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

(Mark One)

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

For the quarterly period ended July 31, 1996

OR

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

For the transition period from __________ to ___________.

Commission File Number 1-5725

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

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

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

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

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

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

Class	Outstanding at July 31, 1996
Common Stock, par value $0.50 per share	13,526,891

QUANEX CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	July 31, 1996 (Unaudited)	October 31, 1995 (Audited)
ASSETS		
Current assets:		
Cash and equivalents	$ 31,533	$ 45,213
Accounts and notes receivable, net	89,214	104,240
Inventories	94,104	84,676
Deferred income taxes	6,779	6,848
Prepaid expenses	1,061	1,398
Total current assets	222,691	242,375
Property, plant and equipment	548,324	525,325
Less accumulated depreciation and amortization	(293,488)	(266,761)
Property, plant and equipment, net	254,836	258,564
Goodwill, net	31,349	32,064
Other assets	16,929	13,744
	$525,805	$546,747
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ -	$ 10,000
Accounts payable	84,438	91,730
Income taxes payable	3,127	423
Accrued expenses	37,578	42,087
Current maturities of long-term debt	-	20,968
Total current liabilities	125,143	165,208
Long-term debt	118,195	111,894
Deferred pension credits	16,110	16,656
Deferred postretirement welfare benefits	54,833	53,185
Deferred income taxes	27,461	29,278
Total liabilities	341,742	376,221
Stockholders' equity:		
Common stock, $.50 par value	6,763	6,743
Additional paid-in capital	93,165	92,406
Retained earnings	87,144	74,426
Unearned compensation	(277)	(317)
Adjustment for minimum pension liability	(2,732)	(2,732)
Total stockholders' equity	184,063	170,526
	$525,805	$546,747

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

	Three Months Ended July 31		Nine Months Ended July 31	
	1996	1995	1996	1995
	(Unaudited)			
Net sales............................	$225,463	$228,172	$632,576	$662,405
Cost and expenses:				
Cost of sales......................	193,109	198,016	551,209	579,805
Selling, general and administrative expense..........	15,422	11,130	39,586	35,996
Operating income.....................	16,932	19,026	41,781	46,604
Other income (expense):				
Interest expense...................	(2,313)	(2,522)	(7,453)	(7,672)
Capitalized interest...............	160	-	287	1,867
Other, net.........................	988	52	2,151	714
Income before income taxes and extraordinary charge............	15,767	16,556	36,766	41,513
Income tax expense...................	(6,622)	(6,953)	(15,442)	(17,435)
Income before extraordinary charge...	9,145	9,603	21,324	24,078
Extraordinary charge - early extinguishment of debt..........	-	-	(2,522)	(2,021)
Net income...........................	9,145	9,603	18,802	22,057
Preferred dividends..................	-	(990)	-	(3,957)
Net income attributable to common stockholders.............	$ 9,145	$ 8,613	$ 18,802	$ 18,100
Earnings per common share:				
Primary before extraordinary charge...........	$ 0.67	$ 0.63	$ 1.57	$ 1.48
Extraordinary charge..............	-	-	(0.19)	(0.15)
Total primary net earnings.....	$ 0.67	$ 0.63	$ 1.38	$ 1.33
Fully diluted before extraordinary charge...........	$ 0.61	$ 0.59	$ 1.47	$ 1.48
Extraordinary charge..............	-	-	(0.15)	(0.15)
Total assuming full dilution...	$ 0.61	$ 0.59	$ 1.32	$ 1.33
Weighted average shares outstanding:				
Primary...........................	13,659	13,642	13,630	13,598
Assuming full dilution............	16,355	16,382	16,326	13,598

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
	(Unaudited)	
Operating activities:		
Net income	$18,802	$22,057
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	27,800	24,672
Deferred income taxes	(1,817)	3,953
Deferred pension costs	(546)	(921)
Deferred postretirement welfare benefits	1,648	1,936
	45,887	51,697
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable	15,283	(12,336)
Increase in inventory	(9,428)	(8,074)
Increase (decrease) in accounts payable	(7,292)	3,940
Increase (decrease) in accrued expenses	(4,509)	3,693
Other, net	3,110	(765)
Cash provided by operating activities	43,051	38,155
Investment activities:		
Capital expenditures, net of retirements	(22,715)	(21,052)
Decrease in short-term investments	-	54,070
Other, net	(4,084)	(672)
Cash provided (used) by investment activities	(26,799)	32,346
Cash provided by operating and investment activities	16,252	70,501
Financing activities:		
Notes payable borrowings (repayments)	(10,000)	10,000
Purchase of Senior Notes	(44,667)	(59,500)
Bank borrowings (repayments), net.	30,000	-
Common dividends paid	(6,084)	(5,908)
Preferred dividends paid	-	(4,451)
Other, net	819	1,043
Cash used by financing activities	(29,932)	(58,816)
Decrease in cash and equivalents	(13,680)	11,685
Cash and equivalents at beginning of period	45,213	34,041
Cash and equivalents at end of period	$31,533	$45,726
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,941	$ 6,518
Income taxes	$12,651	$12,209

