



## Quanex Announces Fiscal Second Quarter 2002 Results; Company Reports Record Second Quarter Earnings; Diluted Earnings Per Share Up 118% Versus a Year Ago; Company Announces Call for Redemption of Its 6.88% Debentures on May 9, 2002

May 30, 2002

HOUSTON, May 30 /PRNewswire-FirstCall/ -- Quanex Corporation (NYSE: NX) today announced fiscal second quarter results for the period ending April 30, 2002. Net sales for the quarter were \$249.5 million, 13% higher than a year ago. The Company commented that the momentum in order entry experienced late in its first quarter was sustained throughout the second quarter. Both the Vehicular Products and Building Products segments turned in much better operating results for the quarter versus the first quarter 2002 and year ago results due, in part, to this improved demand. Operating income and net income for the second quarter were \$20.0 million and \$10.6 million respectively. EBITDA for the quarter improved 50% from a year ago to \$31.9 million. Diluted earnings per share from continuing operations were \$.70, a record for the quarter and 118% higher than a year ago.

Net sales for the second quarter 2001 were \$220.3 million. Operating income and net income were \$9.8 million and \$4.3 million respectively. Diluted earnings per share were \$.32.

### Highlights

Regarding the Company's results, Raymond A. Jean, chairman and chief executive officer stated, "The Vehicular Products and Building Products segments each delivered improved results compared to last quarter and a year ago, and significantly outperformed their served markets. Higher volumes, strong operating leverage and cost reduction initiatives all contributed to Quanex's improved financial performance for the quarter. Demand in the Company's two primary markets, light vehicles and housing, remain at healthy levels. Industry estimates for 2002 North American light vehicle builds has increased from 15.2 million units to 15.8 million units and housing starts are now expected to remain in the 1.6 million range for the year."

"Financially, Quanex is in a strong and enviable position. Improved earnings, better working capital management and lower capital expenditures have all contributed to the Company's ability to pay off \$40 million in debt in the first six months of the year. Moody's recognized this financial strength by recently upgrading the Company's debt rating; and we expect our financial position to continue to improve with the conversion of approximately \$58 million of debt to equity in the third quarter combined with continued improved earnings," said Jean.

### Quarterly Financials (\$ in millions, except per share data)

	2nd qtr 2002	2nd qtr 2001
Net Sales	\$ 249.5	\$ 220.3
EBITDA*	31.9	21.4
Operating Income	20.0	9.8
Net Income	10.6	4.3
EPS: Basic	\$.77	\$.32
EPS: Diluted	\$.70	\$.32

\*EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is calculated by adding back to the income before extraordinary item the amounts of income tax expense, interest expense (net of capitalized interest), depreciation and amortization.

Statements that use the words "expect," "should," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above and below 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 (January 4, 2002) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

### Segment Commentary

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

	2nd qtr 2002	2nd qtr 2001
Net Sales	\$ 117.6	\$ 105.1
Operating Income	16.4	10.0

The Vehicular Products segment includes MACSTEEL, Piper Impact and Temroc Metals. The segment's main driver is North American light vehicle builds. For fiscal year 2002, the Company expects MACSTEEL's sales and operating income to represent about 75% and 85% of the segment's results, respectively.

"On-going customer restocking efforts bolstered demand at MACSTEEL during the quarter, with volumes up 22% compared to last year," continued Jean. "MAC's traditional automotive customers came into the second quarter with seasonally low inventories, and these same customers continued to restock during the quarter in anticipation of another good year for light vehicle sales. North American light vehicle builds for 2002 are now expected to slightly exceed the 15.5 million units produced in 2001. A spike in the Class 8 heavy duty truck builds also contributed to higher demand for the division. Because of increased customer demand through the second quarter, MACSTEEL operated both plants at 6 days per week," said Jean.

"MACSTEEL's earnings also started to benefit from the additional value-added services at the Jackson facility, which included more heat treated products, higher MAC+ turned bar production and bar cutting services. Phase VI at the Fort Smith facility will be fully operational by the end of the third quarter, several months ahead of schedule. Management expects to have the additional capacity from the Fort Smith project sold out by the end of the fiscal year."

