Award.

2.18 "PERFORMANCE UNIT" means a unit that is awarded under the Plan pursuant to an Award Agreement for the purpose of determining the incentive compensation payable under the Plan.

2.19 "PERFORMANCE UNIT VALUE" means, with respect to any Performance Objective, \$0 if the Threshold Performance Level is not attained; \$75.00 if the Threshold Performance Level is attained but the Target Performance Level is not attained; \$100.00 if the Target

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

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

2.21 "QUANEX" means Quanex Corporation, a Delaware Corporation.

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

2.23 "SEPARATION FROM SERVICE" means the termination of the employment relationship between the Grantee and Quanex and all Affiliates.

2.24 "SPOUSE" means the person to whom the Grantee is married under applicable local law.

2.25 "TARGET PERFORMANCE LEVEL" means the normal Performance Standard established by the Committee with respect to a Performance Award.

2.26 "THRESHOLD PERFORMANCE LEVEL" means the least stringent Performance Standard established by the Committee with respect to a Performance Award.

2.27 "VESTED INTEREST" means a Grantee's nonforfeitable interest in the benefits payable under his Performance Award pursuant to Article IV determined under the terms of Article VI.

ARTICLE III

ELIGIBILITY

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

ARTICLE IV

PERFORMANCE AWARDS

4.1 GRANTS OF PERFORMANCE AWARDS. Quanex may grant a Performance Award to each Grantee selected by the Committee. The potential amount payable under a Performance Award shall be based upon the attainment of Performance Objectives established by the Committee. Performance Awards may vary among Grantees. The terms of a Performance Award that are established by the Committee shall be specified in an Award Agreement. The fact that a Grantee is granted a Performance Award during a Fiscal Year shall not entitle him to have another Performance Award granted to him during any other Fiscal Year. The Committee

shall retain documentation relating to all Performance Awards and the applicable Performance Objectives.

4.2 ESTABLISHMENT OF PERFORMANCE OBJECTIVES AND PERFORMANCE STANDARDS.

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

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

ARTICLE V

CALCULATION AND PAYMENT OF BENEFITS

5.1 DETERMINATION OF AMOUNTS PAYABLE UNDER PERFORMANCE AWARDS.

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

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

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

5.4 NO INTEREST ON PERFORMANCE AWARDS. No interest shall be credited with respect to amounts payable under any Performance Awards.

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

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

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

5.6 FORM OF PAYMENT. The payment under a Performance Award shall be in the form of cash, shares of Common Stock, or in a combination of cash and shares of Common Stock, as determined by the Committee in its sole discretion.

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

ARTICLE VI

VESTING AND FORFEITURES

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

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

6.3 COMPLETE FORFEITURE FOR CAUSE. Notwithstanding Section 6.1 of the Plan, if prior to the date that is 120 days prior to the occurrence of a Change of Control the Committee finds by a majority vote after full consideration of the facts that a Grantee was discharged from the employ of Quanex or an Affiliate for Cause, the Grantee shall immediately forfeit his Performance Award to the extent he has not yet been paid benefits pursuant to the Performance Award. The decision of the Committee as to the cause of the Grantee's discharge shall be final. No decision of the Committee shall affect the finality of the discharge of the Grantee. No Plan benefits shall be forfeited pursuant to this Section 6.3 after the date that is 120 days prior to the occurrence of a Change of Control.

6.4 ACCELERATED VESTING UPON CHANGE OF CONTROL. Notwithstanding any other provisions of the Plan, if a Change of Control occurs prior to the expiration of the Performance Period applicable to a Grantee's Performance Award and the Grantee incurs a Separation From Service during such Performance Period and on or after the date of the Change of Control, such Grantee's Vested Interest shall be 100 percent. Further, notwithstanding any other provisions of the Plan, if a Change of Control occurs prior to the expiration of the Performance Period applicable to a Grantee's Performance Award and no later than the date that is 120 days after a Grantee's Separation From Service, such Grantee's Vested Interest shall be 100 percent.

6.5 TREATMENT OF FORFEITED INTEREST IN PERFORMANCE AWARD. If a Grantee's interest in a Performance Award is fully or partially forfeited for any reason, his forfeited interest in the Performance Award shall not be applied to increase the Long Term Incentive Percentages of, or to otherwise increase the amounts payable under the Plan for any remaining Grantee who has not incurred a Separation From Service on or prior to the date of the forfeiture.

ARTICLE VII

ADMINISTRATION

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

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

(a) to make rules, regulations and administrative guidelines for the administration of the Plan;

(b) to construe all terms, provisions, conditions and limitations of the Plan;

(c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect for the greatest benefit of all parties at interest;

(d) to determine all controversies relating to the administration of the Plan, including but not limited to:

(1) differences of opinion arising between Quanex and a Grantee; and

(2) any question it deems advisable to determine in order to promote the uniform administration of the Plan for the benefit of all parties at interest;

(e) to determine the terms and conditions, if any, not inconsistent with the terms of the Plan that are to be placed upon the Performance Award given to a particular Grantee; and

(f) to determine the extent to which the applicable Performance Objectives have been achieved.

7.3 COMMITTEE DISCRETION. The Committee in exercising any power or authority granted under the Plan or in making any determination under the Plan shall perform or refrain from performing those acts in its sole discretion and judgment. Any decision made by the Committee or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decisions shall never be subject to de novo review,

but instead shall only be overturned if found to be arbitrary or capricious by an arbitrator or a court of law.

7.4 DISQUALIFICATION OF COMMITTEE MEMBER. A member of the Committee shall not vote or act on any Plan matter relating solely to himself.

ARTICLE VIII

AMENDMENT OR TERMINATION OF PLAN

The Board may terminate the Plan at any time, in its sole and absolute discretion, provided that any termination of the Plan prior to the expiration of the Performance Period shall be deemed to be a Change of Control for all purposes under the Plan. The Board may amend the Plan only with the written consent of each Grantee who has not either been paid the entire amount due him under his Performance Award or forfeited his entire interest in his Performance Award pursuant to the terms of the Plan.

ARTICLE IX

FUNDING

9.1 PAYMENTS UNDER THE PLAN ARE THE OBLIGATION OF QUANEX. Benefits due under the Plan will be paid by Quanex.

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

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

ARTICLE X

MISCELLANEOUS

10.1 NO EMPLOYMENT OBLIGATION. The granting of any Performance Award shall not constitute an employment contract, express or implied, nor impose upon Quanex or any Affiliate

any obligation to employ or continue to employ the Grantee. The right of Quanex or any Affiliate to terminate the employment of any person shall not be diminished or affected by reason of the fact that a Performance Award has been granted to him.

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

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

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

shall inure to the benefit of the heirs, executors or administrators of each member of the Board and shall be in addition to all other rights to which a member of the Board may be entitled as a matter of law, contract, or otherwise.

10.5 GENDER AND NUMBER. If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

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

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

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

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

10.10 PLAN AND AWARD AGREEMENTS BINDING UPON QUANEX'S SUCCESSOR. The Plan and all Award Agreements shall be binding upon Quanex's successor. Further, the Board shall not authorize a Change of Control unless the purchaser agrees to take such actions as are necessary to cause all Grantees to be paid amounts due under the terms of the Plan as in effect prior to the Change of Control.

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

IN WITNESS WHEREOF, Quanex has caused this Agreement to be executed by its authorized officer on this 6th day of December, 2001, effective as of November 1, 2001.

QUANEX CORPORATION

By: /s/ PAUL GIDDENS

Title: Vice President HR & Administration

EXAMPLE OF PERFORMANCE COMPENSATION
CALCULATION UNDER THE
QUANEX CORPORATION LONG-TERM INCENTIVE PLAN

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

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

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

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

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

$.40 \text{ (Performance Objective Percentage)} \times 2000 \text{ (Performance Units)} \times \$200 \text{ (Performance Unit Value)} = \$160,000.$

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

$.60 \text{ (Performance Objective Percentage)} \times 2000 \text{ (Performance Units)} \times \$150 \text{ (Performance Unit Value)} = \$180,000.$

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

NICHOLS 401(k) SAVINGS PLAN FOR HOURLY EMPLOYEES

AGREEMENT FOR ADOPTION AND MERGER
OF THE TEMROC METALS, INC. BARGAINING UNIT EMPLOYEES 401(k) PLAN
INTO THE NICHOLS 401(k) SAVINGS PLAN FOR HOURLY EMPLOYEES

THIS AGREEMENT by and between Quanex Corporation, a corporation ("Quanex") and Temroc Metals, Inc., a corporation ("Temroc"),

WITNESSETH:

WHEREAS, Temroc maintains the Temroc Metals, Inc. Bargaining Unit Employees 401(k) Plan (the "Prior Plan") and its related trust (the "Prior Trust") for the benefit of its employees and their beneficiaries;

WHEREAS, Quanex maintains the Nichols 401(k) Savings Plan for Hourly Employees (the "Plan") and its related trust (the "Trust");

WHEREAS, the Plan provides that any business organization may, with the approval of Quanex, adopt the Plan and Trust for all or any classification of its employees;

WHEREAS, Temroc desires to merge the Prior Plan into the Plan, and to merge the Prior Trust into the Trust, with Fidelity Management Trust Company, as trustee of the Trust (the "Trustee"), all effective as of the close of business on July 1, 2001;

WHEREAS, Temroc, in connection with the mergers, desires to adopt the Plan and Trust, and Quanex desires to consent to the adoptions; and

WHEREAS, as a result of the mergers, Temroc shall become an adopting employer of the Plan and Trust;

NOW, THEREFORE, the parties hereto agree as follows:

ADOPTION OF PLAN AND TRUST BY TEMROC

(1) ADOPTION. Temroc hereby adopts the Plan and Trust, effective as of July 1, 2001, for all of its employees who are included in a unit of employees covered by a collective bargaining agreement and who otherwise qualify as members therein under the terms and provisions of the Plan and Trust, and hereby agrees to be bound by all the terms, provisions, limitations, and conditions of the Plan and Trust with respect to the employees eligible for membership in the Plan to the same extent as if it had executed identical plan and trust documents, except that, effective July 1, 2001, the Plan shall be amended as follows:

(a) RETIREMENT AGE. Section 1.35 shall be amended to add the following sentence immediately following the second sentence of such section: In the case of a Member or former Member who was a participant in the Temroc Metals, Inc. Bargaining Unit Employees 401(k) Plan (the "Temroc Plan"), "Retirement Age" means the time he attains age 65 if that definition is more favorable for him than the definition in the first sentence of this Section 1.35.

(b) ELIGIBILITY. Section 3.01 of the Plan shall be amended to add the following two sentences immediately following the last sentence of such section: Each Employee who is employed by Temroc Metals, Inc. ("Temroc") and was a participant in the Temroc Plan on June 30, 2001 shall be eligible to participate in the Plan on July 1, 2001. Each other Employee who is employed by Temroc and included in a unit of employees covered by the collective bargaining agreement between Temroc and the United Automobile Workers (UAW), Local 125 (the "UAW Collective Bargaining Agreement") shall be eligible to participate in the Plan for all purposes beginning on the Entry Date that occurs

with or next follows the date on which the Employee completes one quarter year of Active Service.

(c) GAINSHARING CONTRIBUTIONS. Section 4.02 of the Plan shall be amended to add the following two sentences immediately following the last sentence of such section: Temroc shall contribute to the Trust for each Plan Year a Supplemental Contribution for Members who are employed by Temroc in such amount as is required under the terms of the UAW Collective Bargaining Agreement. Each such Member's right to benefits derived from Supplemental Contributions made to the Plan on his behalf shall be nonforfeitable.

(d) IN-SERVICE AGE 59 1/2 WITHDRAWALS. Section 6.06 of the Plan shall be amended to add the following sentence immediately following the last sentence of such section: This Section 6.06 shall not apply to Members who are employed by Temroc.

(e) LOANS. Section 6.07 of the Plan shall be amended to add the following sentence immediately following the last sentence of such section: This Section 6.07 shall not apply to Members who are employed by Temroc.

(2) CONSENT. Quanex hereby consents to and approves the adoption of the Plan by Temroc, effective as of July 1, 2001.

(3) COMMINGLING OF FUNDS. Temroc further agrees that the Committee, in its sole discretion, may permit the funds contributed by it to be commingled for purposes of investment with other funds in the Trust or to be maintained separately.

(4) AGREEMENT TO FURNISH INFORMATION. Temroc agrees to promptly furnish all information required by the Committee and the Trustee with reference to its employees who are eligible for the Plan, and to pay its contribution to the Plan the first Plan Year and all subsequent

Plan Years in which it is an adopting employer of the Plan, in the amount and at the time required by the terms of the Plan.

MERGER OF THE PRIOR PLAN INTO THE PLAN

(1) MERGER OF PLAN. Effective July 1, 2001, the Prior Plan is merged into the Plan.

(2) ELIGIBILITY. No person who is not a participant in the Prior Plan on June 30, 2001, shall be eligible to become a participant in the Prior Plan.

(3) CONTRIBUTIONS. No contributions shall be made under the Prior Plan with respect to any period after June 30, 2001.

(4) QUALIFICATION A CONDITION PRECEDENT TO MERGER. The merger of the Prior Plan into the Plan is contingent upon and subject to the express condition precedent that the merger meets all statutory and regulatory requirements for qualification of the Plan and the Prior Plan and their related trusts have at all times in form and in operation maintained their qualified and exempt status. In the event that this condition precedent is not satisfied the merger shall fail retroactively for failure to meet the condition precedent and the portion of the Plan trust fund attributable to the Prior Plan assets shall be immediately returned to Temroc and the merger shall be void ab initio.

(5) COMPLIANCE WITH SECTIONS 411(d)(6) AND 414(l) OF THE INTERNAL REVENUE CODE OF 1986. The merger of the Prior Plan into the Plan will comply with sections 411(d)(6) and 414(l) of the Internal Revenue Code of 1986, as amended (the "Code"). The distribution options available under the Prior Plan shall be preserved in the Plan in accordance with section 411(d)(6) of the Code. Each participant in the Prior Plan would (if the Prior Plan then terminated) receive

a benefit immediately after the merger equal to or greater than the benefit he would have been entitled to receive immediately before the merger (if the Prior Plan had then terminated).

(6) SINGLE PLAN. Upon the merger of the Prior Plan into the Plan, the Prior Plan and the Plan will be a single plan within the meaning of section 414(1) of the Code. All Prior Plan and Plan assets will be available to pay the benefits of all participants in the Prior Plan and Plan.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on this 26th day of June, 2001.

QUANEX CORPORATION

By /s/ Terry Murphy

Title: Vice President- Finance and
Chief Financial Officer

TEMROC METALS, INC.

By /s/ Terry Murphy

Title: Vice President Finance

NICHOLS 401(k) SAVINGS PLAN

AGREEMENT FOR ADOPTION AND MERGER
OF THE TEMROC METALS, INC. NON-BARGAINING UNIT EMPLOYEES 401(k)
PLAN INTO THE NICHOLS 401(k) SAVINGS PLAN

THIS AGREEMENT by and between Quanex Corporation, a corporation ("Quanex") and Temroc Metals, Inc., a corporation ("Temroc"),

WITNESSETH:

WHEREAS, Temroc maintains the Temroc Metals, Inc. Non-Bargaining Unit Employees 401(k) Plan (the "Prior Plan") and its related trust (the "Prior Trust") for the benefit of its employees and their beneficiaries;

WHEREAS, Quanex maintains the Nichols 401(k) Savings Plan (the "Plan") and its related trust (the "Trust");

WHEREAS, the Plan provides that any business organization may, with the approval of Quanex, adopt the Plan and Trust for all or any classification of its employees;

WHEREAS, Temroc desires to merge the Prior Plan into the Plan, and to merge the Prior Trust into the Trust, with Fidelity Management Trust Company, as trustee of the Trust (the "Trustee"), all effective as of the close of business on July 1, 2001;

WHEREAS, Temroc, in connection with the mergers, desires to adopt the Plan and Trust, and Quanex desires to consent to the adoptions; and

WHEREAS, as a result of the mergers, Temroc shall become an adopting employer of the Plan and Trust;

NOW, THEREFORE, the parties hereto agree as follows:

ADOPTION OF PLAN AND TRUST BY TEMROC

(1) ADOPTION. Temroc hereby adopts the Plan and Trust, effective as of July 1, 2001, for all of its employees who are not included in a unit of employees covered by a collective bargaining agreement and who otherwise qualify as members therein under the terms and provisions of the Plan and Trust, and hereby agrees to be bound by all the terms, provisions, limitations, and conditions of the Plan and Trust with respect to the employees eligible for membership in the Plan to the same extent as if it had executed identical plan and trust documents, except that, effective July 1, 2001, the Plan shall be amended as follows:

(a) RETIREMENT AGE. Section 1.39 shall be amended to add the following sentence immediately following the second sentence of such section: In the case of a Member or former Member who was a participant in the Temroc Metals, Inc. Non-Bargaining Unit Employees 401(k) Plan (the "Temroc Plan"), "Retirement Age" means the time he attains age 65 if that definition is more favorable for him than the definition in the first sentence of this Section 1.39.