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1995 Annual Report on Form 10-K, which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1996 classifications.

2. Inventories

Inventories consist of the following:	July 31, 1996	October 31, 1995
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials	$29,498	$27,655
Finished goods and work in process	55,195	48,071
	84,693	75,726
Other	9,411	8,950
	$94,104	$84,676

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $19 million at July 31, 1996 and $24 million at October 31, 1995

3. Long-Term Debt and Financing Arrangements

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.

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

On July 23, 1996, the Company replaced its $75 million Revolving Credit and Letter of Credit Agreement with an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver") and up to two term loans not to exceed $100 million in the aggregate and repayable at a time selected by the Company to be no later than July 23, 2004. Any term loan elections reduce the amount available under the Revolver. The Bank Agreement expires July 23, 2001, 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 July 31, 1996, the Company had $30.0 million outstanding under the Revolver and no term loans outstanding.

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. Industry Segment Information

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

(in thousands)

Three Months Ended July 31, 1996	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
Units shipped:						
To unaffiliated companies	129.2 Tons	45.1 Tons	21.2 Tons	70,293 Lbs.		
Intersegment	5.6	-	-	-		
Total	134.8 Tons	45.1 Tons	21.2 Tons	70,293 Lbs.		
Net Sales:						
To unaffiliated companies	$70,142	$39,179	$26,704	$89,438	-	$225,463
Intersegment(2)	3,028	-	-	-	$(3,028)	-
Total	$73,170	$39,179	$26,704	$89,438	$(3,028)	$225,463
Operating income (loss)	$ 9,324	$ 2,404	$ 597	$ 7,807	$(3,200)	$ 16,932

Three Months Ended July 31, 1995	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
Units shipped:						
To unaffiliated companies	120.8 Tons	44.1 Tons	21.5 Tons	59,824 Lbs.		
Intersegment	5.1	-	-	-		
Total	125.9 Tons	44.1 Tons	21.5 Tons	59,824 Lbs.		
Net Sales:						
To unaffiliated companies	$70,244	$41,198	$27,478	$89,252	-	$228,172
Intersegment(2)	2,982	-	-1	-	$(2,981)	-
Total	$73,226	$41,198	$27,477	$89,252	$(2,981)	$228,172
Operating income (loss)	$11,980	$ 2,685	$ 1,212	$ 6,264	$(3,115)	$ 19,026

Nine Months Ended July 31, 1996	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
Units shipped:						
To unaffiliated companies	360.1 Tons	132.9 Tons	68.3 Tons	179,759 Lbs.		
Intersegment	19.7	-	-	-		
Total	379.8 Tons	132.9 Tons	68.3 Tons	179,759 Lbs.		
Net Sales:						
To unaffiliated companies	$196,625	$120,829	$88,515	$226,607	-	$632,576
Intersegment(2)	11,186	-	-	-	$(11,186)	-
Total	$207,811	$120,829	$88,515	$226,607	$(11,186)	$632,576
Operating income (loss)	$ 26,999	$ 7,876	$ 4,934	$ 13,224	$(11,252)	$ 41,781

Nine Months Ended July 31, 1995	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
Units shipped:						
To unaffiliated companies	352.9 Tons	145.1 Tons	69.5 Tons	169,333 Lbs.		
Intersegment...........	17.7	-	-	-		
Total....................	370.6 Tons	145.1 Tons	69.5 Tons	169,333 Lbs.		
Net Sales:						
To unaffiliated companies	$196,895	$134,152	$87,814	$243,544	-	$662,405
Intersegment(2).........	10,158	-	-	-	$(10,158)	-
Total....................	$207,053	$134,152	$87,814	$243,544	$(10,158)	$662,405
Operating income (loss)..	$ 29,014	$ 9,424	$ 6,076	$ 15,711	$(13,621)	$ 46,604

