



## Quanex Fiscal First Quarter 2007 Results

February 27, 2007

Cash Provided by Operating Activities of \$66 Million  
Completed Purchase of Assets of Atmosphere Annealing Inc. February 1st

HOUSTON, Feb. 27, 2007 (PRIME NEWSWIRE) -- Quanex Corporation (NYSE:NX) today reported fiscal first quarter 2007 results for the period ending January 31, 2007. Net sales were \$417.6 million compared to \$444.6 million a year ago, and income from continuing operations was \$20.0 million versus \$33.5 million in the year ago period. Diluted earnings per share from continuing operations were \$0.53 compared to \$0.85 in the first quarter last year. Diluted earnings per share were \$0.53. The latest 12 months return on invested capital was 17.4% compared to 20.3% a year ago.

### Fiscal First Quarter 2007 Highlights

- Vehicular Products net sales were \$217.3 million versus \$218.8 million a year ago; net sales at Building Products were \$204.1 million compared to \$230.3 million in the year ago quarter.
- Vehicular Products reported operating income of \$24.9 million versus \$33.2 million a year ago; operating income at Building Products was \$14.4 million compared to \$26.7 million in the year ago period.
- Cash provided by operating activities was \$65.9 million compared to \$38.8 million in the year ago quarter, aided by business cycle related changes in inventory, accounts receivable and accounts payable. Capital expenditures were \$9.6 million in the quarter versus \$21.4 million a year ago, the result of reduced spending at MACSTEEL.
- Cash plus short-term investments totaled \$157.5 million.
- Total debt less cash to capitalization was 1.8% compared to 10.0% a year ago.
- MACSTEEL successfully concluded 2007 pricing contracts.
- Quanex completed purchase of the assets of Atmosphere Annealing, Inc. on February 1, 2007, and renamed the business MACSTEEL - Atmosphere Annealing, Inc.

### Selected Financial Information

#### Fiscal First Quarter 2007 Financials (\$ in millions, except per share data)

	1st qtr 2007	1st qtr 2006	inc/ (dcr)
Net Sales	\$417.6	\$444.6	(6%)
Operating Income	30.4	54.2	(44%)
Income from Continuing Ops.	20.0	33.5	(40%)
EPS: Basic Earnings from Continuing Ops.	\$0.54	\$0.88	(39%)
EPS: Diluted Earnings from Continuing Ops.	\$0.53	\$0.85	(38%)

### Fiscal First Quarter 2007 Commentary

VEHICULAR PRODUCTS (\$ in millions)

	1st qtr 2007	1st qtr 2006	inc/ (dcr)
Net Sales	\$217.3	\$218.8	(1%)
Operating Income	\$24.9	\$33.2	(25%)

Vehicular Products is focused on providing its customers with engineered steel bars and extensive value added services. Its key market driver is North American light vehicle builds (Approximately 60% of sales).

"Total steel bar tons shipped at MACSTEEL were flat compared to first quarter 2006 shipments, better than we had originally forecast," said Raymond A. Jean, chairman and chief executive officer. "MACSTEEL's bar shipments picked up through the quarter, due primarily to our ability to shift product mix to non-automotive markets, and the overall backlog continued to improve. We believe our light vehicle customers' inventories are at minimal levels, and consequently, an increase in builds should quickly result in orders for us. Operating income was down due to a shift in product mix that included less value added bar product, and to a lesser extent, rising steel scrap costs."

"Light vehicle builds in our first quarter were down 7% compared to a year ago, but the outlook calls for a gradual increase in builds as the year progresses, and at this point, we expect MACSTEEL's second quarter bar shipments to be essentially in-line with last year's output, in part due to the relative strength in secondary markets," continued Jean.

BUILDING PRODUCTS

Engineered Products (\$ in millions)

	1st qtr 2007	1st qtr 2006	inc/ (dcr)
Net Sales	\$98.9	\$126.3	(22%)
Operating Income	\$3.9	\$10.6	(63%)

Engineered Products is focused on providing window and door customers with value added fenestration products and components. Key market drivers are housing starts (Approximately 60% of sales) and remodeling activity (Approximately 40% of sales).