(b) ELIGIBILITY. Section 3.01 of the Plan shall be amended to add the following sentence immediately following the last sentence of such section: Each Employee who is employed by Temroc Metals, Inc. ("Temroc") and was a participant in the Temroc Plan on June 30, 2001 shall be eligible to participate in the Plan on July 1, 2001.

(c) LOANS. Section 6.07 of the Plan shall be amended to add the following sentence immediately following the last sentence of such section: This Section 6.07 shall not be effective with respect to Members who are employed by Temroc until January 1, 2002.

(2) CONSENT. Quanex hereby consents to and approves the adoption of the Plan by Temroc, effective as of July 1, 2001.

(3) COMMINGLING OF FUNDS. Temroc further agrees that the Committee, in its sole discretion, may permit the funds contributed by them to be commingled for purposes of investment with other funds in the Trust or to be maintained separately.

(4) AGREEMENT TO FURNISH INFORMATION. Temroc agrees to promptly furnish all information required by the Committee and the Trustee with reference to its employees who are eligible for the Plan, and to pay its contribution to the Plan the first Plan Year and all subsequent Plan Years in which it is an adopting employer of the Plan, in the amount and at the time required by the terms of the Plan.

MERGER OF THE PRIOR PLAN INTO THE PLAN

(1) MERGER OF PLAN. Effective July 1, 2001, the Prior Plan is merged into the Plan.

(2) ELIGIBILITY. No person who is not a participant in the Prior Plan on June 30, 2001, shall be eligible to become a participant in the Prior Plan.

(3) CONTRIBUTIONS. No contributions shall be made under the Prior Plan with respect to any period after June 30, 2001.

(4) QUALIFICATION A CONDITION PRECEDENT TO MERGER. The merger of the Prior Plan into the Plan is contingent upon and subject to the express condition precedent that the merger meets all statutory and regulatory requirements for qualification of the Plan and the Prior Plan and their related trusts have at all times in form and in operation maintained their qualified and exempt status. In the event that this condition precedent is not satisfied the merger shall fail retroactively for failure to meet the condition precedent and the portion of the Plan trust fund

attributable to the Prior Plan assets shall be immediately returned to Temroc and the merger shall be void ab initio.

(5) COMPLIANCE WITH SECTIONS 411(d)(6) AND 414(l) OF THE INTERNAL REVENUE CODE OF 1986. The merger of the Prior Plan into the Plan will comply with sections 411(d)(6) and 414(l) of the Internal Revenue Code of 1986, as amended (the "Code"). The distribution options available under the Prior Plan shall be preserved in the Plan in accordance with section 411(d)(6) of the Code. Each participant in the Prior Plan would (if the Prior Plan then terminated) receive a benefit immediately after the merger equal to or greater than the benefit he would have been entitled to receive immediately before the merger (if the Prior Plan had then terminated).

(6) SINGLE PLAN. Upon the merger of the Prior Plan into the Plan, the Prior Plan and the Plan will be a single plan within the meaning of section 414(l) of the Code. All Prior Plan and Plan assets will be available to pay the benefits of all participants in the Prior Plan and Plan.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on this 26th day of June, 2001.

QUANEX CORPORATION

By /s/ Terry Murphy

Title: Vice President - Finance and
Chief Financial Officer

TEMROC METALS, INC.

By /s/ Terry Murphy

Title: Vice President Finance

QUANEX CORPORATION
EMPLOYEE SAVINGS PLAN

AMENDMENT AND RESTATEMENT
EFFECTIVE JANUARY 1, 1998

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

THIS AGREEMENT adopted by Quanex Corporation, a Delaware corporation (the "Sponsor"),

WITNESSETH:

WHEREAS, effective April 1, 1986, the Sponsor established Quanex Corporation Employee Savings Plan (the "Plan").

WHEREAS, the Plan is intended to be a profit sharing plan;

WHEREAS, the Sponsor desires to amend and restate the Plan;

NOW, THEREFORE, the Plan is hereby amended and restated in its entirety as set forth below.

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ARTICLE I

DEFINITIONS

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

1.01 "ACCOUNT" means all ledger accounts pertaining to a Participant which are maintained by the Committee to reflect the Participant's interest in the Trust. The Committee shall establish the following Accounts and any additional Accounts that the Committee considers necessary to reflect the entire interest of the Participant in the Trust. Each of the Accounts listed below and any additional Accounts established by the Committee shall reflect the Contributions or amounts transferred to the Trust, if any, and the appreciation or depreciation of the assets in the Trust and the income earned or loss incurred on the assets in the Trust attributable to the Contributions and/or other amounts transferred to the Account.

(a) Salary Deferral Contribution Account - the Participant's before-tax contributions, if any, made pursuant to Section 3.01.

(b) After-Tax Contribution Account - the Participant's after-tax contributions, if any, made pursuant to Section 3.02.

(c) Matching Contribution Account - the Employer's matching contributions, if any, made pursuant to Section 3.03.

(d) Supplemental Contribution Account - the Employer's contributions, if any, made pursuant to Section 3.04.

(e) QNEC Account - the Employer's contributions, known as "qualified nonelective employer contributions", made as a means of passing the actual deferral percentage test of section 401(k) of the Code.

(f) Rollover Account - funds transferred from another qualified plan or individual retirement account for the benefit of a Participant.

1.02 "ACTIVE SERVICE" means the Periods of Service which are counted for eligibility and vesting purposes as calculated under Article IX.

1.03 "AFFILIATED EMPLOYER" means the Employer and any employer which is a member of the same controlled group of corporations within the meaning of section 414(b) of the Code or which is a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), which is a member of an affiliated service group (within the meaning of section 414(m) of the Code) with the Employer, or which is required to be aggregated with the Employer under section 414(o) of the Code. For purposes of the limitation on allocations contained in Appendix A, the definition of Affiliated Employer is modified by substituting the phrase "more than 50 percent" in place of the phrase "at least 80 percent" each place the latter phrase appears in section 1563(a)(1) of the Code.

1.04 "ANNUAL COMPENSATION" means the Employee's wages from the Affiliated Employers as defined in section 3401(a) of the Code for purposes of federal income tax withholding at the source (but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed) modified by including elective contributions under a cafeteria plan maintained by an Affiliated Employer that are excludable from the Employee's gross income pursuant to section 125 of the Code, elective contributions under a qualified transportation fringe benefit plan maintained by an Affiliated Employer that are excludable from the Employee's gross income pursuant to section 132(f) of the Code and elective contributions made on behalf of the Employee to any plan maintained by an Affiliated Employer that is qualified under or governed by section 401(k), 408(k), or 403(b) of the Code. Except for purposes of Section A.4.1 of Appendix A of the Plan, Annual Compensation in excess of \$150,000.00 (as adjusted by the Secretary of Treasury) shall be disregarded. If the Plan Year is ever less than 12 months, the \$150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12. Effective January 1, 1997, the family aggregation rules previously contained in section 401(a)(17) of the Code are disregarded.

1.05 "ANNUITY STARTING DATE" means the first day of the first period for which an amount is payable as an annuity, or in the case of a benefit payable in the form of a lump sum, the date on which the Trustee disburses the lump sum.

1.06 "BENEFICIARY" OR "BENEFICIARIES" means the person or persons, or the trust or trusts created for the benefit of a natural person or persons or the Participant's or former Participant's estate, designated by the Participant or former Participant to receive the benefits payable under the Plan upon his death.

1.07 "BOARD" or "BOARD OF DIRECTORS" means the board of directors of the Sponsor.

1.08 "CODE" means the Internal Revenue Code of 1986, as amended from time to time.

1.09 "COMMITTEE" means the committee appointed by the Sponsor to administer the Plan.

1.10 "CONSIDERED COMPENSATION" means Annual Compensation paid to a Participant by an Affiliated Employer for a Plan Year, reduced by all of the following items (even if includable in gross income): all reimbursements or other expense allowances (such as the payment of moving expenses or automobile mileage reimbursements), cash and noncash fringe benefits (such as the use of an automobile owned by the Employer, club memberships, tax gross-ups, attendance and safety awards, fitness reimbursements, housing allowances, financial planning benefits and Beneflex dollars), deferred compensation (such as amounts realized upon the exercise of a nonqualified stock option or upon the premature disposition of an incentive stock option, pay for accrued vacation upon Separation From Service, amounts realized when restricted property or other property held by a Participant either becomes freely transferable or no longer subject to a substantial risk of forfeiture under section 83 of the Code), and welfare benefits (such as severance pay). An Employee's Considered Compensation paid to him during any period in which he is not eligible to participate in the Plan under Article II shall be

disregarded. Considered Compensation in excess of \$150,000.00 as adjusted by the Secretary of Treasury for increases in the cost of living in accordance with section 401(a)(17)(B) of the Code shall be disregarded. If the Plan Year is ever less than 12 months, the \$150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12.

1.11 "CONTRIBUTION" means the total amount of contributions made under the terms of the Plan. Each specific type of Contribution shall be designated by the type of contribution made as follows:

(a) Salary Deferral Contribution - a before-tax contribution made by the Employer pursuant to the Employee's salary deferral agreement.

(b) After-Tax Contribution - an after-tax contribution made by the Employee.

(c) Matching Contribution - a contribution made by the Employer pursuant to Section 3.03.

(d) Supplemental Contribution - a contribution made by the Employer pursuant to Section 3.04.

(e) QNEC - an extraordinary contribution, known as a "qualified nonelective employer contribution", made by the Employer as a means of passing the actual deferral percentage test of section 401(k) of the Code or the actual contribution percentage test of section 401(m) of the Code.

(f) Rollover Contribution - a contribution made by a Participant which consists of any part of an eligible rollover distribution (as defined in section 402 of the Code) from a qualified employee trust described in section 401(a) of the Code.

1.12 "DIRECT ROLLOVER" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

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

1.14 "DISTRIBUTE" means an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a Qualified Domestic Relations Order, are Distributees with regard to the interest of the Spouse or former Spouse.

1.15 "ELIGIBLE RETIREMENT PLAN" means an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

1.16 "ELIGIBLE ROLLOVER DISTRIBUTION" as defined in section 402 of the Code means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: (a) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten years or more; (b) any distribution to the extent the distribution is required under section 401(a)(9) of the Code; (c) the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and, effective for distributions after December 31, 1998, (d) any financial hardship distribution described in section 401(k)(2) of the Code from a Participant's Salary Deferral Contribution Account or from the Participant's QNEC Account (to the extent that QNECs were treated as Section 401(k) Contributions under Appendix A).

1.17 "EMPLOYEE" means, except as otherwise specified in this Section, all common law employees of an Affiliated Employer and all Leased Employees.

1.18 "EMPLOYER" OR "EMPLOYERS" means the Sponsor and any other business organization that adopts the Plan.

1.19 "ENTRY DATE" means the first day of each calendar quarter, January 1, April 1, July 1, and October 1.

1.20 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.21 "FIVE PERCENT OWNER" means an Employee who is a five percent owner as defined in section 416(i) of the Code.

1.22 "HIGHLY COMPENSATED EMPLOYEE" means, effective January 1, 1997, an Employee or an Affiliated Employer who, during the Plan Year or the preceding Plan Year, (a) was at any time a Five Percent Owner at any time during the Plan Year or the preceding Plan Year or (b) had Annual Compensation from the Affiliated Employers in excess of \$80,000.00 (as adjusted from time to time by the Secretary of the Treasury) for the preceding Plan Year.

1.23 "HOUR OF SERVICE" means each hour that an Employee is paid or entitled to payment by an Affiliated Employer for the performance of duties.

1.24 "LEASED EMPLOYEE" means, effective January 1, 1997, any person who (a) is not a common law employee of an Affiliated Employer, (b) pursuant to an agreement between an Affiliated Employer and any other person, has performed services for an Affiliated Employer (or

for an Affiliated Employer and related persons determined in accordance with section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and (c) performs the services under primary direction and control of the recipient.

1.25 "MATERNITY OR PATERNITY ABSENCE" means a period in which an Employee is absent from work (a) by reason of the pregnancy of the Employee, (b) by reason of the birth of a child of the Employee, (c) by reason of the placement of a child with the Employee in connection with the adoption of the child by the Employee, or (d) for purposes of caring for such child for a period immediately following such birth or placement for adoption.

1.26 "NONFORFEITABLE INTEREST" means a Participant's nonforfeitable interest in amounts credited to his Account determined in accordance with Article VII.

1.27 "NON-HIGHLY COMPENSATED EMPLOYEE" means an Employee who is not a Highly Compensated Employee.

1.28 "PARTICIPANT" means an Employee who is eligible to participate in the Plan under the provisions of Article II.

1.29 "PERIOD OF SERVICE" means a period of employment with an Affiliated Employer which commences on the later of (1) April 1, 1986 or (2) the day on which an Employee performs his initial Hour of Service or performs his initial Hour of Service after he Severs Service, whichever is applicable, and ends on the date the Employee subsequently Severs Service.

1.30 "PERIOD OF SEVERANCE" means the period of time commencing on the Employee's Severance From Service Date and ending on the date the Employee subsequently performs an Hour of Service.

1.31 "PLAN" means the Quanex Corporation Employee Savings Plan, as amended from time to time.

1.32 "PLAN YEAR" means the calendar year.

1.33 "QUALIFIED DOMESTIC RELATIONS ORDER" means a qualified domestic relations order as defined in section 414(p) of the Code.

1.34 "REGULATION" means the Department of Treasury regulation specified, as it may be changed from time to time.

1.35 "REQUIRED BEGINNING DATE" means:

(a) effective January 1, 2001, in the case of an individual who is not a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, the Required Beginning Date is April 1 of the calendar year following the later of (1) the calendar year in which the individual attains age 70 1/2, or (2) the calendar year in which the individual incurs a Separation From Service;

(b) in the case of an individual who is a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, the Required Beginning Date is April 1 of the calendar year following the calendar year in which he attains age 70 1/2.;

(c) notwithstanding subsection(a), in the case of an individual who attained age 70 1/2 prior to January 1, 2001, the Required Beginning Date is April 1 of the calendar year following the calendar year in which the individual attained age 70 1/2.

1.36 "RETIREMENT AGE" means age 65.

1.37 "ROLLOVER CONTRIBUTION" means the amount contributed by a Participant of the Plan which consists of any part of an Eligible Rollover Distribution from a qualified employee trust described in section 401(a) of the Code.

1.38 "SEPARATION FROM SERVICE" means an individual's termination of employment with an Affiliated Employer without commencing or continuing employment with (a) any other Affiliated Employer or (b) any other entity under circumstances where, under Regulations and Internal Revenue Service rulings, the individual is not deemed to have incurred a Separation From Service within the meaning of Section 401(k)(2) of the Code.