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

5. Subsequent Event
- -------------------
On August 9, 1996, the Company completed the acquisition of substantially all of the assets of Piper Impact, Inc. ("Piper"). Piper is a manufacturer of custom-designed, impact-extruded aluminum and steel parts for the transportation, electronics and defense markets. Piper Impact's net sales for the years ended December 31, 1995 and 1994, were $106.9 million and $95.3 million, respectively. Piper Impact has production facilities in New Albany, Mississippi and Park City, Utah. Piper Impact assets, net of various liabilities, were acquired for approximately $130 million in cash, cash equivalents, and notes. To finance the acquisition, the Company entered into an unsecured revolving credit/term loan facility with a group of five banks which provides for the borrowing of up to $250 million. This agreement replaced the Company's $75 million revolving credit facility (See Note 3).

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

RESULTS OF OPERATIONS

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

A record-breaking performance by the Company's aluminum products group contributed to record third quarter earnings attributable to common shareholders of $9.1 million, or 67 cents per common share, on net sales of $225.5 million. These results compare with prior year third quarter earnings attributable to common shareholders of $8.6 million, or 63 cents per common share, on net sales of $228.2 million. With higher volumes and lower conversion costs at its aluminum mini-mill, the Company's aluminum products group capitalized on improved building products markets and stronger overall demand to achieve its best-ever quarterly operating earnings and shipping volumes during the three month period ended July 31, 1996.

The Company's hot rolled steel bar business experienced lower operating income for the third quarter of fiscal 1996 compared to the record third quarter of fiscal 1995. The results for the third quarter of 1995 reflect unusually high surcharges for molybdenum, chrome and scrap, which did not apply in the third quarter of 1996. Also, operating income was impacted in the third quarter of 1996 by increased depreciation related to the completed Phase II expansion project, an extended summer maintenance shutdown taken during the third quarter of 1996 for preliminary work on the Phase III expansion project, and by higher accruals to the allowance for doubtful accounts.

The Company's cold finished steel bar business results for the third quarter were affected by lower average selling prices as compared to the third quarter of fiscal 1995. Slightly higher volume, resulting from improved market share, helped to offset lower selling prices.

The Company's steel tube business results for the third quarter were affected by higher conversion costs as compared to the third quarter of fiscal 1995. The third quarter is seasonally the weakest quarter in the Company's steel tube business.

The Company's aluminum products business was affected in the third quarter by improved demand and lower conversion costs. The aluminum business achieved record operating income in the third quarter of fiscal 1996. Year-to-date results have been affected by weaker margins between selling prices and raw material costs. These margins, referred to herein as "price spreads", are a key financial performance indicator in the aluminum products business.

The Company currently expects that overall business levels for the fourth quarter of fiscal 1996 should be similar to those experienced during the same period of fiscal 1995. However, the acquisition of Piper Impact (see note 5) will affect the fourth quarter and is expected to result in higher sales and be accretive to earnings. Improved financial results will be dependent upon, among other things, the strength of the economy, improvements in the markets which the Company serves and improvement in the price spreads of aluminum products.

During the first quarter of fiscal 1996, the Company acquired its remaining 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The purchase resulted in an extraordinary charge of $2.5 million.

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

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

	Three Months Ended July 31, 1996	Three Months Ended July 31, 1995	Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
	(In thousands)			
Hot Rolled Steel Bars:				
Units shipped (Tons)...........	134.8	125.9	379.8	370.6
Net Sales......................	$ 73,170	$ 73,226	$207,811	$207,053
Operating income................	$ 9,324	$ 11,980	$ 26,999	$ 29,014
Depreciation and amortization...	$ 4,590	$ 3,870	$ 13,770	$ 11,610
Identifiable assets............	$164,209	$167,424	$164,209	$167,424
Cold Finished Steel Bars:				
Units shipped (Tons)...........	45.1	44.1	132.9	145.1
Net Sales......................	$ 39,179	$ 41,198	$120,829	$134,152
Operating income................	$ 2,404	$ 2,685	$ 7,876	$ 9,424
Depreciation and amortization...	$ 400	$ 346	$ 1,239	$ 1,039
Identifiable assets............	$ 54,957	$ 49,705	$ 54,957	$ 49,705
Steel Tubes:				
Units shipped (Tons)...........	21.2	21.5	68.3	69.5
Net Sales......................	$ 26,704	$ 27,477	$ 88,515	$ 87,814
Operating income................	$ 597	$ 1,212	$ 4,934	$ 6,076
Depreciation and amortization...	$ 552	$ 490	$ 1,730	$ 1,525
Identifiable assets............	$ 41,675	$ 40,850	$ 41,675	$ 40,850
Aluminum Products:				
Units shipped (Pounds)..........	70,293	59,824	179,759	169,333
Net Sales......................	$ 89,438	$ 89,252	$226,607	$243,544
Operating income................	$ 7,807	$ 6,264	$ 13,224	$ 15,711
Depreciation and amortization...	$ 3,621	$ 3,199	$ 10,558	$ 9,916
Identifiable assets............	$225,143	$242,816	$225,143	$242,816