"The downturn in the housing market continues, with housing starts off 28% compared to our first quarter last year, the result of the significant inventory overhang in the market. With homebuilders sharply curtailing construction, Engineered Products sales and operating income substantially lagged year ago results. We do expect a seasonal lift in our second quarter, followed by a gradual upturn to more sustainable trend levels in the second half of the year," said Jean.

Aluminum Sheet Building Products (\$ in millions)

	1st qtr 2007	1st qtr 2006	inc/ (dcr)
Net Sales	\$105.2	\$104.0	1%
Operating Income	\$10.6	\$16.1	(34%)

Aluminum Sheet Products is a leading provider of common alloy aluminum sheet products for the building and construction, transportation and other consumer durable markets. Key market drivers are housing starts and remodeling activity (Approximately 60% of sales).

"First quarter shipped pounds at Nichols Aluminum were down about 14% from a year ago, but the business did experience an uptick in building and construction orders late in the quarter. Sales price per pound was up about 18% over the year ago period based on strong London Metal Exchange (LME) aluminum ingot pricing. Versus the year ago quarter, operating income was impacted by a combination of weaker shipments, lower operating rates, partially offset by strong material spreads. First quarter 2006 operating income had some one time gains, including a \$2 million pickup on the sale of a receivable claim," Jean said.

#### Cash Flow

"Cash plus short-term investments were \$158 million at quarter end, and total debt less cash to capitalization was 1.8%. We continue to closely monitor our working capital, and for the quarter end, our conversion cycle was 36 days. Cash provided by operating activities remained excellent at \$66 million," said Jean.

#### Fiscal 2007 Outlook

Current demand in the Company's two end markets is weak, but the outlook calls for a sequential improvement in demand throughout the year.

At Vehicular Products, business activity is expected to increase as light vehicle build rates improve. MACSTEEL's bar shipments in fiscal 2007 are expected to match 2006 levels, in part on the strength of new programs with both the Big Three and transplant automotive customers, as well as from ongoing opportunities in secondary markets like energy and service centers. Light vehicle builds in calendar 2007 are expected to be about even with 2006 builds of 15.2 million.

For Building Products, housing starts in calendar 2007 are expected to lag 2006 starts by some 15%. Customer demand at Engineered Products, while seasonally weak at this time, is expected to improve over the course of the year based on a gradual improvement in housing starts. New programs with both existing and new customers will also enhance sales. At Nichols Aluminum, first half fiscal 2007 aluminum sheet shipments are expected to lag first half 2006 shipments, then exceed them in the second half of the fiscal year based on an improving housing market.

For the fiscal second quarter, Quanex expects to report diluted earnings per share from continuing operations within a range of \$0.70 to \$0.78. Guidance for the year remains unchanged at \$3.10 to \$3.60 pending greater clarity in both the timing and magnitude of improvements in the Company's primary markets.

#### Other

On January 26, 2005, the Company irrevocably elected, pursuant to the indenture governing its 2.50% convertible senior debentures due 2034, to settle the principal amount of the debentures in cash while the premium amount of the debentures may be settled in any combination of cash and common stock when they become convertible and are surrendered by the holders thereof. Allowing for this election and using an average stock closing price of \$35.77 for its first quarter, the Company's diluted earnings per share from continuing operations were reduced by \$0.01.

SG&A increased \$4.8 million in the first quarter 2007 compared to the year ago quarter, primarily related to an increase in stock option expense and mark-to-market expense of the Company's Deferred Compensation Plan. Additionally, first quarter 2006 included a gain on the sale of a receivable claim.

#### Dividend Declared

The Board of Directors declared the Company's quarterly cash dividend of \$0.14 per share on the common stock, payable March 30, 2007 to shareholders of record on March 15, 2007.

#### Corporate Profile

Quanex Corporation is an industry-leading manufacturer of value-added, engineered materials and components serving the vehicular products and building products markets.