1.39 "SEVERANCE FROM SERVICE DATE" means the earlier of the date of the Employee's Separation From Service, or the first anniversary of the date on which the Employee is absent from service (with or without pay) for any reason other than his Separation From Service or a Maternity or Paternity Absence, such as vacation, holiday, sickness, or leave of absence. The Severance From Service Date of an Employee who is absent beyond the first anniversary of his first day of absence by reason of a Maternity or Paternity Absence is the second anniversary of the first day of the absence.

1.40 "SEVERES SERVICE" means the occurrence of a Participant's Severance From Service Date.

1.41 "SPONSOR" means Quanex Corporation, a Delaware corporation.

1.42 "SPOUSE" means the person to whom the Participant or former Participant is married under applicable local law. In addition, to the extent provided in a Qualified Domestic Relations Order, a surviving former spouse of a Participant or former Participant will be treated as the Spouse of the Participant or former Participant, and to the same extent any current spouse of the Participant or former Participant will not be treated as a Spouse of the Participant or former Participant.

1.43 "SPONSOR STOCK" means the common stock of the Sponsor or such other publicly-traded stock of an Affiliated Employer as meets the requirements of section 407(d)(5) of ERISA with respect to the Plan.

1.44 "TRUST" means the trust estate created to fund the Plan.

1.45 "TRUSTEE" means collectively one or more persons or corporations with trust powers which have been appointed by the initial Sponsor and have accepted the duties of Trustee and any successor appointed by the Sponsor.

1.46 "VALUATION DATE" means each business day of the Plan Year.

ARTICLE II

ELIGIBILITY

2.01 ELIGIBILITY REQUIREMENTS. Each Employee who is employed by an Employer shall be eligible to participate in the Plan beginning on the Entry Date that occurs with or next follows the date on which the Employee completes three months of Active Service. However, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if he has met the requirements for eligibility, if there has been good faith bargaining between the Employer and the Employees' representative pertaining to retirement benefits and the agreement does not require the Employer to include such Employees in the Plan. In addition, a Leased Employee shall not be eligible to participate in the Plan unless the Plan's qualified status is dependent upon coverage of the Leased Employee. Effective February 1, 2000, an Employee who is compensated on an hourly rated basis for services rendered at the Sponsor's MacSteel-Arkansas Division is not eligible to participate in the Plan. An Employee who is employed by the Sponsor at one of the Sponsor's Nichols divisions, the Sponsor's Fabricated Products division or the Sponsor's Piper Impact division is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and receives no earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and who does receive earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) all of which is exempt from United States income tax under an applicable tax convention is not eligible to participate in the Plan. During any period in which an individual is classified by an Employer as an independent contractor with respect to such Employer, the individual is not eligible to participate in the Plan (even if he is subsequently reclassified by the Internal Revenue Service as a common law employee of the Employer and the Employer acquiesces to the reclassification). Finally, an Employee who is employed outside the United States is not eligible to participate in the Plan unless the Committee elects to permit him to participate in the Plan.

2.02 EARLY PARTICIPATION FOR ROLLOVER PURPOSES. An Employee who satisfies the eligibility requirements specified in Section 2.01 other than the service requirement shall be eligible to make Rollover Contributions to the Plan on the Entry Date next following (not coincident with) the date on which he completes an Hour of Service.

2.03 ELIGIBILITY UPON REEMPLOYMENT. If an Employee incurs a Separation From Service prior to the date he initially begins participating in the Plan, he shall be eligible to begin participation in the Plan on the later of the date he would have become a Participant if he did not incur a Separation From Service or the date on which he performs an Hour of Service after he incurs a Separation From Service. Subject to Section 2.04, once an Employee becomes a Participant, his eligibility to participate in the Plan shall continue until he Severs Service.

2.04 CESSATION OF PARTICIPATION. An individual who has become a Participant will cease to be a Participant on the earliest of the date on which he (a) Severs Service, (b) is transferred from the employ of an Employer to the employ of an Affiliated Employer that has not adopted the Plan, (c) becomes included in a unit of employees covered by a collective bargaining agreement that does not require coverage of those employees under the Plan, (d) becomes a Leased Employee, or (e) becomes included in another classification of Employees who, under the terms of the Plan, are not eligible to participate. Under these circumstances, the Participant's Account becomes frozen; he cannot contribute to the Plan or share in the allocation of any Contributions for the frozen period. However, his Accounts shall continue to share in any Plan income allocable to his Accounts during the frozen period of time.

2.05 RECOMMENCEMENT OF PARTICIPATION. A former Participant will again become a Participant on the day on which he again becomes included in a classification of Employees that, under the terms of the Plan, is eligible to participate.

ARTICLE III

CONTRIBUTIONS

3.01 SALARY DEFERRAL CONTRIBUTIONS. Each Employer shall make a Salary Deferral Contribution in an amount equal to the amount by which the Considered Compensation of its Employees who are Participants was reduced on a pre-tax basis pursuant to salary deferral agreements. Any such salary deferral agreement shall be an agreement in a form satisfactory to the Committee to prospectively receive Considered Compensation from the Employer in a reduced amount and to have the Employer contribute an amount equal to the amount of the reduction to the Trust on account of the Participant. Any such salary deferral agreement shall be revocable in accordance with its terms, provided that no revocation shall be retroactive or permit payment to the Participant of the amount required to be contributed to the Trust. A Participant's right to benefits attributable to Salary Deferral Contributions made to the Plan on his behalf shall be nonforfeitable.

The maximum amount a Participant may elect to reduce his Considered Compensation under his salary deferral agreement and have contributed to the Plan on a pre-tax basis shall be determined by the Committee, in its sole discretion from time to time. The election to have Salary Deferral Contributions made, the ability to change the rate of Salary Deferral Contributions, the right to suspend Salary Deferral Contributions, and the manner of commencing new Salary Deferral Contributions shall be permitted under any uniform method determined by the Committee from time to time.

3.02 AFTER-TAX CONTRIBUTIONS. To the extent permitted by the Committee, each Participant may make voluntary after-tax contributions to the Plan through payroll deductions or in a lump sum in cash. A Participant's right to benefits attributable to After-Tax Contributions made to the Plan on his behalf shall be nonforfeitable.

The maximum amount a Participant may elect to contribute to the Plan on an after-tax basis shall be determined by the Committee from time to time. The election to have After-Tax Contributions made, the ability to change the rate of After-Tax Contributions, the right to suspend After-Tax Contributions, and the manner of commencing new After-Tax Contributions shall be permitted under any uniform method determined by the Committee from time to time.

3.03 MATCHING CONTRIBUTIONS. Each Employer will make a Matching Contribution on behalf of each of its Employees who is a Participant in an amount equal to 50 percent of the first five percent of such Participant's Considered Compensation contributed to the Plan pursuant to such Participant's Salary Deferral Contributions and After-Tax Contributions for the Plan Year.

3.04 SUPPLEMENTAL CONTRIBUTIONS. Each Employer may contribute for a Plan Year a Supplemental Contribution to be allocated among Participants in such amount, if any, as shall be determined by the Employer. The rate of the Supplemental Contribution need not be uniform among all divisions of the Employer.

3.05 ROLLOVER CONTRIBUTIONS AND PLAN-TO-PLAN TRANSFERS. The Committee may permit Rollover Contributions by Participants and/or direct transfers to or from another qualified

plan on behalf of Participants from time to time. If Rollover Contributions and/or direct transfers to or from another qualified plan are permitted, the opportunity to make those contributions and/or direct transfers must be made available to Participants on a nondiscriminatory basis. For this purpose only, all Employees who are included in a classification of Employees who are eligible to participate in the Plan shall be considered to be Participants of the Plan even though they may not have met the Active Service requirements for eligibility. However, they shall not be entitled to elect to have Salary Deferral Contributions made or to share in Employer Contributions or forfeitures unless and until they have met the requirements for eligibility, contributions and allocations. A Rollover Contribution shall not be accepted unless it is directly rolled over to the Plan in a rollover described in section 401(a)(31) of the Code. A Participant shall not be permitted to make a Rollover Contribution if the property he intends to contribute is for any reason unacceptable to the Trustee. A Participant's right to benefits attributable to his Rollover Contributions made to the Plan shall be nonforfeitable.

3.06 QNECS - EXTRAORDINARY EMPLOYER CONTRIBUTIONS. Any Employer may make a QNEC in such amount, if any, as shall be determined by it. A Participant's right to benefits attributable to QNECs made to the Plan on his behalf shall be nonforfeitable. In no event will QNECs be distributed before Salary Deferral Contributions may be distributed from the Plan.

3.07 RESTORATION CONTRIBUTIONS. The Employer shall, for each Plan Year, make a restoration contribution in an amount equal to the sum of (a) such amount, if any, as shall be necessary to fully restore all Matching Contribution Accounts and Supplemental Contribution Accounts required to be restored pursuant to the provisions of Section 8.02 after the application of all forfeitures available for such restoration; plus (b) an amount equal in value to the value of forfeited benefits required to be restored under Section 8.03, after the application of all forfeitures available for such restoration.

3.08 NONDEDUCTIBLE CONTRIBUTIONS NOT REQUIRED. Notwithstanding any other provision of the Plan, no Employer shall be required to make any contribution that would be a "nondeductible contribution" within the meaning of section 4972 of the Code.

3.09 FORM OF PAYMENT OF CONTRIBUTIONS. Contributions may be paid to the Trustee either in cash or in qualifying employer securities (as such term is defined in section 407(d) of ERISA) or any combination thereof, provided that payment may not be made in any form constituting a prohibited transaction under section 4975 of the Code or section 406 of ERISA.

3.10 DEADLINE FOR PAYMENT OF CONTRIBUTIONS. Salary Deferral Contributions and After-Tax Contributions shall be paid to the Trustee in installments. The installment for each payroll period shall be paid as soon as administratively feasible. The Matching Contributions, Supplemental Contributions and QNECs for a Plan Year shall be paid to the Trustee in one or more installments, as the Employer may from time to time determine; provided, however, that such contributions may not be paid later than the time prescribed by law (including extensions thereof) for filing the Employer's income tax return for its taxable year ending with or within such Plan Year.

3.11 RETURN OF CONTRIBUTIONS FOR MISTAKE, DISQUALIFICATION OR DISALLOWANCE OF DEDUCTION. Subject to the limitations of section 415 of the Code, the assets of the Trust shall not

revert to any Employer or be used for any purpose other than the exclusive benefit of Participants, former Participants and their Beneficiaries and the reasonable expenses of administering the Plan except:

(a) any Employer Contribution made because of a mistake of fact may be repaid to the Employer within one year after the payment of the Contribution; and

(b) all Employer Contributions are conditioned upon their deductibility under section 404 of the Code; therefore, to the extent the deduction is disallowed, the Contributions may be repaid to the Employer within one year after the disallowance.

The Employer has the exclusive right to determine if a Contribution or any part of it is to be repaid or is to remain as a part of the Trust except that the amount to be repaid is limited, if the Contribution is made by mistake of fact or if the deduction for the Contribution is disallowed, to the excess of the amount contributed over the amount that would have been contributed had there been no mistake or over the amount disallowed. Earnings which are attributable to any excess contribution cannot be repaid. Losses attributable to an excess contribution must reduce the amount that may be repaid. All repayments of Contributions made due to a mistake of fact or with respect to which a deduction is disallowed are limited so that the balance in a Participant's or former Participant's Account cannot be reduced to less than the balance that would have been in the Participant's or former Participant's Account had the mistaken amount or the amount disallowed never been contributed.

ARTICLE IV

ALLOCATION AND VALUATION OF ACCOUNTS

4.01 INFORMATION STATEMENTS FROM EMPLOYER. Upon request by the Committee, the Employer shall provide the Committee with a schedule setting forth the amount of its Salary Deferral Contribution, Supplemental Contribution, QNEC, and restoration contribution; the names of its Participants, the number of years of Active Service of each of its Participants, the amount of Considered Compensation and Annual Compensation paid to each Participant, and the amount of Considered Compensation and Annual Compensation paid to all its Participants. Such schedules shall be conclusive evidence of such facts.

4.02 ALLOCATION OF SALARY DEFERRAL CONTRIBUTIONS. The Committee or its designee shall allocate the Salary Deferral Contribution among the Participants by allocating to each Participant the amount by which his Considered Compensation was reduced pursuant to a salary deferral agreement (as described in Section 3.01) and shall credit each such Participant's share to his Salary Deferral Contribution Account.

4.03 ALLOCATION OF AFTER-TAX CONTRIBUTIONS. The Committee or its designee shall allocate After-Tax Contributions made by a Participant in the amount of such After-Tax Contributions and shall credit such After-Tax Contributions to the Participants After-Tax Contribution Account.

4.04 ALLOCATION OF MATCHING CONTRIBUTIONS. The Committee or its designee shall separately allocate the Matching Contribution made by an Employer among the Employer's Participants in the proportion which the matched Salary Deferral Contributions and matched After-Tax Contributions of each such Participant bears to the total matched Salary Deferral Contributions and matched After-Tax Contributions of all such Participants. Each Participant's proportionate share shall be credited to his Matching Contribution Account.

4.05 ALLOCATION OF SUPPLEMENTAL CONTRIBUTIONS. For each Plan Year, the Committee or its designee shall allocate the Supplemental Contribution made by an Employer among the Participants who are employed by the Employer during the Plan Year, based upon each such Participant's Considered Compensation paid by the Employer as compared to the Considered Compensation for all such Participants employed by the Employer and eligible for the allocation.

4.06 ALLOCATION OF QNECS. The Committee or its designee shall separately allocate the QNEC among the Non-Highly Compensated Employees who are Participants based upon each such Participant's Considered Compensation as compared to the Considered Compensation of all such Participants.

4.07 ALLOCATION OF FORFEITURES. At the time a forfeiture occurs pursuant to Article VIII, Section A.3.2 of Appendix A or Section A.3.3 of Appendix A, the amount forfeited will first be used to reinstate any Account required to be reinstated under Article VIII, and any remaining amount will be applied to reduce the Employer's obligation to make future Matching Contributions or Supplemental Contributions. However, in no event will amounts forfeited pursuant to Section A.3.2 or Section A.3.3 of Appendix A be allocated to the Accounts of Participants whose Matching Contributions are forfeited pursuant to Section A.3.2 or Section A.3.3 of Appendix A.

4.08 VALUATION OF ACCOUNTS. A Participant's or former Participant's Accounts shall be valued by the Trustee at fair market value on each Valuation Date. The earnings and losses attributable to any asset in the Trust will be allocated solely to the Account of the Participant or former Participant on whose behalf the investment in the asset was made. In determining the fair market value of the Participants' or former Participant's Accounts, the Trustee shall utilize such sources of information as it may deem reliable including, but not limited to, stock market quotations, statistical evaluation services, newspapers of general circulation, financial publications, advice from investment counselors or brokerage firms, or any combination of sources which in the opinion of the Trustee will provide the price such assets were last traded at on a registered stock exchange; provided, however, that with respect to regulated investment company shares, the Trustee shall rely exclusively on information provided to it by the investment adviser to such funds.

4.09 NO RIGHTS UNLESS OTHERWISE PRESCRIBED. No allocations, adjustments, credits, or transfers shall ever vest in any Participant or former Participant any right, title, or interest in the Trust except at the times and upon the terms and conditions set forth in the Plan.

ARTICLE V

BENEFITS

5.01 RETIREMENT BENEFIT. Upon his Separation From Service, a Participant or former Participant is entitled to receive his Nonforfeitable Interest in his Account balances.

5.02 DEATH BENEFIT. If a Participant or former Participant dies, the death benefit payable to his Beneficiary shall be the Participant's Nonforfeitable Interest in 100 percent of the remaining amount of his Account balances.