Consolidated net sales for the three and nine months ended July 31, 1996, were $225.5 million and $632.6 million, respectively, representing decreases of $2.7 million, or 1%, and $29.8 million, or 5%, respectively, when compared to the same periods last year. The reduction in net sales was primarily attributable to lower selling prices compared to fiscal 1995.

Net sales from the Company's hot rolled steel bar business for the three and nine months ended July 31, 1996, were $73.2 million and $207.8 million, respectively, representing a decrease of $56 thousand and an increase of $758 thousand, respectively, when compared to the same periods last year. Average selling price for the third quarter declined approximately 7% which is attributable to unusually high molybdenum, chrome and scrap surcharges in the prior year period. The sales decrease resulting from lower average selling prices was offset by higher volume resulting from improved market share and the additional capacity added during fiscal year 1995.

Net sales from the Company's cold finished steel bar business for the three and nine months ended July 31, 1996, were $39.2 million and $120.8 million, respectively, representing decreases of $2.0 million, or 5%, and $13.3 million, or 10%, respectively, when compared to the same periods last year. The decrease is principally attributable to lower selling prices for the three month period and a combination of lower volume and lower selling prices for the nine month period. Cold finished steel bar business remained below the all-time record levels experienced during fiscal 1995.

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Results of Operations and Financial Condition (Continued)

Net sales from the Company's steel tube business for the three and nine months ended July 31, 1996, were $26.7 million and $88.5 million, respectively, representing a decrease of $773 thousand and an increase of $701 thousand, respectively, when compared to the same periods last year. Typically the third fiscal quarter is seasonally the weakest.

Net sales from the Company's aluminum products business for the three and nine months ended July 31, 1996, were $89.4 million and $226.6 million, respectively, representing an increase of $186 thousand and a decrease of $16.9 million, or 7%, respectively, when compared to the same periods last year. Average selling price for the third quarter of fiscal 1996 was down approximately 15% as compared to the third quarter of fiscal 1995. Year-to-date average selling prices decreased by approximately 12% as compared to the same prior year period. Record volume in the third quarter offset the lower selling prices.

Consolidated operating income for the three and nine months ended July 31, 1996, was $16.9 million and $41.8 million, respectively, representing decreases of $2.1 million, or 11%, and $4.8 million, or 10%, respectively, when compared to the same periods last year.

Operating income from the Company's hot rolled steel bar business for the three and nine months ended July 31, 1996, was $9.3 million and $27.0 million, respectively, representing decreases of $2.7 million, or 22%, and $2.0 million, or 7%, respectively, when compared to the same periods last year. The decreases resulted principally from unusually high surcharges last year for molybdenum, chrome and scrap, which did not apply in the third quarter of 1996. Also, operating income was impacted in the third quarter of 1996 by increased depreciation related to the completed Phase II expansion project, an extended summer maintenance shutdown taken during the third quarter of 1996 for preliminary work on the Phase III expansion project, and by higher accruals to the allowance for doubtful accounts..

Operating income from the Company's cold finished steel bar business for the three and nine months ended July 31, 1996, was $2.4 million and $7.9 million, respectively, representing decreases of $281 thousand, or 10%, and $1.5 million, or 16%, respectively, when compared to the same periods last year. The decrease is attributable to lower volume and net sales. However, 1995 represented a record for third quarter operating income.

Operating income from the Company's steel tube business for the three and nine months ended July 31, 1996, was $597 thousand and $4.9 million, respectively, representing decreases of $615 thousand and $1.1 million, respectively, when compared to the same periods last year. The decrease resulted primarily from higher conversion costs and slightly lower volume. The quarter and year-to-date were also marginally affected by start-up costs at the NitroSteel division which is a small division acquired by the Company in early fiscal 1995.

