



## Quanex Fiscal Second Quarter 2007 Results

May 31, 2007

Company Experienced Sequential Improvement At Both Operating Groups

Raised 2007 EPS Guidance to Higher End of Range

Cash Provided by Operating Activities Remained Strong --  
Rising to \$84 Million YTD

HOUSTON, May 31, 2007 (PRIME NEWSWIRE) -- Quanex Corporation (NYSE:NX) today reported fiscal second quarter 2007 results for the period ending April 30, 2007. Net sales were \$519.4 million compared to \$507.2 million a year ago, and income from continuing operations was \$32.8 million versus \$42.8 million in the year ago period. Diluted earnings per share from continuing operations were \$0.84 compared to \$1.07 in the second quarter last year. Diluted earnings per share were \$0.84. The latest 12 months return on invested capital was 15.7% compared to 19.1% a year ago.

### Fiscal Second Quarter 2007 Highlights

- Vehicular Products net sales were \$280.9 million versus \$245.4 million a year ago; net sales at Building Products were \$242.8 million compared to \$266.9 million in the year ago quarter.
- Vehicular Products reported operating income of \$35.4 million versus \$40.4 million a year ago; operating income at Building Products was \$25.9 million compared to \$35.1 million in the year ago period.
- Cash plus short-term investments at quarter-end totaled \$104.0 million.
- Total debt less cash and investments to capitalization was 2.9% versus 8.4% a year ago.
- The Company closed on the acquisition of Atmosphere Annealing Inc. (AAI) February 1, 2007. Its integration into Vehicular Products is proceeding well and AAI's operating results exceeded expectations.
- Quanex announced a strategic review of its Building Products group on May 16, 2007.
- For the first half of fiscal 2007, cash provided by operating activities was \$84.4 million, compared to \$67.5 million in the same period a year ago, and capital expenditures were \$16.6 million versus \$42.9 million in the first half of 2006, primarily the result of reduced spending at MACSTEEL.

### Selected Financial Information

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

	2nd qtr 2007	2nd qtr 2006	inc/(dcr)
Net Sales	\$519.4	\$507.2	2%
Operating Income	50.5	68.8	(27%)
Income from Continuing Ops.	32.8	42.8	(23%)
EPS: Basic Earnings from Continuing Ops.	\$0.89	\$1.14	(22%)

EPS: Diluted Earnings from Continuing Ops.	\$0.84	\$1.07	(21%)
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#### Fiscal Second Quarter 2007 Commentary

#### VEHICULAR PRODUCTS (\$ in millions)

	2nd qtr 2007	2nd qtr 2006	inc/(dcr)
	-----	-----	-----
Net Sales	\$280.9	\$245.4	14%
Operating Income	35.4	40.4	(12%)

Vehicular Products is focused on providing its customers with engineered steel bars and extensive value added services. About 75% of its products are used in light vehicle, heavy truck and off-road powertrain applications.

"Total steel bar tons shipped at MACSTEEL were strong, up 5% compared to second quarter 2006 shipments, due to our success in securing more business in both the automotive and non-automotive markets," said Raymond A. Jean, chairman and chief executive officer. "MACSTEEL's overall demand improved throughout the quarter and our growing automotive backlog gives us optimism for a better mix as we move forward. North American light vehicle builds in our second quarter were down 3% compared to a year ago, but the outlook calls for a gradual increase in builds during the second half of 2007 compared to the second half of 2006. As expected, operating income was down due to the mix shift, which included less value added bar product as a percent of sales, as well as from rising scrap costs through March."

"We are very pleased with the integration progress at Atmosphere Annealing. This is a great heat treating asset for us and it came with an excellent management team. Our vehicular sales team will now further enhance its value proposition to automotive powertrain customers. Operating results were better than planned and we continue to be impressed with AAI's industry leading capabilities," Jean said.

#### BUILDING PRODUCTS

##### Engineered Products (\$ in millions)

	2nd qtr 2007	2nd qtr 2006	inc/(dcr)
	-----	-----	-----
Net Sales	\$103.6	\$127.4	(19%)
Operating Income	9.1	12.7	(28%)

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 housing market slump continues to negatively impact the financial results of Engineered Products. Housing starts were off 24% compared to our second quarter last year, the result of an ongoing inventory overhang in the market. As expected, we did see a seasonal pickup in our business late in the quarter, and we look for that upturn in demand to hold through the summer," said Jean.

##### Aluminum Sheet Building Products (\$ in millions)

	2nd qtr 2007	2nd qtr 2006	inc/(dcr)
	-----	-----	-----
Net Sales	\$139.2	\$139.5	--
Operating Income	16.8	22.4	(25%)

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).

"Second quarter shipped pounds at Nichols Aluminum were off 7% from a year ago as the business continued to experience weak demand in its building and construction markets, as well as softness in its secondary markets. Operating income was off from a year ago due to reduced shipments and less value added painted sheet sales as a percent of the mix," Jean said.