5.03 DISTRIBUTION METHOD. Any distribution under the Plan shall be made in the form of a cash lump sum.

5.04 IMMEDIATE PAYMENT OF SMALL AMOUNT UPON SEPARATION FROM SERVICE. Each Participant or former Participant whose Nonforfeitable Interest in his Account balance at the time of a distribution to him on account of his Separation From Service is, in the aggregate, less than or equal to \$5,000.00, shall be paid in the form of an immediate single sum cash payment and/or as a Direct Rollover, as elected by him under section 5.05. However, if a Distributee who is subject to this Section 5.04 does not furnish instructions in accordance with Plan procedures to directly roll over his Plan benefit within 45 days after he has been given direct rollover forms, he will be deemed to have elected to receive an immediate lump sum cash distribution of his entire Plan benefit. If a Participant's or former Participant's Nonforfeitable Interest in his Account balance payable upon his Separation From Service is zero (because he has no Nonforfeitable Interest in his Account balance), he will be deemed to receive an immediate distribution of his entire Nonforfeitable Interest in his Account balance.

5.05 DIRECT ROLLOVER OPTION. To the extent required under Regulations, a Distributee has the right to direct that any portion of his Eligible Rollover Distribution will be directly paid to an Eligible Retirement Plan specified by him that will accept the Eligible Rollover Distribution.

5.06 DISTRIBUTION UPON DISPOSITION OF ASSETS OR A SUBSIDIARY. A Participant or former Participant who is employed by an Employer that is a corporation is entitled to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance in the event of the sale or other disposition by the Employer of at least 85 percent of all of the assets used by the Employer in a trade or business of the Employer to an unrelated corporation if (a) the Employer continues to maintain the Plan after the disposition and (b) in connection with the disposition the Participant or former Participant is transferred to the employ of the corporation acquiring the assets

A Participant or former Participant is entitled to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance in the event of the sale or other disposition by the Sponsor of its interest in a subsidiary (within the meaning of Section 409(d)(3) of the Code) to an unrelated entity or individual if (a) the Sponsor continues to maintain the Plan after the disposition and (b) in connection with the disposition the Participant continues employment with the subsidiary.

The selling Employer is treated as continuing to maintain the Plan after the disposition only if the purchaser does not maintain the Plan after the disposition. A purchaser is considered to maintain the Plan if it adopts the Plan, becomes an employer whose employees accrue benefits under the Plan, or if the Plan is merged or consolidated with, or any assets or liabilities are transferred from the Plan to, a plan maintained by the purchaser in a transaction that is subject to Section 414(1)(1) of the Code. An unrelated corporation, entity or individual is one that is not required to be aggregated with the selling Employer under Section 414(b), (c), (m), or (o) of the Code after the sale or other disposition.

If a Participant's Nonforfeitable Interest in his Account balance is \$5,000.00 or less on the date of the disposition, the Committee will direct the Trustee to pay to the Participant, a lump sum cash distribution of his Nonforfeitable Interest in his Account balance as soon as administratively practicable following the disposition and any Internal Revenue Service approval of the distribution that the Committee deems advisable to obtain.

If a Participant's Nonforfeitable Interest in his Account balance is more than \$5,000.00 on the date of the disposition, he may elect (1) to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance as soon as administratively practicable following the disposition and receipt of any Internal Revenue Service approval of the distribution that the Committee deems advisable to obtain, or (2) he may elect to defer receipt of his Nonforfeitable Interests in his Account balance until the first day of the month coincident with or next following the date that he attains Retirement Age. In the manner and at the time required under Regulations, the Committee will provide the Participant with a notice of his right to defer receipt of his Account balance described in Section 5.09.

However, no distribution shall be made to a Participant under this Section 5.06 after the end of the second calendar year following the calendar year in which the disposition occurred. In addition, no distribution shall be made under this Section unless it is a lump sum distribution within the meaning of section 402(e)(4)(D) of the Code, without regard to subclauses (I), (II), (III), and (IV) of clause (i) thereof.

5.07 TIME OF DISTRIBUTION. Notwithstanding any other provision of the Plan, any benefit payable under the Plan shall be distributed in compliance with the following provisions:

(a) DISTRIBUTION DEADLINES FOR PARTICIPANTS OR FORMER PARTICIPANTS WHO ARE 70 1/2 OR OLDER. If a Participant or former Participant attains 70 1/2, the Participant or former Participant must elect to receive the distribution required under section 401(a)(9) of the Code in one lump sum which must be paid by his Required Beginning Date.

(b) DISTRIBUTION DEADLINE FOR DEATH BENEFITS. If a Participant or former Participant dies before the distribution of his Plan benefit has commenced, his entire interest shall be distributed within five years after his death.

(c) LIMITATIONS ON DEATH BENEFITS. Benefits payable under the Plan shall not be provided in any form that would cause a Participant's death benefit to be more than incidental. Any distribution required to satisfy the incidental benefit requirement shall be considered a required distribution for purposes of section 401(a)(9) of the Code.

(d) COMPLIANCE WITH SECTION 401(a)(9). All distributions under the Plan will be made in accordance with the requirements of section 401(a)(9) of the Code and all Regulations promulgated thereunder. The provisions of the Plan reflecting section 401(a)(9) of the Code override any distribution options in the Plan inconsistent with such Section.

(e) COMPLIANCE WITH SECTION 401(a)(14). Unless the Participant or former Participant otherwise elects, the payment of benefits under the Plan to the Participant or former Participant will begin not later than the 60th day after the close of the Plan Year in which occurs the latest of (a) the date on which the Participant or former Participant attains the later of age 62 or Retirement Age, (b) the tenth anniversary of the year in which the Participant or former Participant commenced participation in the Plan, or (c) the Participant's or former Participant's Separation From Service.

5.08 CONSENT TO DISTRIBUTION. Notwithstanding any other provision of the Plan, no benefit shall be distributed or commence to be distributed to a Participant or former Participant prior to his attainment of the later of age 62 or Retirement Age without his consent, unless the benefit is payable immediately under Section 5.04. Any such consent shall be valid only if given not more than 90 days prior to the Participant's or former Participant's Annuity Starting Date and after his receipt of the notice regarding benefits described in Section 5.09(a).

5.09 INFORMATION PROVIDED TO PARTICIPANTS. Information regarding the form of benefits available under the Plan shall be provided to Participants or former Participants in accordance with the following provisions:

(a) General Information. The Sponsor shall provide each Participant or former Participant with a written general explanation of the Participant's or former Participant's right, if any, to defer receipt of the distribution.

(b) Time for Giving Notice. The written general explanation or description regarding any optional forms of benefit available under the Plan shall be provided to a Participant or former Participant no less than 30 days and no more than 90 days before his Annuity Starting Date unless he legally waives this requirement.

5.10 DESIGNATION OF BENEFICIARY. Each Participant and former Participant has the right to designate and to revoke the designation of his Beneficiary or Beneficiaries. Each designation or revocation must be evidenced by a written document in the form required by the Committee, signed by the Participant or former Participant and filed with the Committee. If no designation is on file at the time of a Participant's or former Participant's death or if the Committee determines that the designation is ineffective, the designated Beneficiary shall be the Participant's or former Participant's Spouse, if living, or if not, the executor, administrator or other personal representative of the Participant's or former Participant's estate. If a Participant or former Participant is considered to be married under local law, his designation of any Beneficiary, other than his Spouse, shall not be valid unless the Spouse acknowledges in writing that the Spouse understands the effect of the Participant's or former Participant's beneficiary designation and consents to it. The consent must be to a specific Beneficiary. The written acknowledgement and consent must be filed with the Committee, signed by the Spouse and at least two witnesses, one of whom must be a member of the Committee or a notary public.

However, if the Spouse cannot be located or there exist other circumstances as described in sections 401(a)(11) and 417(a)(2) of the Code, the requirement of the Participant's or former Participant's Spouse's acknowledgement and consent may be waived. If a Beneficiary other than the Participant's or former Participant's Spouse is named, the designation shall become invalid if the Participant or former Participant is later determined to be married under local law, the Participant's or former Participant's missing Spouse is located or the circumstances which resulted in the waiver of the requirement of obtaining the consent of his Spouse no longer exist.

5.11 DISTRIBUTIONS TO DISABLED PERSONS. If the Committee determines that any person to whom a payment is due is unable to care for his affairs because of physical or mental disability, it shall have the authority to cause the payments to be made to the Spouse, brother, sister or other person the Committee determines to have incurred, or to be expected to incur, expenses for that person unless a prior claim is made by a qualified guardian or other legal representative. The Committee and the Trustee shall not be responsible to oversee the application of those payments. Payments made pursuant to this power shall be a complete discharge of all liability under the Plan and the Trust and the obligations of the Employer, the Trustee, the Trust and the Committee.

5.12 DISTRIBUTIONS PURSUANT TO QUALIFIED DOMESTIC RELATIONS ORDERS. The Committee will instruct the Trustee to pay benefits in accordance with the terms of any order that has been determined, in accordance with Plan procedures, to be a Qualified Domestic Relations Order. A Qualified Domestic Relations Order may require the payment of an immediate cash lump sum to an alternate payee even if the Participant or former Participant is not then entitled to receive an immediate payment of Plan benefits.

5.13 CLAIMS PROCEDURE. When a benefit is due, the Participant, former Participant or Beneficiary should submit his claim to the person or office designated by the Committee to receive claims. Under normal circumstances, a final decision shall be made as to a claim within 90 days after receipt of the claim. If the Committee notifies the claimant in writing during the initial 90-day period, it may extend the period up to 180 days after the initial receipt of the claim. The written notice must contain the circumstances necessitating the extension and the anticipated date for the final decision. If a claim is denied during the claims period, the Committee must notify the claimant in writing. The denial must include the specific reasons for it, the Plan provisions upon which the denial is based, and the claims review procedure. If no action is taken during the claims period, the claim is treated as if it were denied on the last day of the claims period.

If a Participant's, former Participant's or Beneficiary's claim is denied and he wants a review, he must apply to the Committee in writing. That application may include any comment or argument the claimant wants to make. The claimant may either represent himself or appoint a representative, either of whom has the right to inspect all documents pertaining to the claim and its denial. The Committee may schedule any meeting with the claimant or his representative that it finds necessary or appropriate to complete its review.

The request for review must be filed within 60 days after the denial. If it is not, the denial becomes final. If a timely request is made, the Committee must make its decision, under normal circumstances, within 60 days of the receipt of the request for review. However, if the

Committee notifies the claimant prior to the expiration of the initial review period, it may extend the period of review up to 120 days following the initial receipt of the request for a review. All decisions of the Committee must be in writing and must include the specific reasons for their action and the Plan provisions on which their decision is based. If a decision is not given to the claimant within the review period, the claim is treated as if it were denied on the last day of the review period.

ARTICLE VI

IN-SERVICE DISTRIBUTIONS

6.01 IN-SERVICE FINANCIAL HARDSHIP DISTRIBUTIONS.

(a) General. Prior to his Separation From Service, a Participant is entitled to receive a distribution from his Salary Deferral Contribution Account (except for income that was not credited to his Salary Deferral Account as of December 31, 1988), his Rollover Account, his After-Tax Contribution Account, his Nonforfeitable Interest in his Matching Contribution Account and his Nonforfeitable Interest in his Supplemental Contribution Account in the event of an immediate and heavy financial need incurred by the Participant and the Committee's determination that the withdrawal is necessary to alleviate that hardship.

(b) Permitted Reasons For Financial Hardship Distributions. A distribution shall be made on account of financial hardship only if the distribution is for: (i) expenses for medical care described in section 213(d) of the Code previously incurred by the Participant, the Participant's Spouse, or any dependents of the Participant (as defined in section 152 of the Code) or necessary for these persons to obtain medical care described in section 213(d) of the Code, (ii) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant, (iii) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Participant, his Spouse, children, or dependents (as defined in section 152 of the Code), (iv) payments necessary to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence, or (v) any other event added to this list by the Commissioner of Internal Revenue.

(c) Amount. A distribution to satisfy an immediate and heavy financial need shall not be made in excess of the amount of the immediate and heavy financial need of the Participant and the Participant must have obtained all distributions, other than hardship distributions, and all nontaxable (at the time of the loan) loans currently available under all plans maintained by the Employer. The amount of a Participant's immediate and heavy financial need includes any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the financial hardship distribution.

(d) Suspension of Participation in Certain Benefit Programs. The Participant's hardship distribution shall terminate his right to have the Employer make any Salary Deferral Contributions on his behalf until the next time Salary Deferral Contributions are permitted after the lapse of 12 months following the hardship distribution and his timely filing of a written request to resume his Salary Deferral Contributions. In addition, for 12 months after he receives a hardship distribution from the Plan, the Participant is prohibited from making elective contributions and employee contributions to or under all other qualified and nonqualified plans of deferred compensation maintained by the Employer, including stock option plans, stock purchase plans and Code section 401(k) cash or deferred arrangements that are part of cafeteria plans described in section 125 of the Code. However, the Participant is not prohibited from making contributions to a health or welfare benefit plan, including one that is part of a cafeteria plan within the meaning of section 125 of the Code.

(e) Resumption of Salary Deferral Contributions. When the Participant resumes Salary Deferral Contributions, he cannot have the Employer make any Salary Deferral Contributions in excess of the limit in section 402(g) of the Code for that taxable year reduced by the amount of Salary Deferral Contributions made by the Employer on the Participant's behalf during the taxable year of the Participant in which he received the hardship distribution.

(f) Order of Distributions. Financial hardship distributions will be made in the following order: First withdrawals will be made from the Participant's After-Tax Contribution Account, then from his Rollover Contribution Account, then from his Matching Contribution Account, then from his Supplemental Contribution Account and finally, from his Salary Deferral Contribution Account. A Participant shall not be entitled to receive a financial hardship distribution of any amount credited to his QNEC Account.

6.02 IN-SERVICE DISTRIBUTION OF AFTER-TAX CONTRIBUTIONS, MATCHING CONTRIBUTIONS AND SUPPLEMENTAL CONTRIBUTIONS. Each Participant shall be entitled to withdraw a portion or all of his After-Tax Contribution Account and his Nonforfeitable Interest in his Matching Contribution Account and his Supplemental Contribution Account. However, the minimum amount of the distribution permitted under this Section 6.02 shall be the lesser of \$1,000.00 or the total amount which could otherwise be distributed under this Section 6.02. Also, a Participant may make a withdrawal of a portion of his Nonforfeitable Interest in his Matching Contribution Account and his Supplemental Contribution Account only if the Participant has been a Participant in this Plan for five or more years or the amounts withdrawn from the Matching Contribution Account and his Supplement Contribution Account have been credited to his Account for a minimum of two years. A Participant may not make another distribution request under this Section 6.02 until such Participant has made After-Tax Contributions and/or Salary Deferral Contributions for a period of twelve months or more after receiving his most recent distribution pursuant to this Section 6.02.

6.03 METHOD OF PAYMENT. Any distribution made pursuant to this Article VI will be paid in the form of a cash lump sum.

6.04 IN-SERVICE DISTRIBUTIONS FOR CERTAIN FORMER PARTICIPANTS. Former Participants who are described in Section 5.06 shall be entitled to receive distributions pursuant to this Article VI under the same terms and conditions as are applicable to Participants.

ARTICLE VII

VESTING

A Participant or former Participant has a fully nonforfeitable interest in his entire Account balance when he (a) incurs a Disability on or prior to the date of his Separation From Service, (b) attains his Normal Retirement Age on or prior to the date of his Separation From Service, or (c) incurs a Separation From Service due to death. A Participant or former Participant shall at all times have a fully nonforfeitable interest in amounts credited to his Salary Deferral Contribution Account, QNEC Account, Rollover Account and After-Tax Contribution Account. A Participant or former Participant shall have a nonforfeitable interest in the following percentage of amounts credited to his Matching Contribution Account and his Supplemental Contribution Account:

Years of Active Service Completed by the Participant or Former Participant Vested	
Percentage -	-----
Less than	-----
one.....	0 One but less than
two.....	20 Two
	but less than
three.....	40 Three
	but less than
four.....	60 Four
	but less than
five.....	80 Five
	or
more.....	100

Subject to the possible application of Section B.2.3 of Appendix B or Section 12.05, except as specified above, a Participant or former Participant has no vested interest in his Account balance and shall not be entitled to any benefits under the Plan upon or following his Separation From Service.