Operating income from the Company's aluminum products business for the three and nine months ended July 31, 1996, was $7.8 million and $13.2 million, respectively, representing an increase of $1.5 million, or 25%, and a decrease of $2.5 million, or 16%, respectively, when compared to the same periods last year. Higher volume and lower conversion costs contributed to a record third quarter in fiscal 1996. Year-to-date results have been negatively affected by lower price spreads.

Selling, general and administrative expenses increased by $4.3 million, or 39%, and $3.6 million, or 10%, respectively, for the three and nine months ended July 31, 1996, as compared to the same periods of 1995. The increase is primarily due to higher accruals to the allowance for doubtful accounts in the hot rolled steel bar and the aluminum products businesses.

Interest expense was relatively flat as compared to the same periods of 1995. Increased interest related to the Company's $84.9 million of 6.88% Convertible Subordinated Debentures that were issued in June 1995 in exchange for the Company's outstanding preferred stock was offset by the early extinguishment of a portion of the Company's senior debt in the first quarter of fiscal 1995 and the early extinguishment of the remaining senior debt in the first fiscal quarter of 1996.

Capitalized interest increased by $160 thousand and decreased by $1.6 million, respectively, as compared to the quarter and year-to-date of fiscal 1995. The increase in the quarter reflects ongoing construction related to the Phase III MacSteel Expansion Project. The year-to-date decrease is associated with the completion in March 1995 of the Phase II MacSteel Ultra Clean Steel Program.

Net income attributable to common shareholders for the three and nine months ended July 31, 1996, was $9.1 million and $18.8 million, respectively, as compared to $8.6 million and $18.1 million, respectively, for the same 1995 periods, after deducting preferred dividends of $990 thousand from the three month period and $4.0 million from the nine month period of fiscal 1995. Included in the nine months ended July 31, 1996 and 1995, were extraordinary charges of $2.5 million and $2.0 million, respectively, relating to early extinguishment of debt. Included in "Other, net" for the nine months ended July 31, 1996, was a $2.3 million pretax gain which represents the final recovery of a business interruption claim related to a fire at the Company's Lincolnshire, Illinois facility that occurred in 1993. Also included in "Other, net" for the nine months ended July 31, 1996, was $1.5 million resulting from a loss on abandonment of idle assets. Included in "Other, net" for the nine months ended July 31, 1995 was a $1.1 million pretax gain related to a life insurance policy on a deceased former officer. Also included in "Other, net" was investment income of $605 thousand and $1.2 million, respectively, for the three and nine months ended July 31, 1996, as compared to investment income of $416 thousand and $336 thousand, respectively, for the same 1995 periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement replaced the Company's former $75 million Revolving Credit and Letter of Credit Agreement, effective July 23, 1996. The Bank Agreement consists of a revolving line of credit ("Revolver") and up to two term loans not to exceed $100 million in the aggregate and repayable at a date selected by the Company to be no later than July 23, 2004. Any term loan elections reduce the amount available under the Revolver. The Bank Agreement expires July 23, 2001, 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. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. Under the Bank Agreement, at July 31, 1996, there were $30.0 million of outstanding borrowings. Additional borrowings under the Bank Agreement will be used to fund the acquisition of Piper Impact (See Note 5).

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

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

On June 30, 1995, the Company exercised its right under the terms of the Preferred Stock to exchange such stock for $84,920,000 principal amount of Debentures. Interest on the Debentures 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.

At July 31, 1996, the Company had commitments of $15 million for the purchase or construction of capital assets. The Company's $52 million (not including approximately $9 million in capitalized interest) Phase II MacSteel Ultra Clean Steel Program, which increased capacity by approximately 50,000 tons, was completed in fiscal 1995. In December 1995, the Company's Board of Directors approved Phase III of the MacSteel expansion project. Phase III is designed to improve melting and casting capabilities and is expected to increase capacity by approximately 70,000 tons. The project also includes significant upgrades to pollution control systems to ensure compliance with new EPA standards under the Clean Air Act. Phase III is expected to cost approximately $60 million and should be completed during fiscal year 1998. The Company plans to fund this capital investment through cash flow from operations and, if necessary, additional borrowings.

On August 9, 1996, the Company completed the acquisition of substantially all of the assets of Piper Impact, Inc. ("Piper"). Piper's assets, net of various liabilities, were acquired for approximately $130 million in cash, cash equivalents, and notes. To finance the acquisition, the Company entered into an unsecured revolving credit/term loan facility with a group of five banks which provides for the borrowing of up to $250 million. This agreement replaced the Company's $75 million revolving credit facility (See Note 3). Subsequent to the acquisition, the Company's Board of Directors approved additional capital expenditures at Piper totalling approximately $55 million. These expenditures will provide the capacity needed to supply major new customer programs phasing in over the next two years.