#### Cash Flow

"Cash plus short-term investments were \$104 million at the end of our second quarter after having acquired AAI for some \$58 million, and total debt less cash and investments to capitalization was 2.9%. We aggressively manage our working capital, and for the quarter end, our conversion cycle was 34 days. Cash provided by operating activities remained excellent at \$84 million for the first half of 2007," said Jean.

## Fiscal 2007 Outlook

Quanex continues to experience relatively soft demand in its end markets, but expects to see sequential quarterly improvement in operating results through the remainder of fiscal 2007 based on an improving automotive build schedule and an improvement in housing starts.

At Vehicular Products, demand is expected to continue to improve as light vehicle build rates increase. MACSTEEL's bar shipments in the second half of fiscal 2007 are expected to exceed the comparable 2006 period, based in part on the strength of new programs with both the Big Three and transplant automotive customers. Material spreads are expected to improve sequentially as the product mix improves with more powertrain bar sales and the cost of steel scrap moderates. Light vehicle builds of 15.3 million in calendar 2007 are expected to be about even with 2006.

For Building Products, housing starts in calendar 2007 are expected to lag 2006 by some 23%. Customer demand at Engineered Products is expected to improve over the course of the year based on a very gradual improvement in housing starts. New programs with both existing and new customers will further bolster results. At Nichols Aluminum, second half fiscal 2007 aluminum sheet shipments are expected to exceed first half 2007 but lag second half 2006 shipments, and spreads are expected to remain robust.

For the fiscal third quarter, Quanex expects to report diluted earnings per share from continuing operations within a range of \$0.90 to \$0.98, which includes an estimated \$0.03 per share LIFO charge. Guidance for the year is \$3.35 to \$3.60, and includes an estimated \$0.10 per share LIFO charge. Current guidance was raised toward the higher end of the previous range of \$3.10 to \$3.60 due in part to an improving automotive outlook at Vehicular Products and new programs at Engineered Products.

## Other

On May 16, 2007, the Company announced that its Board of Directors had initiated a review of strategic alternatives with respect to its Building Products group. The group consists of Engineered Products and Aluminum Sheet Products. Strategic alternatives to be considered include, but are not limited to, a tax-free spin-off to Quanex shareholders, a sale or a joint venture. At this time, there can be no assurance that this strategic review will result in any type of transaction and the Company does not intend to provide an update to this process.

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 \$41.33 for its second quarter, the Company's diluted earnings per share from continuing operations were reduced by \$0.03.

Quanex uses the Last In First Out (LIFO) method of accounting, which requires it to forecast year-end inventory prices and levels and periodically adjust interim inventory balances. For the second quarter, the Company booked a \$3.0 million (\$0.05 per diluted share) non-cash LIFO charge that primarily reflects the rise in the cost of steel scrap at the Company's Vehicular Products group.

## Dividend Declared

The Board of Directors declared the Company's quarterly cash dividend of \$0.14 per share on the common stock, payable June 29, 2007 to shareholders of record on June 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 04/30/07

Book value per common share: \$21.74; Total debt to capitalization: 14.0%; Return on invested capital: 15.7%; Return on common equity: 18.1%; Actual number of common shares outstanding: 37,066,472.

## 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.

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 section 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 April 30,			Six months ended April 30,	
2007	2006		2007	2006
		Net sales:		
\$ 280,887	\$ 245,397	Vehicular Products	\$ 498,137	\$ 464,170
		Engineered		
103,583	127,355	Building Products	202,452	253,641
		Aluminum Sheet		
139,188	139,530	Building Products	244,425	243,510
242,771	266,885	Building Products	446,877	497,151
(4,220)	(5,046)	Corporate and Other	(7,935)	(9,516)
\$ 519,438	\$ 507,236	Net sales	\$ 937,079	\$ 951,805
=====	=====		=====	=====
		Operating income:		
\$ 35,413	\$ 40,422	Vehicular Products	\$ 60,284	\$ 73,671
		Engineered		
9,088	12,657	Building Products	12,938	23,275
		Aluminum Sheet		
16,828	22,408	Building Products	27,416	38,497
25,916	35,065	Building Products	40,354	61,772
(10,787)	(6,642)	Corporate and Other	(19,715)	(12,374)
\$ 50,542	\$ 68,845	Operating Income	\$ 80,923	\$ 123,069
=====	=====		=====	=====

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

Three months ended April 30,			Six months ended April 30,	
2007	2006		2007	2006
\$ 519,438	\$ 507,236	Net sales	\$ 937,079	\$ 951,805
		Cost of sales (exclusive of items shown separately		

424,457	396,541	below)	767,022	748,625
24,872	23,940	Selling, general and administrative expense	50,571	44,813
19,567	17,910	Depreciation and amortization	38,563	35,298
50,542	68,845	Operating income	80,923	123,069
(1,024)	(1,215)	Interest expense	(2,059)	(2,455)
1,733	356	Other, net	3,707	467
		Income from continuing operations before taxes	82,571	121,081
(18,451)	(25,155)	Income tax expense	(29,726)	(44,800)
32,800	42,831	Income from continuing operations	52,845	76,281
--	19	Income (loss) from discontinued operations, net of taxes	--	(406)
\$ 32,800	\$ 42,850	Net income	\$ 52,845	\$ 75,875