ARTICLE VIII

FORFEITURES AND RESTORATIONS

8.01 FORFEITURE ON TERMINATION OF PARTICIPATION.

(a) If as a result of his Separation From Service a Participant or former Participant receives (or is deemed to receive under Section 5.04), a distribution of his entire Nonforfeitable Interest in the Plan not later than the end of the second Plan Year following the Plan Year in which his Separation From Service occurs, the remaining nonvested portion of his Account balance will be immediately forfeited upon the distribution.

(b) If a Participant or former Participant neither receives nor is deemed to receive a distribution as a result of his Separation From Service, the nonvested portion of his Account balance will be permanently forfeited (with no right of reinstatement under Section 8.02) on the later of the date of his Separation From Service or the date on which he has incurred a Period of Severance of five consecutive years.

8.02 RESTORATION OF FORFEITED AMOUNTS. If a Participant or former Participant who forfeited any portion of his Account balance pursuant to the provisions of Section 8.01 subsequently performs an Hour of Service, then the following provisions shall apply:

(a) Repayment Requirement. The Participant's Account balance (unadjusted for gains or losses subsequent to the forfeiture) shall be restored if he repays to the Trustee the full amount of any distribution with respect to which the forfeiture arose prior to the earlier of (1) the date on which he incurs a Period of Severance of five years commencing after his distribution, or (2) the fifth anniversary of the first date on which the Participant subsequently performs his first Hour of Service after his Separation From Service. A Participant who is deemed to have received a distribution under Section 5.04 (because he had no Nonforfeitable Interest in his Account balance) will be deemed to have repaid his Account balance upon his reemployment if he is reemployed before the earlier of the dates specified in clauses (1) and (2) in the preceding sentence.

(b) Amount Restored. The amount to be restored under the preceding provisions of this Section 8.02 shall be the dollar value of the Account balance, both the amount distributed and the amount forfeited. The Participant's Account balance shall be restored as soon as administratively practicable after the later of the date the Participant first performs an Hour of Service after his Separation From Service or the date on which any required repayment is completed.

(c) No Other Basis for Restoration. Except as otherwise provided above, a Participant's Account balance shall not be restored after it has been forfeited pursuant to Section 8.01.

8.03 FORFEITURES BY LOST PARTICIPANTS OR BENEFICIARIES. If a person who is entitled to a distribution cannot be located during a reasonable search after the Committee has initially attempted making payment, his Account balance shall be forfeited. However, if at any time prior to the termination of the Plan and the complete distribution of the Trust assets, the missing former Participant or Beneficiary files a claim with the Committee for the forfeited Account balance, that Account balance shall be reinstated (without adjustment for trust income or losses during the period of forfeiture) effective as of the date of the receipt of the claim.

ARTICLE IX

ACTIVE SERVICE

9.01 GENERAL. For purposes of determining an Employee's eligibility to participate in the Plan and his nonforfeitable interest in his Account balance, the Employee shall receive credit for Active Service commencing on the later of (1) April 1, 1986 or (2) the date he first performs an Hour of Service and ending on his Severance From Service Date. If an Employee Severs Service, he shall recommence earning Active Service when he again performs an Hour of Service. If an Employee performs an Hour of Service within twelve months after his Severance From Service Date, the intervening Period of Severance shall be counted as Active Service. When determining an Employee's Active Service, all Periods of Service, whether or not completed consecutively, shall be aggregated on a per-day basis. In aggregating Active Service, thirty days shall be counted as one month and 365 days shall be counted as one year of Active Service. Except to the extent expressly provided otherwise in the Plan, an Employee shall be granted credit for all Periods of Service with Affiliated Employers (including Periods of Service performed while the Employee is not eligible to participate in the Plan because he does not satisfy the requirements of Section 2.01).

9.02 DISREGARD OF CERTAIN SERVICE. If an Employee incurs a Separation From Service at a time when he does not have a Nonforfeitable Interest in a portion of his Matching Contribution Account balance or his Supplemental Contribution Account balance and his Period of Severance continues for a continuous period of five years or more, the Period of Service completed by the Employee before the Period of Severance shall not be taken into account as Active Service, if his Period of Severance equals or exceeds his Period of Service, whether or not consecutive, completed before the Period of Severance.

9.03 CERTAIN BRIEF ABSENCES COUNTED AS ACTIVE SERVICE. If an Employee performs an Hour of Service within 365 days after he Severs Service, the intervening Period of Severance shall be counted as a Period of Service.

9.04 SERVICE CREDIT REQUIRED BY LAW. An Employee will be granted credit for Active Service for time he is not actively performing services for an Affiliated Employer the extent required under federal law. An Employee will be granted credit for Active Service for services performed for a predecessor employer to the extent required by section 414(a) of the Code and Regulations issued thereunder.

9.05 SPECIAL MATERNITY OR PATERNITY ABSENCE RULES. Except as specified below, the period of time between (a) the first anniversary of the first day of a Maternity or Paternity Absence of an Employee and (b) the second anniversary of the first day of the absence shall not be counted as a Period of Severance or as Active Service. However, if the Employee returns to active employment with an Affiliated Employer prior to the expiration of twelve months following the earlier of (1) the date of his Separation From Service or (2) the second anniversary of the first day of his Maternity or Paternity Absence, he shall be granted Active Service for the entire period of his Maternity or Paternity Absence.

9.06 EMPLOYMENT RECORDS CONCLUSIVE. The employment records of the Employer shall be conclusive for all determinations of Active Service.

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ARTICLE X

INVESTMENT ELECTIONS

10.01 INVESTMENT FUNDS ESTABLISHED. It is contemplated that the assets of the Plan shall be invested in such categories of assets as may be determined from time to time by the Committee and announced and made available on an equal basis to all Participants and former Participants. In accordance with procedures established by the Committee, each Participant and former Participant may designate the percentage of his Account to be invested in each investment fund available under the Plan. Up to one hundred percent of the Trust assets may be invested in Sponsor Stock.

10.02 ELECTION PROCEDURES ESTABLISHED. The Committee shall, from time to time, establish rules to be applied in a nondiscriminatory manner as to all matters relating to the administration of the investment of funds including, but not limited to, the following:

(a) the percentage of a Participant's or former Participant's Account as it exists, from time to time, that may be transferred from one fund to another and the limitations based on amounts, percentages, time, or frequency, if any, on such transfers;

(b) the percentage of a Participant's future contributions, when allocated to his Account, that may be invested in any one or more funds and the limitations based upon amounts, percentages, time, or frequency, if any, on such investments in various funds;

(c) the procedures for making investment elections and changing existing investment elections;

(d) the period of notice required for making investment elections and changing existing investment elections;

(e) the handling of income and change of value in funds when funds are in the process of being transferred between investment funds and to investment funds; and

(f) all other matters necessary to permit the orderly operation of investment funds within the Plan.

When the Committee changes any previous applicable rule, it shall state the effective time of the change and the procedures for complying with any such change. Any change shall remain effective until such date as stated in the change, or if none is stated, then until revoked or changed in a like manner.

ARTICLE XI

ADOPTION OF PLAN BY OTHER EMPLOYERS

11.01 ADOPTION PROCEDURE. Any business organization may, with the approval of the Board, adopt the Plan by:

(a) a certified resolution or consent of the board of directors of the adopting Employer or an executed adoption instrument (approved by the board of directors of the adopting Employer) agreeing to be bound as an Employer by all the terms, conditions and limitations of the Plan except those, if any, specifically described in the adoption instrument; and

(b) providing all information required by the Committee and the Trustee.

11.02 NO JOINT VENTURE IMPLIED. The document which evidences the adoption of the Plan by an Employer shall become a part of the Plan. However, neither the adoption of the Plan and the Trust by an Employer nor any act performed by it in relation to the Plan and the Trust shall ever create a joint venture or partnership relation between it and any other Employer.

11.03 ALL TRUST ASSETS AVAILABLE TO PAY ALL BENEFITS. The Accounts of Participants employed by the Employers that adopt the Plan shall be commingled for investment purposes. All assets in the Trust shall be available to pay benefits to all Participants employed by any Employer.

11.04 QUALIFICATION A CONDITION PRECEDENT TO ADOPTION AND CONTINUED PARTICIPATION. The adoption of the Plan and the Trust by a business organization is contingent upon and subject to the express condition precedent that the initial adoption meets all statutory and regulatory requirements for qualification of the Plan and the exemption of the Trust that are applicable to it and that the Plan and Trust continue in operation to maintain their qualified and exempt status. In the event the adoption fails to initially qualify, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust assets applicable to the adoption shall be immediately returned to the adopting business organization and the adoption shall be void ab initio. In the event the adoption as to a given business organization later becomes disqualified and loses its exemption for any reason, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust assets allocable to the adoption by that business organization shall be immediately spun off, retroactively as of the last date for which the Plan qualified, to a separate trust for its sole benefit and an identical but separate Plan shall be created, retroactively effective as of the last date the Plan as adopted by that business organization qualified, for the benefit of the Participants covered by that adoption.

ARTICLE XII

AMENDMENT AND TERMINATION

12.01 RIGHT TO AMEND AND LIMITATIONS THEREON. The Sponsor has the sole right to amend the Plan. An amendment may be made by a certified resolution or consent of the Board, or by an instrument in writing executed by the appropriate officer of the Sponsor. The amendment must describe the nature of the amendment and its effective date. No amendment shall:

(a) vest in an Employer any interest in the Trust;

(b) cause or permit the Trust assets to be diverted to any purpose other than the exclusive benefit of the present, former or future Participants and their Beneficiaries except under the circumstances described in Section 3.11;

(c) decrease the Account of any Participant or former Participant, or eliminate an optional form of payment in violation of section 411(d)(6) of the Code; or

(d) change the vesting schedule to one which would result in a Participant's or former Participant's Nonforfeitable Interest in his Account balance (determined as of the later of the date of the adoption of the amendment or of the effective date of the amendment) of any Participant or former Participant being less than his Nonforfeitable Interest computed under the Plan without regard to the amendment. If the Plan's vesting schedule is amended or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant or former Participant who has at least three years of Active Service as of the date of the amendment or change shall have his nonforfeitable percentage computed under the Plan without regard to the amendment or the change if that results in a higher Nonforfeitable Interest in his Account balance.

Each Employer shall be deemed to have adopted any amendment made by the Sponsor unless the Employer notifies the Committee of its rejection in writing within 30 days after it receives a copy of the amendment. A rejection shall constitute a withdrawal from the Plan by that Employer unless the Sponsor acquiesces in the rejection.

12.02 MANDATORY AMENDMENTS. The Contributions of each Employer to the Plan are intended to be:

(a) deductible under the applicable provisions of the Code;

(b) except as otherwise prescribed by applicable law, exempt from the Federal Social Security Act;

(c) except as otherwise prescribed by applicable law, exempt from with- holding under the Code; and

(d) excludable from any Employee's regular rate of pay, as that term is defined under the Fair Labor Standards Act of 1938, as amended.

The Sponsor shall make any amendment necessary to carry out this intention, and it may be made retroactively.

12.03 WITHDRAWAL OF EMPLOYER. An Employer may withdraw from the Plan and the Trust if the Sponsor does not acquiesce in its rejection of an amendment or by giving written notice of its intent to withdraw to the Committee. The Committee shall then determine the portion of the Trust assets that is attributable to the Participants employed by the withdrawing Employer and shall notify the Trustee to segregate and transfer those assets to the successor trustee when it receives a designation of the successor from the withdrawing Employer.

A withdrawal shall not terminate the Plan and the Trust with respect to the withdrawing Employer, if the Employer either appoints a successor trustee and reaffirms the Plan and the Trust as its new and separate plan and trust intended to qualify under section 401(a) of the Code, or establishes another plan and trust intended to qualify under section 401(a) of the Code.

The determination of the Committee, in its sole discretion, of the portion of the Trust assets that is attributable to the Participants employed by the withdrawing Employer shall be final and binding upon all parties; and, the Trustee's transfer of those assets to the designated successor Trustee shall relieve the Trustee of any further obligation, liability or duty to the withdrawing Employer, the Participants employed by that Employer and their Beneficiaries, and the successor trustee.

12.04 TERMINATION OF PLAN. The Sponsor may terminate the Plan and the Trust with respect to all Employers by executing and delivering to the Committee and the Trustee, a notice of termination, specifying the date of termination.

12.05 PARTIAL OR COMPLETE TERMINATION OR COMPLETE DISCONTINUANCE OF CONTRIBUTIONS. Without regard to any other provision of the Plan, if there is a partial or total termination of the Plan or there is a complete discontinuance of the Employer's Contributions, each of the affected Participants shall immediately have a fully Nonforfeitable Interest in his Account as of the end of the last Plan Year for which a substantial Employer Contribution was made and in any amounts later allocated to his Account. If the Employer then resumes making substantial Contributions at any time, the appropriate vesting schedule shall again apply to all amounts allocated to each affected Participant's Account beginning with the Plan Year for which they were resumed.

ARTICLE XIII

MISCELLANEOUS

13.01 PLAN NOT AN EMPLOYMENT CONTRACT. The maintenance of the Plan and the Trust is not a contract between any Employer and its Employees which gives any Employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Employer to discharge any Employee at any time or to interfere with the Employee's right to terminate his employment at any time.

13.02 BENEFITS PROVIDED SOLELY FROM TRUST. All benefits payable under the Plan shall be paid or provided for solely from the Trust. No Employer assumes any liability or responsibility to pay any benefit provided by the Plan.

13.03 ASSIGNMENTS PROHIBITED. No principal or income payable or to become payable from the Trust Fund shall be subject to anticipation or assignment by a Participant, former Participant or Beneficiary to attachment by, interference with, or control of any creditor of a Participant, former Participant or Beneficiary; or to being taken or reached by any legal or equitable process in satisfaction of any debt or liability of a Participant, former Participant, or Beneficiary prior to its actual receipt by the Participant, former Participant or Beneficiary. Any attempted conveyance, transfer, assignment, mortgage, pledge, or encumbrance of any Trust assets, any part of it, or any interest in it by a Participant, former Participant or Beneficiary prior to distribution shall be void, whether that conveyance, transfer, assignment, mortgage, pledge, or encumbrance is intended to take place or become effective before or after any distribution of Trust assets or the termination of the Trust itself. The Trustee shall never under any circumstances be required to recognize any conveyance, transfer, assignment, mortgage, pledge or encumbrance by a Participant, former Participant, or Beneficiary of the Trust, any part of it, or any interest in it, or to pay any money or thing of value to any creditor or assignee of a Participant, former Participant or Beneficiary for any cause whatsoever. These prohibitions against the alienation of a Participant's Account shall not apply to a Qualified Domestic Relations Order or to a voluntary revocable assignment of benefits not in excess of ten percent of the amount of any payment from the Plan if such assignment complies with Regulations issued under section 401(a)(13) of the Code. Further, effective for judgments, orders and decrees issued, and settlement agreements entered into, on or after August 5, 1997, these prohibitions shall not apply to any offset of a Participant's or former Participant's benefits provided under a Plan against an amount that the Participant or former Participant is ordered or required to pay to the Plan if--(a) the order or requirement to pay arises--(1) under a judgment of conviction for a crime involving the Plan, (2) under a civil judgment (including a consent order or decree) entered by a court in an action brought in connection with an alleged violation of part 4 of subtitle B of title I of ERISA, or (3) pursuant to a settlement agreement between the Secretary of Labor and the Participant or former Participant in connection with a violation (or alleged violation) of part 4 of subtitle B of ERISA by a fiduciary or any other person, and (b) the judgment, order, decree, or settlement agreement expressly provides for the offset of all or part of the amount ordered or required to be paid to the Plan against the Participant's or former Participant's benefits provided under the Plan.