#### Financial Statistics as of 01/31/07

Book value per common share: \$20.96; Total debt to capitalization: 14.7%; Return on invested capital: 17.4%; Return on common equity: 20.2%; Actual number of common shares outstanding: 37,041,411

#### Definitions

Book value per common share -- calculated as total stockholders' equity as of balance sheet date divided by actual number of common shares outstanding;

Total debt to capitalization -- calculated as the sum of both the current and long term portion of debt, as of balance sheet date, divided by the sum of both the current and long term portion of debt plus total stockholders' equity as of balance sheet date;

Return on invested capital -- calculated as the total of the prior 12 months net income plus prior 12 months after-tax interest expense and capitalized interest, the sum of which is divided by the trailing five quarters average total debt (current and long term) and total stockholders' equity;

Return on common equity -- calculated as the prior 12 months net income, divided by the trailing five quarters average common stockholders' equity.

The Quanex Corporation logo is available at <http://www.primenewswire.com/newsroom/prs/?pkgid=1117>

Statements that use the words "expect," "should," "believe," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above are based on current expectations. Actual results or events may differ materially from this release. Factors that could impact future results may include, without limitation, the effect of both domestic and global economic conditions, the impact of competitive products and pricing, and the availability and cost of raw materials. For a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's most recent 10-K filing (December 15, 2006) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For additional information, visit the Company's website at [www.quanex.com](http://www.quanex.com).

QUANEX CORPORATION  
INDUSTRY SEGMENT INFORMATION  
(In thousands)  
(Unaudited)

Three months ended

	January 31,	
	2007	2006
<b>Net sales:</b>		
Vehicular Products	\$ 217,250	\$ 218,773
Engineered Building Products	98,870	126,286
Aluminum Sheet Building Products	105,236	103,980
Building Products	204,106	230,266
Corporate and Other	(3,715)	(4,470)
	\$ 417,641	\$ 444,569
<b>Net sales</b>	<b>=====</b>	<b>=====</b>
<b>Operating income:</b>		
Vehicular Products	\$ 24,872	\$ 33,249
Engineered Building Products	3,850	10,618
Aluminum Sheet Building Products	10,587	16,089
Building Products	14,437	26,707
Corporate and Other	(8,928)	(5,732)
Operating Income	\$ 30,381	\$ 54,224
	<b>=====</b>	<b>=====</b>
<b>QUANEX CORPORATION</b>		
<b>CONSOLIDATED STATEMENTS OF INCOME</b>		
(In thousands, except per share data)		
(Unaudited)		
	Three months ended January 31,	
	2007	2006
<b>Net sales</b>	\$ 417,641	\$ 444,569
Cost of sales (exclusive of items shown separately below)	342,565	352,084
Selling, general and administrative expense	25,699	20,873
Depreciation and amortization	18,996	17,388
Operating income	30,381	54,224
Interest expense	(1,035)	(1,240)
Other, net	1,974	111
Income from continuing operations	<b>=====</b>	<b>=====</b>

before taxes	31,320	53,095
Income tax expense	(11,275)	(19,645)
	-----	-----
Income from continuing operations	20,045	33,450
Income (loss) from discontinued operations, net of taxes	--	(425)
	-----	-----
Net income	\$ 20,045	\$ 33,025
	=====	=====
 Basic earnings per common share:		
Earnings from continuing operations	\$ 0.54	\$ 0.88
Income (loss) from discontinued operations	\$ --	\$ (0.01)
	-----	-----
Basic earnings per share	\$ 0.54	\$ 0.87
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 Diluted earnings per common share:		
Earnings from continuing operations	\$ 0.53	\$ 0.85
Income (loss) from discontinued operations	\$ --	\$ (0.01)
	-----	-----
Diluted earnings per share	\$ 0.53	\$ 0.84
	-----	-----
 Weighted average common shares outstanding:		
Basic	36,897	37,866
Diluted	38,809	40,065