"MAC is currently involved in 7 new, major programs for its larger OEM customers, with 3 of those programs calling for value-added services. A relatively new program underway involves supplying one of the "Big Three" automakers with 100% of its steel camshaft blank needs. The on-going results of these very positive developments at MACSTEEL will be partially offset by rising steel scrap prices. Over half of MAC's business is based on one year fixed contracts, so their ability to recover rising scrap prices is somewhat limited on a near term basis."

"Piper Impact was profitable on slightly lower sales, with income up 10% over a year ago. Sales of aluminum air bag components declined from year ago levels, which was not unexpected, while new programs helped offset that decline. Piper is on-track to add about \$10 million of new business this year. As further testimony to their ongoing productivity improvements, Piper Impact earned the "Excellence Award" for quality from the Mississippi Quality Awards Program. The Mississippi Quality Awards Program is a professional association providing structure for organizational self-assessment using the Malcolm Baldrige National Quality Award criteria. The annual awards are designed to encourage the application of continuous improvement principles and sharing of best practices."

BUILDING PRODUCTS	(\$ in millions)	
	2nd qtr 2002	2nd qtr 2001
Net sales	\$ 131.9	\$ 115.1
Operating income	7.6	3.8

The Building Products segment includes Engineered Products and Nichols Aluminum. The main drivers of the segment are residential housing starts and remodeling expenditures. For fiscal year 2002, the Company expects Engineered Products sales and operating income to represent about 30% and 65% of the segment's results, respectively.

"Engineered Products achieved record second quarter sales and operating income. The combination of an abbreviated winter, new products, low customer inventories, the acquisition of Colonial Craft and solid productivity improvements at the Homeshield operation all contributed to the group's excellent performance. It's important to highlight that the group would have achieved these operating records even without including the results of Colonial Craft, with 'same store' sales up about 6%. New programs continue to be a key driver in the success of Engineered Products. This year, the group has over a dozen major new programs underway with its customers. The integration of Colonial Craft is progressing well, and the business will be implementing a major new project with one of its leading window customers during the second half of the year."

"I'm pleased to report that the strength in orders we experienced at Nichols Aluminum late in the first quarter held up well through the second quarter, allowing Nichols to increase volumes by about 20% over last year. These higher volumes resulted in operating income for the division to be up more than double last year's level. However, scrap availability and pricing were an issue for Nichols during the quarter, with April being particularly difficult. With scrap pricing rising quicker than the group's ability to raise prices in the short term, spreads for the quarter deteriorated from both first quarter and year ago levels. The 2 rotary barrel furnaces at the casting plant helped mitigate some of this spread compression as they allowed for the use of a broader range of low grade scraps. With industry wide price increases firming and scrap availability beginning to loosen up, we expect Nichols to be able to increase spreads modestly throughout the remainder of the fiscal year," said Jean.

#### Outlook

Higher customer demand in the Company's two primary markets -- vehicular products and building products -- drove income from continuing operations to record levels for the second quarter. Diluted earnings per share for the first half of fiscal 2002 are up 85% over the first half of fiscal 2001.

First half fiscal 2001 operating results were well below historical levels as customers during that time were reducing inventories as the economy slowed. This compares to the rapid restocking activities the Company experienced during the first half of fiscal 2002.

Second half fiscal 2001 operating results were more typical as customer demand improved last year. For the second half of fiscal 2002, the Company expects to operate at strong demand levels and anticipates third quarter diluted earnings per share to be about 30% higher than year ago results of \$.67. For fiscal 2002, the Company expects diluted earnings per share to be up some 40% over fiscal 2001 diluted earnings of \$2.05. This earnings growth is primarily driven by new customer programs, increased market share, operating leverage and lean initiatives.

#### Other

As of November 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. Goodwill amortization for the prior year ended October 31, 2001 was \$2.3 million or \$.10 diluted earnings per share. Also, in accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter of fiscal 2002, which indicated that no impairment of goodwill existed.