13.04 REQUIREMENTS UPON MERGER OR CONSOLIDATION OF PLANS. The Plan shall not merge or consolidate with or transfer any assets or liabilities to any other plan unless each Participant would receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

13.05 GENDER OF WORDS USED. If the context requires it, words of one gender when used in the Plan shall include the other gender, and words used in the singular or plural shall include the other.

13.06 SEVERABILITY. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

13.07 REEMPLOYED VETERANS. Effective January 12, 1994, the requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 will be complied with in the operation of the Plan in the manner permitted under section 414(u) of the Code.

13.08 LIMITATIONS ON LEGAL ACTIONS. No person may bring an action pertaining to the Plan or Trust until he has exhausted his administrative claims and appeal remedies identified in section 5.13. Further, no person may bring an action pertaining to a claim for benefits under the Plan or the Trust following 90 days after the Committee's final denial of his claim for benefits.

13.09 GOVERNING LAW. The provisions of the Plan shall be construed, administered, and governed under the laws of the United States unless the specific matter in question is governed by state law in which event the laws of the State of Texas shall apply.

IN WITNESS WHEREOF, Quanex Corporation has caused this Agreement to be executed this 31st day of August, 2001, in multiple counterparts, each of which shall be deemed to be an original, to be effective the 1st day of January, 1998, except for those provisions which have an earlier effective date provided by law, or as otherwise provided under applicable provisions of the Plan.

QUANEX CORPORATION

By: /s/ Paul J. Giddens

Title: Vice President Human Resources and
Administration

APPENDIX A

LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS

PART A.1 DEFINITIONS

DEFINITIONS. As used herein the following words and phrases have the meaning attributed to them below:

A.1.1 "ACTUAL CONTRIBUTION RATIO" shall mean the ratio of Section 401(m) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section A.2.4) will not be taken into account.

A.1.2 "ACTUAL DEFERRAL PERCENTAGE" means, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(k) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

A.1.3 "ACTUAL DEFERRAL RATIO" means the ratio of Section 401(k) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section A.2.3) will not be taken into account.

A.1.4 "ANNUAL ADDITIONS" means the sum of the following amounts credited on behalf of a Participant for the Limitation Year: (a) Employer contributions, (b) Employee contributions and (c) forfeitures. Excess 401(k) Contributions for a Plan Year are treated as Annual Additions for that Plan Year even if they are corrected through distribution. Excess Deferrals that are timely distributed as set forth in Section A.3.1 will not be treated as Annual Additions.

A.1.5 "CONTRIBUTION PERCENTAGE" shall mean, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(m) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

A.1.6 "EXCESS AGGREGATE 401(m) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(m) Contributions actually paid into the Trust on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section A.2.4.

A.1.7 "EXCESS AMOUNT" shall mean the excess of the Annual Additions credited to the Participant's Account for the Limitation Year over the Maximum Permissible Amount.

A.1.8 "EXCESS 401(k) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(k) Contributions actually paid to the Trustee on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section A.2.3.

A.1.9 "LIMITATION YEAR" shall mean the Plan Year. All qualified plans maintained by any Affiliated Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

A.1.10 "MAXIMUM PERMISSIBLE AMOUNT" shall mean the lesser of (a) the dollar limitation in effect under section 415(c)(1)(A) of the Code for the Limitation Year, or (b) 25 percent of the Participant's Annual Compensation for the Limitation Year. The Annual Compensation limitation referred to in clause (b) of the immediately preceding sentence shall not apply to any contribution for medical benefits (within the meaning of section 401(h) or section 419(A)(f)(2) of the Code) that is otherwise treated as an Annual Addition under section 415(l)(1) or section 419(A)(d)(2) of the Code. If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount shall not exceed the dollar limitation in effect under section 415(c)(1)(A) of the Code multiplied by a fraction, the numerator of which is the number of months in the short Limitation Year, and the denominator of which is 12.

A.1.11 "SECTION 401(k) CONTRIBUTIONS" means the sum of Salary Deferral Contributions made on behalf of the Participant during the Plan Year, and QNECs that the Employer elects to have treated as section 401(k) Contributions pursuant to section 401(k)(3)(d)(ii) of the Code.

A.1.12 "SECTION 401(m) CONTRIBUTIONS" shall mean the sum of Matching Contributions and After-Tax Contributions made on behalf of the Participant during the Plan Year and other amounts that the Employer elects to have treated as Section 401(m) Contributions pursuant to section 401(m)(3)(B) of the Code. However, Matching Contributions and Salary Deferral Contributions that the Employer could otherwise elect to have treated as Section 401(m) Contributions are not Section 401(m) Contributions to the extent that they are used to enable the Plan to satisfy the minimum contribution requirements of section 416 of the Code.

PART A.2 LIMITATIONS ON CONTRIBUTIONS

A.2.1 LIMITATIONS BASED UPON DEDUCTIBILITY AND THE MAXIMUM ALLOCATION PERMITTED TO A PARTICIPANT'S ACCOUNT. Notwithstanding any other provision of the Plan, no Employer shall make any contribution that would be a nondeductible contribution within the meaning of section 4972 of the Code or that would cause the limitation on allocations to each Participant's Account under section 415 of the Code and Section A.4.1 to be exceeded.

A.2.2 DOLLAR LIMITATION UPON SALARY DEFERRAL CONTRIBUTIONS. The maximum Salary Deferral Contribution that a Participant may elect to have made on his behalf during the Participant's taxable year may not, when added to the amounts deferred under other plans or arrangements described in sections 401(k), 408(k) and 403(b) of the Code, exceed \$7,000 (as adjusted by the Secretary of Treasury). For purposes of applying the requirements of Section A.2.3, Excess Deferrals shall not be disregarded merely because they are Excess Deferrals or because they are distributed in accordance with this Section. However, Excess Deferrals made to the Plan on behalf of Non-Highly Compensated Employees are not to be taken into account under Section A.2.3.

A.2.3 LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE. Effective for Plan Years commencing on or after January 1, 1997, the Actual Deferral Percentage for eligible Highly Compensated Employees for any Plan Year must bear a relationship to the Actual Deferral Percentage for all other eligible Employees for (1) the preceding Plan Year in the case of testing for Plan Years commencing on or after January 1, 2001, or (2) the current Plan Year in the case of testing for Plan Years commencing prior to January 1, 2001, which meets either of the following tests:

(a) the Actual Deferral Percentage of the eligible Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by 1.25; or

(b) the excess of the Actual Deferral Percentage of the eligible Highly Compensated Employees over that of all other eligible Employees is not more than two percentage points, and the Actual Deferral Percentage of the eligible Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by two.

For purposes of this test an eligible Employee is an Employee who is directly or indirectly eligible to make Salary Deferral Contributions for all or part of the Plan Year. A person who is suspended from making Salary Deferral Contributions because he has made a withdrawal is an eligible Employee. If no Salary Deferral Contributions are made for an eligible Employee, the Actual Deferral Ratio that shall be included for him in determining the Actual Deferral Percentage is zero. If the Plan and any other plan or plans which include cash or deferred arrangements are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, the cash or deferred arrangements included in the Plan and the other plans shall be treated as one plan for purposes of this Section. If any Participant who is a Highly Compensated Employee is a participant in any other cash or deferred arrangements of the Employer, when determining the deferral percentage of such Participant, all such cash or deferred arrangements are treated as one plan for these dates.

Notwithstanding the foregoing, effective for Plan Years commencing on or after January 1, 1998, an individual who is not a Highly Compensated Employee and who has not satisfied the minimum age and service requirements of section 410(a)(1)(A) of the Code will not be treated as an eligible Employee for purposes of this Section A.2.3 if the Sponsor elects to apply section 410(b)(4)(3) of the Code in determining whether the Plan meets the requirements of section 401(k)(3) of the Code.

A Salary Deferral Contribution will be taken into account under the Actual Deferral Percentage test of section 401(k) of the Code and this Section for a Plan Year only if it relates to Considered Compensation that either would have been received by the Employee in the Plan Year (but for the deferral election) or is attributable to services performed by the Employee in the Plan Year and would have been received by the Employee within 2 1/2 months after the close of the Plan Year (but for the deferral election). In addition, a Section 401(k) Contribution will be taken into account under the Actual Deferral Percentage test of section 401(k) of the Code and this Section for a Plan Year only if it is allocated to an Employee as of a date within that Plan Year. For this purpose a Section 401(k) Contribution is considered allocated as of a date within a Plan Year if the allocation is not contingent on participation or performance of services after such date and the Section 401(k) Contribution is actually paid to the Trust no later than 12 months after the Plan Year to which the Section 401(k) Contribution relates.

Failure to correct Excess 401(k) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan's cash or deferred arrangement to be disqualified for the Plan Year for which the Excess 401(k) Contributions were made and for all subsequent years during which they remain in the Trust. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess 401(k) Contributions unless they are corrected within 2 1/2 months after the close of the Plan Year for which they were made.

For the Plan Year that commences on January 1, 2001, the Actual Deferral Percentage of persons who are not Highly Compensated Employees will be determined by taking into account only (1) Salary Deferral Contributions for such persons that were taken into account for purposes of the actual deferral percentage test set forth in section 401(k) of the Code and this Section A.2.3 for the Plan Year that commenced on January 1, 2000 and (2) QNECS that were allocated to the Accounts of such persons for the Plan Year that commenced on January 1, 2000 but that were not used to satisfy the actual deferral percentage test set forth in section 401(k) of the Code and this Section A.2.3 or the actual contribution percentage test set forth in section 401(m) of the Code and Section A.2.4 for the Plan Year that commenced on January 1, 2000.

A.2.4 LIMITATION BASED UPON CONTRIBUTION PERCENTAGE. Effective for Plan Years commencing on or after January 1, 1997, the Contribution Percentage for eligible Highly Compensated Employees for any Plan Year must bear a relationship to the Actual Contribution Percentage for all other eligible Employees for (1) the preceding Plan Year in the case of testing for Plan Years commencing on or after January 1, 2001, or (2) the current Plan Year in the case of testing for Plan Years commencing prior to January 1, 2001, which meets either of the following tests:

(a) the Contribution Percentage for all other eligible Employees multiplied by 1.25; or

(b) the lesser of the Contribution Percentage for all other eligible Employees multiplied by two, or the Contribution Percentage for all other eligible Employees plus two percentage points.

For purposes of this test an eligible Employee is an Employee who is directly or indirectly eligible to receive an allocation of Matching Contributions for all or part of the Plan Year. Except as provided below, an Employee who would be eligible to receive an allocation of Matching Contributions but for his election not to participate is an eligible Employee. An Employee who would be eligible to receive an allocation of Matching Contributions but for the limitations on his Annual Additions imposed by section 415 of the Code is an eligible Employee.

Notwithstanding the foregoing, effective for Plan Years commencing on or after January 1, 1998, an individual who is not a Highly Compensated Employee and who has not satisfied the minimum age and service requirements of section 410(a)(1)(A) of the Code will not be treated as an eligible Employee for purposes of this Section A.2.4 if the Sponsor elects to apply section 410(b)(4)(B) of the Code in determining whether the Plan meets the requirements of section 401(m)(2) of the Code.

If no Section 401(m) Contributions are made on behalf of an eligible Employee the Actual Contribution Ratio that shall be included for him in determining the Contribution Percentage is zero. If the Plan and any other plan or plans to which Section 401(m) Contributions are made are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, the Plan and those plans are to be treated as one. The Actual Contribution Ratio of a Highly Compensated Employee who is eligible to participate in more than one plan of an Affiliated employer to which employee or matching contributions are made is calculated by treating all the plans in which the Employee is eligible to participate as one plan. However, plans that are not permitted to be aggregated under Regulation section 1.410(m)-1(b)(3)(ii) are not aggregated for this purpose.

A Matching Contribution will be taken into account under this Section for a Plan Year only if (1) it is allocated to the Employee's Account as of a date within the Plan Year, (2) it is paid to the Trust no later than the end of the 12-month period beginning after the close of the Plan Year, and (3) it is made on behalf of an Employee on account of his Salary Deferral Contributions for the Plan Year.

At the election of the Employer, a Participant's Salary Deferral Contributions, and QNECs made on behalf of the Participant during the Plan Year shall be treated as Section 401(m) Contributions that are Matching Contributions provided that the conditions set forth in Regulation section 1.401(m)-1(b)(5) are satisfied. Salary Deferral Contributions may not be treated as Matching Contributions for purposes of the contribution percentage test set forth in this Section unless such contributions, including those taken into account for purposes of the test set forth in this Section, satisfy the actual deferral percentage test set forth in Section A.2.3. Moreover, Salary Deferral Contributions and QNECs may not be taken into account for purposes of the test set forth in this Section to the extent that such contributions are taken into account in determining whether any other contributions satisfy the actual deferral percentage test set forth in Section A.2.3. Finally, Salary Deferral Contributions and QNECs may be taken into account for purposes of the test set forth in this Section only if they are allocated to the Employee's Account as of a date within the Plan Year being tested within the meaning of Regulation section 1.401(k)-1(b)(4).

Failure to correct Excess Aggregate 401(m) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan to fail to be qualified for the Plan Year for which the Excess Aggregate 401(m) Contributions were made and for all subsequent years during which they remain in the Trust. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess Aggregate 401(m) Contributions unless they are corrected within 2 1/2 months after the close of the Plan Year for which they were made.

For the Plan Year that commences on January 1, 2001, the Contribution Percentage of persons who are not Highly Compensated Employees will be determined by taking into account only (1) After-Tax Contributions made on behalf of those persons during the Plan Year that commenced on January 1, 2000, (2) Matching Contributions made on behalf of such persons that were taken into account for purposes of the actual contribution percentage test set forth in section 401(m) of the Code and this Section A.2.4 for the Plan Year that commenced on January 1, 2000 and (3) QNECS that were allocated to the Accounts of such persons for the Plan Year that commenced on January 1, 2000 but that were not used to satisfy the actual deferral percentage test set forth in section 401(k) of the Code and Section A.2.3 or the actual contribution percentage that set forth in section 401(m) of the Code and this Section A.2.4 for the Plan Year that commenced on January 1, 2000.

A.2.5 ALTERNATIVE LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE AND CONTRIBUTION PERCENTAGE. If the second alternative permitted in Sections A.2.3 and A.2.4 is used for both the actual deferral percentage test and the contribution percentage test the following additional limitation on Salary Deferral Contributions shall apply. The Actual Deferral Percentage plus the Contribution Percentage of the eligible Highly Compensated Employees cannot exceed the greater of (a) or (b), where

(a) is the sum of:

(i) 1.25 times the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year; and

(b) is the sum of:

(i) 1.25 times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the greater of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year.

Notwithstanding the foregoing, the references in this Section A.2.5 to "the preceding Plan Year" shall be deemed to be references to "the current Plan Year" in the case of testing for Plan Years commencing prior to January 1, 2001.

PART A.3 CORRECTION PROCEDURES FOR ERRONEOUS CONTRIBUTIONS

A.3.1 EXCESS DEFERRAL FAIL SAFE PROVISION. As soon as practical after the close of each Plan Year, the Committee shall determine if there would be any Excess Deferrals. If there would be an Excess Deferral by a Participant, the Excess Deferral as adjusted by any earnings or losses, will be distributed to the Participant no later than April 15 following the Participant's taxable year in which the Excess Deferral was made. The income allocable to the Excess Deferrals for the taxable year of the Participant shall be determined by multiplying the income for the taxable year of the Participant allocable to Salary Deferral Contributions by a fraction. The numerator of the fraction is the amount of the Excess Deferrals made on behalf of the Participant for the taxable year. The denominator of the fraction is the Participant's total Salary Deferral Account balance as of the beginning of the taxable year plus the Participant's Salary Deferral Contributions for the taxable year.