In management's opinion, the Company currently has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. Management believes that cash flow from operations, cash balances and available borrowings, including the above referenced anticipated increase in the revolving credit facility, should be sufficient for the foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements and dividends.

Operating Activities

Cash provided by operating activities during the nine months ended July 31, 1996, was $43.1 million as compared to $38.2 million during the nine months ended July 31, 1995. The increase was principally due to lower working capital requirements.

Investment Activities

Net cash used by investment activities during the nine months ended July 31, 1996, was $26.8 million as compared to net cash provided by investment activities of $32.3 million for the same 1995 period. The decrease in cash provided by investment activities was principally due to decreases in short-term investments during the nine months ended July 31, 1995. Capital expenditures, net of retirements, for the nine months ended July 31, 1996, were $22.7 million as compared to $21.1 million for the same 1995 period. The Company estimates that fiscal 1996 capital expenditures will approximate $50 to $60 million, exclusive of the Piper assets purchased.

Financing Activities

Cash used by financing activities for the nine months ended July 31, 1996, was $29.9 million, principally consisting of $44.7 million for the early extinguishment of long-term debt, a $10.0 million reduction in notes payable and $6.1 million in common dividends. These uses of funds were partly offset by long-term bank borrowings under the Revolver of $30.0 million.

Item 5 - Other Information.
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None

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

11	Statement re computation of per share earnings.
27	Financial Data Schedule.

A current report on Form 8-K, dated August 9, 1996, was filed by the Company on August 21, 1996, reporting under Item 2 thereof the acquisition of Piper Impact, Inc.

SIGNATURES

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

QUANEX CORPORATION

/s/ Viren M. Parikh

Viren M. Parikh
Controller (Chief Accounting Officer)

Date September 12, 1996
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EXHIBIT 11

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

	Three Months Ended July 31, 1996	Three Months Ended July 31, 1995	Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
	(Unaudited)		(Unaudited)	
Income before extraordinary charge	$ 9,145	$ 9,603	$ 21,324	$ 24,078
Extraordinary charge - early extinguishment of debt	-	-	(2,522)	(2,021)
Net income	9,145	9,603	18,802	22,057
Preferred dividend requirements	-	(990)	-	(3,957)
Net income attributable to common stockholders	$ 9,145	$ 8,613	$ 18,802	$ 18,100
Weighted average shares outstanding-primary	13,659	13,642	13,630	13,598
Earnings per common share:				
Primary:				
Earnings before extraordinary charge	0.67	0.63	1.57	1.48
Extraordinary charge	-	-	(0.19)	(0.15)
Earnings per common share	0.67	0.63	1.38	1.33

Income before extraordinary charge	$ 9,145	$ 9,603	$ 21,324	$ 24,078
Interest on 6.88% convertible subordinated debentures and amortization of related issuance costs, net of applicable income taxes	892	302	2,676	302
Adjusted income before extraordinary charge	10,037	9,905	24,000	24,380
Extraordinary charge - early extinguishment of debt	-	-	(2,522)	(2,021)
Adjusted net income after extraordinary charge	10,037	9,905	21,478	22,359
Weighted average shares outstanding-primary	13,659	13,642	13,630	13,598
Effect of common stock equivalents arising from stock options	-	2	-	39
Preferred stock assumed converted to common stock	-	2,738	-	2,738
Subordinated debentures assumed converted to common stock	2,696	-	2,696	-
Weighted average shares outstanding-fully diluted	16,355	16,382	16,326	16,375
Earnings per common share:				
Assuming full dilution:				
Earnings before extraordinary charge	0.61	0.59	1.47	1.49
Extraordinary charge	-	-	(0.15)	(0.12)
Earnings per common share	0.61	0.59	1.32	1.37

This schedule contains summary financial information extracted from the balance sheet as of July 31, 1996 and the income statement for the three and nine months ended July 31, 1996 and is qualified in its entirety by reference to such financial statements.

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9-MOS
OCT-31-1996
NOV-01-1995
JUL-31-1996
31,533
0
89,214
0
94,104
222,691
548,324
293,488
525,805
125,143
118,195
0
0
6,763
177,300
525,805
632,576
632,576
551,209
551,209
0
0
7,453
36,766
15,442
21,324
0
2,522
0
18,802
1.380
1.320