Basic earnings per common share:

\$ 0.89	\$ 1.14	Earnings from continuing operations	\$ 1.43	\$ 2.02
--	--	Income (loss) from discontinued operations	--	(0.01)
\$ 0.89	\$ 1.14	Basic earnings per share	\$ 1.43	\$ 2.01

Diluted earnings per common share:

\$ 0.84	\$ 1.07	Earnings from continuing operations	\$ 1.38	\$ 1.93
--	--	Income (loss) from discontinued operations	--	(0.01)
\$ 0.84	\$ 1.07	Diluted earnings per share	\$ 1.38	\$ 1.92

Weighted average common shares outstanding:

36,943	37,677	Basic	36,920	37,677
39,416	40,327	Diluted	39,113	40,131
\$ 0.1400	\$ 0.1200	Cash dividends per share	\$ 0.2800	\$ 0.2233

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

April 30, 2007	October 31, 2006
Assets	
\$ 63,961	\$ 105,708
Cash and equivalents	

40,000	Short-term investments	--
211,685	Accounts and notes receivable, net	184,311
164,131	Inventories	142,788
12,429	Deferred income taxes	12,218
5,792	Other current assets	5,584
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497,998	Total current assets	450,609
443,031	Property, plant and equipment, net	432,058
201,732	Goodwill	196,350
29,588	Cash surrender value insurance policies	29,108
90,740	Intangible assets, net	75,285
15,577	Other assets	18,742
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\$1,278,666	Total assets	\$1,202,152
=====	=====	=====
	Liabilities and stockholders' equity	
\$ 181,438	Accounts payable	\$ 137,564
51,950	Accrued liabilities	54,943
5,351	Income taxes payable	13,185
1,464	Current maturities of long-term debt	2,721
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240,203	Total current liabilities	208,413
129,416	Long-term debt	130,680
1,457	Deferred pension credits	1,115
7,426	Deferred postretirement welfare benefits	7,300
64,203	Deferred income taxes	66,189
13,254	Non-current environmental reserves	14,186
16,902	Other liabilities	15,754
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472,861	Total liabilities	443,637
805,805	Total stockholders' equity	758,515
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\$1,278,666	Total liabilities and stockholders' equity	\$1,202,152
=====	=====	=====

QUANEX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)

(Unaudited)

	Six months ended April 30,	
	2007	2006
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Operating activities:		
Net income	\$ 52,845	\$ 75,875
Loss from discontinued operations	--	406
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	38,697	35,612
Deferred income taxes	(2,200)	1,180
Stock-based compensation	3,685	2,797
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	93,027	115,870
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	(22,716)	(42,506)
Decrease (Increase) in inventory	(19,853)	(22,874)
Increase (Decrease) in accounts payable	42,626	33,669
Increase (Decrease) in accrued		

liabilities	(4,134)	(11,686)
Increase (Decrease) in income taxes payable	(7,718)	(1,575)
Increase (Decrease) in deferred pension and postretirement benefits	2,888	632
Other, net	264	(3,327)
	-----	-----
Cash provided by (used for) operating activities from continuing operations	84,384	68,203
Cash provided by (used for) operating activities from discontinued operations	--	(742)
	-----	-----
Cash provided by operating activities	84,384	67,461
Investment activities:		
Purchases of short-term investments	(46,150)	--
Proceeds from sales of short-term investment	6,150	--
Acquisitions, net of cash acquired	(58,493)	--
Capital expenditures, net of retirements	(16,626)	(42,915)
Proceeds from sale of discontinued operations	--	5,432
Retired executive life insurance proceeds	--	461
Other, net	312	320
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Cash used for investing activities from continuing operations	(114,807)	(36,702)
Cash used for investment activities from discontinued operations	--	(14)
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Cash used for investment activities	(114,807)	(36,716)
Financing activities:		
Repayments of long-term debt	(2,521)	(2,307)
Common dividends paid	(10,374)	(8,588)
Issuance of common stock from option exercises, including related tax benefits	1,571	10,724
Purchases of treasury stock	--	(17,906)
Other, net	(11)	--
	-----	-----
Cash provided by (used for) financing activities from continuing operations	(11,335)	(18,077)
Cash used for financing activities from discontinued operations	--	(56)
	-----	-----
Cash provided by (used for) financing activities	(11,335)	(18,133)
	-----	-----
Effect of exchange rate changes on cash and equivalents	11	13
Increase (Decrease) in cash and equivalents	(41,747)	12,625
Beginning of period cash and equivalents	105,708	49,681
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End of period cash and equivalents	\$ 63,961	\$ 62,306
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CONTACT: Quanex Corporation

Financial Contact:

Jeff Galow

713/877-5327

Media Contact:

Valerie Calvert

713/877-5305