A.3.2 ACTUAL DEFERRAL PERCENTAGE FAIL SAFE PROVISION. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the Actual Deferral Percentage for the Highly Compensated Employees would exceed the limitation set forth in Section A.2.3. If the limitation would be exceeded for a Plan Year, before the close of the following Plan Year (a) the amount of Excess 401(k) Contributions for that Plan Year (and any income allocable to those contributions as calculated in the specific manner required by Section A.3.5) shall be distributed or (b) the Employer may make a QNEC which it elects to have treated as a Section 401(k) Contribution. However, in the case of testing for any Plan Year that commences on or after January 1, 2001, a QNEC shall not be taken into account for purposes of the test set forth in section 401(k) of the Code and Section A.2.3 for such Plan Year unless it is made and allocated by the close of such Plan Year.

The amount of Excess 401(k) Contributions to be distributed shall be determined in the following manner:

First, the Plan will determine how much the Actual Deferral Ratio of the Highly Compensated Employee with the highest Actual Deferral Ratio would have to be reduced to satisfy the Actual Deferral Percentage Test or cause such Actual Deferral Ratio to equal the Actual Deferral Ratio of the Highly Compensated Employee with the next highest Actual Deferral Ratio. If a lesser reduction would enable the Plan to satisfy the Actual Deferral Percentage Test, only this lesser reduction may be made. Second, this process is repeated until the Actual Deferral Percentage Test is satisfied. The amount of Excess 401(k) Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's Annual Compensation.

Then, effective for Plan Years that commence on or after January 1, 1997, the total amount of Excess 401(k) Contributions shall be distributed on the basis of the respective amounts attributable to each Highly Compensated Employee. The Highly Compensated Employees subject to the actual distribution are determined using the "dollar leveling method." The Salary Deferral Contributions of the Highly Compensated Employee with the greatest dollar amount of Salary Deferral Contributions and other contributions treated as Section 401(k) Contributions for the Plan Year are reduced by the amount required to cause that Highly Compensated Employee's Salary Deferral Contributions to equal the dollar amount of the Salary Deferral Contributions and other contributions treated as Section 401(k) Contributions for the Plan Year of the Highly Compensated Employee with the next highest dollar amount. This amount is then distributed to the Highly Compensated Employee with the highest dollar amount. However, if a lesser reduction, when added to the total dollar amount already distributed under this Section A.3.2, would equal the total Excess 401(k) Contributions, the lesser reduction amount shall be distributed. This process shall be continued until the amount of the Excess 401(k) Contributions have been distributed.

QNECs will be treated as Section 401(k) Contributions only if: (a) the conditions described in Regulation section 1.401(k)-1(b)(5) are satisfied and (b) they are allocated to Participants' Accounts as of a date within that Plan Year and are actually paid to the Trust no later than the end of the 12-month period immediately following the Plan Year to which the contributions relate. If the Employer makes a QNEC that it elects to have treated as a Section 401(k) Contribution, the Contribution will be in an amount necessary to satisfy the Actual Deferral Percentage test and will be allocated first to those Non-Highly Compensated Employees who had the lowest Actual Deferral Ratio.

Any distributions of the Excess 401(k) Contributions for any Plan Year are to be made to Highly Compensated Employees on the basis of the amount of contributions by, or on behalf of, each Highly Compensated Employee. The amount of Excess 401(k) Contributions to be distributed for any Plan Year must be reduced by any excess Salary Deferral Contributions previously distributed for the taxable year ending in the same Plan Year. To the extent that Excess Section 401(k) Contributions are distributed pursuant to this Section A.3.2, the Matching Contributions made with respect to those Excess Section 401(k) Contributions shall be forfeited.

A.3.3 CONTRIBUTION PERCENTAGE FAIL SAFE PROVISION. If the limitation set forth in Section A.2.4 would be exceeded for any Plan Year any one or more of the following corrective action shall be taken before the close of the following Plan Year as determined by the Committee in its sole discretion: (a) the amount of the Excess Aggregate 401(m) Contributions for that Plan Year (and any income allocable to those Contributions as calculated in the manner set forth in Section A.3.5) shall be forfeited or (b) the Employer may make a QNEC which it elects to have treated as a Section 401(m) Contribution. However, in the case of testing for any Plan Year that commences on or after January 1, 2001, a QNEC shall not be taken into account for purposes of the test set forth in section 401(m) of the Code and Section A.2.4 for such Plan Year unless it is made and allocated by the close of such Plan Year.

The amount of Excess Aggregate 401(m) Contributions to be distributed shall be determined in the following manner:

First, the Plan will determine how much the Actual Contribution Ratio of the Highly Compensated Employee with the highest Actual Contribution Ratio would have to be reduced to satisfy the Actual Contribution Percentage Test or cause such Actual Contribution Ratio to equal the Actual Contribution Ratio of the Highly

Compensated Employee with the next highest Actual Contribution Ratio. If a lesser reduction would enable the Plan to satisfy the Actual Contribution Percentage Test, only this lesser reduction may be made. Second, this process is repeated until the Actual Contribution Test is satisfied. The amount of Excess Aggregate 401(m) Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's Annual Compensation.

Then, effective for the Plan Years that commence on or after January 1, 1997, the total amount of Excess Aggregate 401(m) Contributions shall be forfeited on the basis of the respective amounts attributable to each Highly Compensated Employee. The Highly Compensated Employees subject to the forfeitures are determined using the "dollar leveling method." The After-Tax Contributions and Matching Contributions of the Highly Compensated Employee with the greatest dollar amount of After-Tax Contributions and Matching Contributions and other contributions treated as matching contributions for the Plan Year are reduced by the amount required to cause that Highly Compensated Employee's After-Tax Contributions and Matching Contributions and other contributions treated as Section 401(m) Contributions for the Plan Year to equal the dollar amount of the After-Tax Contributions and Matching Contributions and other contributions treated as Section 401(m) Contributions for the Plan Year of the Highly Compensated Employee with the next highest dollar amount. This amount is then forfeited from the Account of the Highly Compensated Employee with the highest dollar amount. However, if a lesser reduction, when added to the total dollar amount already forfeited under this Section A.3.3, would equal the total Excess Aggregate 401(m) Contributions, the lesser reduction amount shall be forfeited. This process shall be continued until the amount of the Excess Aggregate 401(m) Contributions have been forfeited.

A.3.4 ALTERNATIVE LIMITATION FAIL SAFE. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the alternative limitation would be exceeded. If the limitation would be exceeded for any Plan Year, before the close of the following Plan Year the Actual Deferral Percentage or Contribution Percentage of the eligible Highly Compensated Employees, or a combination of both, shall be reduced by distributions made in the manner described in the Regulations. These distributions shall be in addition to and not in lieu of distributions required for Excess 401(k) Contributions and Excess Aggregate 401(m) Contributions.

A.3.5 INCOME ALLOCABLE TO EXCESS 401(k) CONTRIBUTIONS AND EXCESS AGGREGATE 401(m) CONTRIBUTIONS. The income allocable to Excess 401(k) Contributions for the Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(k) Contributions by a fraction. The numerator of the fraction shall be the amount of Excess 401(k) Contributions made on behalf of the Participant for the Plan Year. The denominator of the fraction shall be the Participant's total Account balance attributable to Section 401(k) Contributions as of the beginning of the Plan Year plus the Participant's Section 401(k) Contributions for the Plan Year. The income allocable to Excess Aggregate 401(m) Contributions for a Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(m) Contributions by a fraction. The numerator of the fraction shall be the amount of Excess Aggregate 401(m) Contributions made on behalf of the Participant for the Plan Year. The denominator of the fraction shall be the Participant's total Account balance attributable to Section 401(m) Contributions as of the beginning of the Plan Year plus the Participant's Section 401(m) Contributions for the Plan Year.

PART A.4 LIMITATION ON ALLOCATIONS

A.4.1 BASIC LIMITATION ON ALLOCATIONS. The Annual Additions which may be credited to a Participant's Accounts under the Plan for any Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant's Account for the same Limitation Year under any other qualified defined contribution plans maintained by any Affiliated Employer. If the Annual Additions with respect to the Participant under such other qualified defined contribution plans are less than the Maximum Permissible Amount and the Employer Contribution that would otherwise be contributed or allocated to the Participant's Accounts under the Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated under the Plan will be reduced so that the Annual Additions under all qualified defined contribution plans maintained by any Affiliated Employer for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other qualified defined contribution plans maintained by any Affiliated Employer in the aggregate are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Account under the Plan for the Limitation Year. Effective as of

January 1, 1987, until January 1, 2000 (the effective date of the repeal of section 415(e) of the Code) a permanent adjustment shall be made to the defined contribution fraction for purposes of applying the limitation of section 415(e) of the Code to the Plan. The adjustment is to permanently subtract from the defined contribution numerator an amount equal to the product of (1) the sum of the defined contribution fraction plus the defined benefit fraction as of the determination date minus one, times (2) the denominator of the defined contribution fraction as of the determination date. For this purpose, the determination date is December 31, 1986. Both fractions in clauses (1) and (2) above are computed in accordance with section 415 of the Code as amended by the Tax Reform Act of 1986 and section 1106(i)(3) of the Tax Reform Act of 1986.

A.4.2 ESTIMATION OF MAXIMUM PERMISSIBLE AMOUNT. Prior to determining the Participant's actual Annual Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount on the basis of a reasonable estimation of the Participant's Annual Compensation for such Limitation Year, uniformly determined for all Participants similarly situated. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year shall be determined on the basis of the Participant's actual Annual Compensation for such Limitation Year.

A.4.3 ATTRIBUTION OF EXCESS AMOUNTS. If a Participant's Annual Additions under the Plan and all other qualified defined contribution plans maintained by any Affiliated Employer result in an Excess Amount, the total Excess Amount shall be attributed to the Plan.

A.4.4 TREATMENT OF EXCESS AMOUNTS. If an Excess Amount attributed to the Plan is held or contributed as a result of or because of (i) the allocation of forfeitures, (ii) reasonable error in estimating a Participant's Considered Compensation, (iii) reasonable error in calculating the maximum Salary Deferral Contribution that may be made with respect to a Participant under section 415 of the Code or (iv) any other facts and circumstances which the Commissioner of Internal Revenue finds to be justified, the Excess Amount shall be reduced as follows:

(a) First, the Excess Amount shall be reduced to the extent necessary by distributing to the Participant all Salary Deferral Contributions together with their earnings. These distributed amounts are disregarded for purposes of the testing and limitations contained in this Appendix A.

(b) Second, if the Participant is still employed by the Employer at the end of the Limitation Year, then such Excess Amounts shall not be distributed to the Participant, but shall be reallocated to a suspense account and shall be reapplied to reduce future Employer Contributions (including any allocation of forfeitures) under the Plan for such Participant in the next Limitation Year, and for each succeeding Limitation Year, if necessary.

(c) If, after application of paragraph (b) of this Section, an Excess Amount still exists, and the Participant is not still employed by the Employer at the end of the Limitation Year, then such Excess Amounts in the Participant's Accounts shall not be distributed to the Participant, but shall be reallocated to a suspense account and shall be reapplied to reduce future Employer Contributions (including allocation of any forfeitures), for all remaining Participants in the next Limitation Year and each succeeding Limitation Year if necessary.

(d) If a suspense account is in existence at any time during the Limitation Year pursuant to this Section, it will not participate in the allocation of the Trust Fund's investment gains and losses. If a suspense account is in existence at any time during a particular Limitation Year, all amounts in the suspense account must be allocated and reallocated to Participants' Accounts before any Employer Contribution may be made to the Plan for that Limitation Year. Excess Amounts may not be distributed to Participants or former Participants. If the Plan is terminated while a suspense account described in this Section is in existence, the amount in such suspense account shall revert to the Employer(s) to which it is attributable.

APPENDIX B

TOP-HEAVY REQUIREMENTS

PART B.1 DEFINITIONS

DEFINITIONS. As used herein, the following words and phrases have the meaning attributed to them below:

B.1.1 "AGGREGATE ACCOUNTS" means the total of all Account balances derived from Employer Contributions and Rollover Contributions.

B.1.2 "AGGREGATION GROUP" means (a) each plan of the Employer or any Affiliated Employer in which a Key Employee is a Participant and (b) each other plan of the Employer or any Affiliated Employer which enables any plan in (a) to meet the requirements of either section 401(a)(4) or 410 of the Code. Any Employer may treat a plan not required to be included in the Aggregation Group as being a part of the group if the group would continue to meet the requirements of section 401(a)(4) and 410 of the Code with that plan being taken into account.

B.1.3 "DETERMINATION DATE" means for a given Plan Year the last day of the preceding Plan Year or in the case of the first Plan Year the last day of that Plan Year.

B.1.4 "KEY EMPLOYEE" means, effective January 1, 1997, an Employee or former or deceased Employee or Beneficiary of an Employee who at any time during the Plan Year or any of the four preceding Plan Years is (a) an officer of an Employer or any Affiliated Employer having Annual Compensation greater than 50 percent of the annual addition limitation of section 415(b)(1)(A) of the Code for the Plan Year, (b) one of the ten employees having Annual Compensation from an Employer or any Affiliated Employer of greater than 100 percent of the annual addition limitation of section 415(c)(1)(A) of the Code for the Plan Year and owning or considered as owning (within the meaning of section 318 of the Code) the largest interest in an Employer or any Affiliated Employer, treated separately, (c) a Five Percent Owner of an Employer or any Affiliated Employer, treated separately, or (d) a one percent owner of an Employer or any Affiliated Employer, treated separately, having Annual Compensation from an Employer or any Affiliated Employer of more than \$150,000.00. For this purpose no more than 50 employees or, if lesser, the greater of three employees or ten percent of the employees shall be treated as officers. Section 416(i) of the Code shall be used to determine percentage of ownership. For the purpose of the test set out in (b) above, if two or more employees have the same interest in an Employer, the employee with the greater Annual Compensation from the Employer shall be treated as having the larger interest.

B.1.5 "NON-KEY EMPLOYEE" means any Employee who is not a Key Employee.

B.1.6 "TOP-HEAVY PLAN" means any plan which has been determined to be top-heavy under the test described in Appendix B of the Plan.

PART B.2 APPLICATION

B.2.1 APPLICATION. The requirements described in this Appendix B shall apply to each Plan Year that the Plan is determined to be a Top-Heavy Plan.

B.2.2 TOP-HEAVY TEST. If on the Determination Date the Aggregate Accounts of Key Employees in the Plan exceed 60 percent of the Aggregate Accounts of all Employees in the Plan, the Plan shall be a Top-Heavy Plan for that Plan Year. In addition, if the Plan is required to be included in an Aggregation Group and that group is a top-heavy group, the Plan shall be treated as a Top-Heavy Plan. An Aggregation Group is a top-heavy group if on the Determination Date the sum of (a) the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans in the Aggregation Group which contains the Plan, plus (b) the total of all of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group (which contains the Plan) is more than 60 percent of a similar sum determined for all employees covered in the Aggregation Group which contains the Plan.

In applying the above tests, the following rules shall apply:

(a) in determining the present value of the accumulated accrued benefits for any Employee or the amount in the account of any Employee, the value or amount shall be increased by all distributions made to or for the benefit of the Employee under the Plan during the five-year period ending on the Determination Date;

(b) all rollover contributions made after December 31, 1983 by the Employee to the Plan shall not be considered by the Plan for either test;

(c) if an Employee is a Non-Key Employee under the plan for the Plan Year but was a Key Employee under the plan for another prior Plan Year, his Account shall not be considered;

(d) benefits shall not be taken into account in determining the top-heavy ratio for any Employee who has not performed services for the Employer during the last five-year period ending upon the Determination Date; and

(e) the accrued benefits of any Employee who is not a Key Employee shall be determined (i) under the method which is used for accrual purposes for all plans of the Affiliated Employers, or (ii) if there is no method prescribed in clause (i), as if such benefit accrued not more rapidly than the slowest accrual rate permitted under section 411(b)(1)(C) of the Code.