QUANEX CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

January 31, 2007		October 31, 2006
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	Assets	
\$ 117,505	Cash and equivalents	\$ 105,708
40,000	Short-term investments	--
160,086	Accounts and notes receivable, net	184,311
139,436	Inventories	142,788
12,373	Deferred income taxes	12,218
6,184	Other current assets	5,584
	-----	-----
475,584	Total current assets	450,609
424,443	Property, plant and equipment, net	432,058
196,342	Goodwill	196,350
29,252	Cash surrender value insurance policies	29,108
73,516	Intangible assets, net	75,285
17,678	Other assets	18,742
	-----	-----
\$ 1,216,815	Total assets	\$ 1,202,152
	=====	=====
	Liabilities and stockholders' equity	
\$ 135,507	Accounts payable	\$ 137,564
45,047	Accrued liabilities	54,943
20,948	Income taxes payable	13,185

2,700	Current maturities of long-term debt	2,721
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204,202	Total current liabilities	208,413
130,680	Long-term debt	130,680
1,568	Deferred pension credits	1,115
7,337	Deferred postretirement welfare benefits	7,300
65,148	Deferred income taxes	66,189
13,965	Non-current environmental reserves	14,186
17,602	Other liabilities	15,754
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440,502	Total liabilities	443,637
776,313	Total stockholders' equity	758,515
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\$ 1,216,815	Total liabilities and stockholders' equity	\$ 1,202,152
=====	=====	=====

QUANEX CORPORATION  
 CONSOLIDATED STATEMENTS OF CASH FLOW  
 (In thousands)  
 (Unaudited)

	Three months ended January 31,	
	2007	2006
<b>Operating activities:</b>	-----	-----
Net income	\$ 20,045	\$ 33,025
Loss from discontinued operations	--	425
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	19,063	17,554
Deferred income taxes	(1,186)	1,950
Stock-based compensation	2,643	886
	-----	-----
	40,565	53,840
<b>Changes in assets and liabilities, net of effects from acquisitions and dispositions:</b>		
Decrease (Increase) in accounts and notes receivable	24,216	(1,385)
Decrease (Increase) in inventory	3,328	(16,279)
Increase (Decrease) in accounts payable	(2,055)	12,471
Increase (Decrease) in accrued liabilities	(10,232)	(17,181)
Increase (Decrease) in income taxes payable	7,849	10,362
Increase (Decrease) in deferred pension and postretirement benefits	1,630	1,492
Other, net	553	(3,772)
	-----	-----
Cash provided by (used for) operating activities from continuing operations	65,854	39,548
Cash provided by (used for) operating activities from discontinued operations	--	(761)
	-----	-----
Cash provided by operating activities	65,854	38,787
<b>Investment activities:</b>		
Proceeds from sale of discontinued operations	--	5,432
Purchases of short-term investments	(40,000)	--
Capital expenditures, net of retirements	(9,613)	(21,405)
Other, net	(173)	--
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Cash used for investing activities from continuing operations	(49,786)	(15,973)
Cash used for investment activities from discontinued operations	--	(14)
	-----	-----
Cash used for investment activities	(49,786)	(15,987)
Financing activities:		
Repayments of long-term debt	(21)	(30)
	-----	-----
Purchases of treasury stock	--	(17,906)
	-----	-----
Common dividends paid	(5,210)	(3,964)
Issuance of common stock from option exercises, including related tax benefits	997	4,217
Other, net	(11)	--
	-----	-----
Cash provided by (used for) financing activities from continuing operations	(4,245)	(17,683)
Cash used for financing activities from discontinued operations	--	(56)
	-----	-----
Cash provided by (used for) financing activities	(4,245)	(17,739)
	-----	-----
Effect of exchange rate changes on cash and equivalents	(26)	20
Increase (Decrease) in cash and equivalents	11,797	5,081
Beginning of period cash and equivalents	105,708	49,681
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End of period cash and equivalents	\$ 117,505	\$ 54,762
	=====	=====

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