B.2.3 VESTING RESTRICTIONS IF PLAN BECOMES TOP-HEAVY. If a Participant has at least one Hour of Service during a Plan Year when the Plan is a Top-Heavy Plan, he shall either vest under each of the normal vesting provisions of the Plan or under the following vesting schedule, whichever is more favorable:

Percentage of Amount Invested In Accounts Containing Completed Years of Active Service Employer Contributions - -----	
----- Less than two years.....	0
Two years but less than three years.....	20
Three years but less than four years.....	40
Four years but less than five years.....	60
Five years but less than six years.....	80
Six years or more.....	100

If the Plan ceases to be a Top-Heavy Plan, this requirement shall no longer apply. After that date, the normal vesting provisions of the Plan shall be applicable to all subsequent Contributions by the Employer.

B.2.4. MINIMUM CONTRIBUTIONS IF PLAN BECOMES TOP-HEAVY. If the Plan is a Top-Heavy Plan and the normal allocation of the Employer Contribution and forfeitures is less than five percent of any Non-Key Employee Participant's Annual Compensation, the Committee, without regard to the normal allocation procedures, shall allocate the Employer Contribution and the forfeitures among the Participants who are Non-Key Employees and who are in the employ of the Employer at the end of the Plan Year in proportion to each such Participant's Annual Compensation until each Non-Key Employee Participant has had an amount equal to five percent of his Annual Compensation allocated to his Account. At that time, any more Employer Contributions or forfeitures shall be allocated under the normal allocation procedures described earlier in the Plan. Amounts that may be treated as Section 401(k) Contributions made on behalf of Non-Key Employees may not be included in determining the minimum contribution required under this Section to the extent that they are treated as Section 401(k) Contributions for purposes of the Actual Deferral Percentage test.

In applying this restriction, the following rules shall apply:

(a) Each Employee who is eligible for participation (without regard to whether he has made mandatory contributions, if any are required, or whether his compensation is less than a stated amount) shall be entitled to receive an allocation under this Section; and

(b) All defined contribution plans required to be included in the Aggregation Group shall be treated as one plan for purposes of meeting the three percent maximum; this required aggregation shall not apply if the Plan is also required to be included in an Aggregation Group which includes a defined benefit plan and the Plan enables that defined benefit plan to meet the requirements of sections 401(a)(4) or 410 of the Code.

B.2.5 DISREGARD OF GOVERNMENT PROGRAMS. If the Plan is a Top-Heavy Plan, it must meet the vesting and benefit requirements described in this Article without taking into account contributions or benefits under Chapter 2 of the Code (relating to the tax on self-employment income), Chapter 21 of the Code (relating to the Federal Insurance Contributions Act), Title II of the Social Security Act, or any other Federal or State law.

B.2.6 MODIFICATION OF THE SECTION 415(e) LIMIT IF PLAN BECOMES TOP-HEAVY. For Plan Years beginning before January 1, 2000, in any Plan Year that the Plan is a Top-Heavy Plan the limitations in section 415(e) of the Code and Appendix A of the Plan shall be applied by substituting the number "1.00" for the number "1.25" wherever it appears therein. Such substitution shall not cause a reduction in any accrued benefit attributable to contributions for a Plan Year prior to the Plan Year in which the Plan is a Top-Heavy Plan.

APPENDIX C

ADMINISTRATION OF THE PLAN

C.1 APPOINTMENT, TERM, RESIGNATION, AND REMOVAL. The Board shall appoint a Committee of not less than two persons, the members of which shall serve until their resignation, death, or removal. The Sponsor shall notify the Trustee in writing of its composition from time to time. Any member of the Committee may resign at any time by giving written notice of such resignation to the Sponsor. Any member of the Committee may be removed by the Board, with or without cause. Vacancies in the Committee arising by resignation, death, removal, or otherwise shall be filled by such persons as may be appointed by the Board.

C.2 POWERS. The Committee shall have exclusive responsibility for the administration of the Plan, according to the terms and provisions of this document, and shall have all powers necessary to accomplish such purposes, including, but not by way of limitation, the right, power, and authority:

(a) to make rules and regulations for the administration of the Plan which are not inconsistent with the terms and provisions thereof, provided such rules and regulations are evidenced in writing;

(b) to construe all terms, provisions, conditions, and limitations of the Plan; and its construction thereof made in good faith and without discrimination in favor of or against any Participant or former Participant shall be final and conclusive on all parties at interest;

(c) to correct any defect, supply any omission, or reconcile any inconsistency which may appear in the Plan in such manner and to such extent as it shall deem expedient to carry the Plan into effect for the greatest benefit of all parties at interest, and its judgment in such matters shall be final and conclusive as to all parties at interest;

(d) to select, employ, and compensate from time to time such consultants, actuaries, accountants, attorneys, and other agents and employees as the Committee may deem necessary or advisable for the proper and efficient administration of the Plan, and any agent, firm, or employee so selected by the Committee may be a disqualified person, but only if the requirements of section 4975(d) of the Code have been met;

(e) to resolve all questions relating to the eligibility of Employees to become Participants, and to determine the period of Active Service and the amount of Considered Compensation upon which the benefits of each Participant shall be calculated;

(f) to resolve all controversies relating to the administration of the Plan, including but not limited to (1) differences of opinion arising between the Employer and a Participant or former Participant, and (2) any questions it deems advisable to determine in order to promote the uniform and nondiscriminatory administration of the Plan for the benefit of all parties at interest;

(g) to direct and instruct or to appoint an investment manager or managers which would have the power to direct and instruct the Trustee in all matters relating to the preservation, investment, reinvestment, management, and disposition of the Trust assets; provided, however, that the Committee shall have no authority that would prevent the Trustee from being an "agent independent of the issuer," as that term is defined in Rule 10b-18 promulgated under the Securities Exchange Act of 1934, at any time that the Trustee's failure to maintain such status would result in the Sponsor or any other person engaging in a "manipulative or deceptive device or contrivance" under the provisions of Rule 10b-6 of such Act;

(h) to direct and instruct the Trustee in all matters relating to the payment of Plan benefits and to determine a Participant's or former Participant's entitlement to a benefit should he appeal a denial of his claim for a benefit or any portion thereof; and

(i) to delegate such of its clerical and recordation duties under the Plan as it may deem necessary or advisable for the proper and efficient administration of the Plan.

C.3 ORGANIZATION. The Committee shall select from among its members a chairman, who shall preside at all of its meetings, and shall select a secretary, without regard as to whether that person is a member of the Committee, who shall keep all records, documents, and data pertaining to its supervision of the administration of the Plan.

C.4 QUORUM AND MAJORITY ACTION. A majority of the members of the Committee shall constitute a quorum for the transaction of business, and the vote of a majority of the members present at any meeting will decide any question brought before that meeting. In addition, the Committee may decide any question by a vote, taken without a meeting, of a majority of its members.

C.5 SIGNATURES. The chairman, the secretary, and any one or more of the members of the Committee to which the Committee has delegated the power, shall each, severally, have the power to execute any document on behalf of the Committee, and to execute any certificate or other written evidence of the action of the Committee. The Trustee, after being notified of any such delegation of power in writing, shall thereafter accept and may rely upon any document executed by such member or members as representing the action of the Committee until the Committee files with the Trustee a written revocation of that delegation of power.

C.6 DISQUALIFICATION OF COMMITTEE MEMBERS. A member of the Committee who is also a Participant of the Plan shall not vote or act upon any matter relating solely to himself.

C.7 DISCLOSURE TO PARTICIPANTS. The Committee shall make available to each Participant, former Participant, and Beneficiary for his examination such records, documents, and other data as are required under ERISA, but only at reasonable times during business hours. No Participant, former Participant, or Beneficiary shall have the right to examine any data or records reflecting the compensation paid to any other Participant, former Participant, or Beneficiary, and the Committee shall not be required to make any data or records available other than those required by ERISA.

C.8 STANDARD OF PERFORMANCE. The Committee and each of its members shall use the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in conducting his business as the administrator of the Plan; shall, when exercising its power to direct investments, diversify the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and shall otherwise act in accordance with the provisions of the Plan and ERISA.

C.9 LIABILITY OF ADMINISTRATIVE COMMITTEE AND LIABILITY INSURANCE. No member of the Committee shall be liable for any act or omission of any other member of the Committee, the Trustee, any investment manager, or any Participant or former Participant who directs the investment of his Account or other agent appointed by the Committee except to the extent required by the terms of ERISA, and any other applicable state or federal law, which liability cannot be waived. No Participant of the Committee shall be liable for any act or omission on his own part except to the extent required by the terms of ERISA, and any other applicable state or federal law, which liability cannot be waived. In this connection, each provision hereof is severable and if any provision is found to be void as against public policy, it shall not affect the validity of any other provision hereof.

Further, it is specifically provided that the Trustee may, at the direction of the Committee, purchase out of the Trust assets insurance for the members of the Committee and any other fiduciaries appointed by the Committee, and for the Trust itself to cover liability or losses occurring by reason of the act or omission of any one or more of the members of the Committee or any other fiduciary appointed by them under the Plan, provided such insurance permits recourse by the insurer against the members of the Committee or the other fiduciaries concerned in the case of a breach of a fiduciary obligation by one or more members of the Committee or other fiduciary covered thereby.

C.10 BONDING. No member of the Committee shall be required to give bond for the performance of his duties hereunder unless required by a law which cannot be waived.

C.11 COMPENSATION. The Committee shall serve without compensation for their services, but shall be reimbursed by the Employers for all expenses properly and actually incurred in the performance of their duties under the Plan unless the Employers elect to have such expenses paid out of the Trust assets.

C.12 PERSONS SERVING IN DUAL FIDUCIARY ROLES. Any person, group of persons, corporations, firm, or other entity may serve in more than one fiduciary capacity with respect to the Plan, including the ability to serve both as a successor trustee and as a member of the Committee.

C.13 ADMINISTRATOR. For all purposes of ERISA, the administrator of the Plan within the meaning of ERISA shall be the Sponsor. The Sponsor shall have final responsibility for compliance with all reporting and disclosure requirements imposed with respect to the Plan under any federal or state law, or any regulations promulgated thereunder.

C.14 NAMED FIDUCIARY. The members of the Committee shall be the "named fiduciary" for purposes of section 402(a)(1) of ERISA, and as such shall have the authority to control and manage the operation and administration of the Plan, except to the extent such authority and control is allocated or delegated to other parties pursuant to the terms of the Plan.

C.15 STANDARD OF JUDICIAL REVIEW OF COMMITTEE ACTIONS. The Committee has full and absolute discretion in the exercise of each and every aspect of its authority under the Plan, including without limitation, the authority to determine any person's right to benefits under the Plan, the correct amount and form of any such benefits; the authority to decide any appeal; the authority to review and correct the actions of any prior administrative committee; and all of the rights, powers, and authorities specified in this Appendix and elsewhere in the Plan. Notwithstanding any provision of law or any explicit or implicit provision of this document or, any action taken, or ruling or decision made, by the Committee in the exercise of any of its powers and authorities under the Plan will be final and conclusive as to all parties other than the Sponsor or Trustee, including without limitation all Participants, former Participants and Beneficiaries, regardless of whether the Committee or one or more members thereof may have an actual or potential conflict of interest with respect to the subject matter of such action, ruling, or decision. No such final action, ruling, or decision of the Committee will be subject to de novo review in any judicial proceeding; and no such final action, ruling, or decision of the Committee may be set aside unless it is held to have been arbitrary and capricious by a final judgment of a court having jurisdiction with respect to the issue.

C.16 INDEMNIFICATION OF COMMITTEE BY THE SPONSOR. The Sponsor shall indemnify and hold harmless the Committee, the Committee members, and any persons to whom the Committee has allocated or delegated its responsibilities in accordance with the provisions hereof, as well as any other fiduciary who is also an officer, director, or Employee of an Employer, and hold each of them harmless from and against all claims, loss, damages, expense, and liability arising from their responsibilities in connection with the administration of the Plan which is not otherwise paid or reimbursed by insurance, unless the same shall result from their own willful misconduct.

APPENDIX D

FUNDING

D.1 BENEFITS PROVIDED SOLELY BY TRUST. All benefits payable under the Plan shall be paid or provided for solely from the Trust, and the Employer assumes no liability or responsibility therefor.

D.2 FUNDING OF PLAN. The Plan shall be funded by one or more separate Trusts. If more than one Trust is used, each Trust shall be designated by the name of the Plan followed by a number assigned by the Committee at the time the Trust is established.

D.3 INCORPORATION OF TRUST. Each Trust is a part of the Plan. All rights or benefits which accrue to a person under the Plan shall be subject also to the terms of the agreements creating the Trust or Trusts and any amendments to them which are not in direct conflict with the Plan.

D.4 AUTHORITY OF TRUSTEE. Each Trustee shall have full title and legal ownership of the assets in the separate Trust which, from time to time, is in his separate possession. No other Trustee shall have joint title to or joint legal ownership of any asset in one of the other Trusts held by another Trustee. Each Trustee shall be governed separately by the trust agreement entered into between the Employer and that Trustee and the terms of the Plan without regard to any other agreement entered into between any other Trustee and the Employer as a part of the Plan.

D.5 ALLOCATION OF RESPONSIBILITY. To the fullest extent permitted under section 405 of ERISA, the agreements entered into between the Employer and each of the Trustees shall be interpreted to allocate to each Trustee its specific responsibilities, obligations and duties so as to relieve all other Trustees from liability either through the agreement, Plan or ERISA, for any act of any other Trustee which results in a loss to the Plan because of his act or failure to act.

D.6 TRUSTEE'S FEES AND EXPENSES. The Trustee shall receive for its services as Trustee hereunder the compensation which from time to time may be agreed upon by the Sponsor and the Trustee. All of such compensation, together with the expenses incurred by the Trustee in connection with the administration of this Trust, including fees for legal services rendered to the Trustee, all other charges and disbursements of the Trustee, and all other expenses of the Plan shall be charged to and deducted from the Trust Fund, unless the Sponsor elects in writing to have any part or all of such compensation, expenses, charges, and disbursements paid directly by the Sponsor. The Trustee shall deduct from and charge against the Trust assets any and all taxes paid by it which may be levied or assessed upon or in respect of the Trust hereunder or the income thereof, and shall equitably allocate the same among the several Participants and former Participants.

SUBSIDIARIES
OF QUANEX
CORPORATION
JURISDICTION
OF
INCORPORATION

- - - - -
- - - - -
- - - - -
- - - - -
- - - - -

- Piper
Impact, Inc.
Delaware
- Quanex Bar,
Inc. Delaware
- Quanex Steel,
Inc. Delaware
- Quanex Health
Management
Company, Inc.
Delaware
- Quanex
Manufacturing,
Inc. Delaware
- Quanex
Solutions,
Inc. Delaware
- Quanex
Technologies,
Inc. Delaware
- Nichols
Aluminum-
Alabama, Inc.
Delaware
- Quanex
Windows, Inc.
Delaware
- Quanex Two,
Inc. Delaware
- Nichols
Aluminum-
Golden, Inc.
Delaware
- Quanex Four,
Inc. Delaware
- Quanex Six,
Inc. Delaware
- Imperial
Products,
Inc. Delaware
- Temroc
Metals, Inc.
Minnesota

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-23474, No. 33-29585, No. 33-22550, No. 33-35128, No. 33-38702, No. 33-46824, No. 33-57235, No. 33-54081, No. 33-54085, No. 33-54087, No. 333-18267, No. 333-22977, No. 333-36635, No. 333-89853, No. 333-66777 and No. 333-45624 of Quanex Corporation of our report dated November 27, 2001 appearing in this Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 2001.

/s/ Deloitte & Touche LLP

Houston, Texas
January 4, 2002