On May 10, 2002, Notice of Redemption was sent to the registered holders of the Qualex 6.88% Convertible Subordinated Debentures Due 2007. The Company set a Redemption Date of June 12, 2002 for all Debentures outstanding. Holders of the Debentures have the right to convert the Debentures into shares of common stock at a conversion price of \$31.50 per share, which expires at the close of business on June 5, 2002.

Moody's Investor Services announced on May 10, 2002, that it upgraded its ratings for Quanex Corporation. The following ratings were upgraded: \$250 million unsecured revolving credit facility to Ba1 from Ba2, the \$59 million of 6.88% convertible subordinated debentures due 2007 to Ba3 from B1, its senior implied rating to Ba1 from Ba2, and senior unsecured issuer rating to Ba1 from Ba2. In support of the upgrade Moody's cited the Company's strong performance in a difficult industry and its prospects for further improved financial performance.

#### Dividend Declared

The Board of Directors declared a quarterly dividend of \$.16 per share on the Company's common stock, payable June 28, 2002 to shareholders of record on June 14, 2002.

#### Corporate Profile

Quanex is an industry-leading manufacturer of engineered materials and components for the Vehicular Products and Building Products markets.

Latest 12 Months Financial Information (from continuing operations, excluding unusual charges and gains)

Sales: \$957.9 million; EBITDA: \$116.2 million; Operating income: \$69.2 million; Net income: \$36.9 million; Basic earnings per share: \$2.74; Quarterly common dividend rate (per share): \$.16; Book value per common share: \$22.20; Long-term debt to capitalization: 35.20%; Return on common equity: 12.71%; Actual number of common shares outstanding: 14,185,707; Common stock price range (52-week hi - low): \$38.35 - \$20.75.

For further information visit the Company website at [www.quanex.com](http://www.quanex.com).

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

Three months ended April 30, 2002      2001 (Unaudited)			Six months ended April 30, 2002      2001 (Unaudited)	
\$ 249,500	\$ 220,257	Net sales	\$ 453,743	\$ 420,199
204,371	186,260	Cost of sales	375,413	355,044
13,697	12,968	Selling, general and administrative expense	25,861	24,696
11,399	11,185	Depreciation and amortization	22,592	22,421
20,033	9,844	Operating income	29,877	18,038
(4,668)	(4,122)	Interest expense	(8,109)	(8,283)
803	432	Capitalized interest	1,533	746
446	444	Other, net	1,844	1,767
16,614	6,598	Income before income taxes and extraordinary gain	25,145	12,268
(5,982)	(2,309)	Income tax expense	(9,053)	(4,294)
10,632	4,289	Income before extraordinary gain	16,092	7,974
---	---	Extraordinary gain on early extinguishment of debt, net of income taxes	---	372
\$ 10,632	\$ 4,289	Net income	\$ 16,092	\$ 8,346
		Weighted average common shares outstanding:		
13,881	13,389	Basic	13,665	13,407
16,107	13,481	Diluted	15,848	13,523
		Earnings per common share:		
		Basic:		
\$ 0.77	\$ 0.32	Income before extraordinary gain	\$ 1.18	\$ 0.59
---	---	Extraordinary gain	---	0.03
\$ 0.77	\$ 0.32	Total basic net earnings	\$ 1.18	\$ 0.62

Diluted:

\$ 0.70	\$ 0.32	Income before extraordinary gain	\$ 1.10	\$ 0.59
---	---	Extraordinary gain	---	0.03
\$ 0.70	\$ 0.32	Total diluted net earnings	\$ 1.10	\$ 0.62
\$ 0.16	\$ 0.16	Common stock dividends per share	\$ 0.32	\$ 0.32

QUANEX CORPORATION INDUSTRY SEGMENT INFORMATION  
(In thousands)

Three months ended April 30, 2002      2001 (Unaudited)			Six months ended April 30, 2002      2001 (Unaudited)	
		Vehicular Products:		
\$ 117,640	\$ 105,124	Net sales	\$ 220,073	\$ 204,200
\$ 16,356	\$ 10,002	Operating income	\$ 27,098	\$ 18,375
		Building Products:		
\$ 131,860	\$ 115,133	Net sales	\$ 233,670	\$ 215,999
\$ 7,643	\$ 3,802	Operating income	\$ 10,017	\$ 6,121
		Corporate and Other:		
\$ ---	\$ ---	Intercompany sales elimination	\$ ---	\$ ---
\$ (3,966)	\$ (3,960)	Corporate charges	\$ (7,238)	\$ (6,458)
		Total:		
\$ 249,500	\$ 220,257	Net sales	\$ 453,743	\$ 420,199
\$ 20,033	\$ 9,844	Operating income	\$ 29,877	\$ 18,038

QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

April 30, 2002      2001 (Unaudited)			October 31, 2001      2000 (Audited)	
		Assets		
\$ 3,898	\$ 17,332	Cash and equivalents	\$ 29,573	\$ 22,409
113,290	104,600	Accounts and notes receivable, net	109,706	98,465
87,394	98,880	Inventories	83,109	101,274
14,636	15,012	Other current assets	14,490	13,798
219,218	235,824	Total current assets	236,878	235,946
360,019	348,308	Property, plant and equipment, net	357,635	338,248
66,726	60,720	Goodwill, net	59,226	47,539
47,228	25,284	Other assets	43,892	24,126
\$ 693,191	\$ 670,136	Total assets	\$ 697,631	\$ 645,859
		Liabilities and stockholders' equity		
\$ 87,051	\$ 74,771	Accounts payable	\$ 76,831	\$ 77,339
49,735	45,735	Accrued expenses	50,659	50,189
2,686	1,815	Income taxes payable	1,087	3,218
4,035	2,153	Other current liabilities	5,593	---
434	421	Current portion of long-term debt	420	256
143,941	124,895	Total current liabilities	134,590	131,002
171,037	221,578	Long-term debt	219,608	191,657
6,434	5,882	Deferred pension credits	7,962	7,026
7,811	7,701	Deferred postretirement welfare benefits	7,777	7,634
31,761	26,096	Deferred income taxes	29,282	27,620
17,277	17,544	Other liabilities	18,435	14,423

378,261	403,696	Total liabilities	417,654	379,362
314,930	266,440	Total stockholders' equity	279,977	266,497
\$ 693,191	\$ 670,136	Total liabilities and stockholders' equity	\$ 697,631	\$ 645,859

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)

Three months ended April 30, 2002      2001 (Unaudited)			Six months ended April 30, 2002      2001 (Unaudited)	
		Operating activities:		
\$ 10,632	\$ 4,289	Net income	\$ 16,092	\$ 8,346
---	---	Extraordinary gain on early extinguishments of debt (net of taxes)	---	(372)
11,486	11,313	Depreciation and amortization	22,765	22,675
1,071	(1,760)	Deferred income taxes	2,480	(1,801)
59	(726)	Deferred pension and postretirement benefits	(1,494)	(1,077)
23,248	13,116		39,843	27,771
(20,414)	(10,021)	Increase in accounts and notes receivable	(1,715)	(2,811)
564	4,745	(Increase) decrease in inventory	(1,887)	5,037
21,411	5,861	Increase (decrease) in accounts payable	9,556	(4,629)
5,139	3,984	Increase (decrease) in accrued expenses	(1,922)	(5,835)
2,634	(363)	Other, net (including income tax refund)	1,175	(1,273)
32,582	17,322	Cash provided by operating activities	45,050	18,260
		Investment activities:		
(17,365)	---	Acquisition of Colonial Craft, net of cash acquired	(17,365)	---
---	---	Acquisition of Temroc Metals, net of cash acquired	---	(17,922)
(8,819)	(14,511)	Capital expenditures, net of retirements	(20,109)	(26,485)
(171)	496	Cash provided (used) by other investment activities	(646)	(1,094)
(26,355)	(14,015)	Cash used by investment activities	(38,120)	(45,501)
		Financing activities:		
(35,000)	(1,000)	Bank borrowings (repayments), net	(40,000)	32,000
(7,029)	---	Prepayment of note payable	(7,029)	---
---	---	Purchase of subordinated debentures	---	(3,942)
---	(1,626)	Purchases of Quanex common stock	---	(1,990)
(2,253)	(2,155)	Common dividends paid	(4,412)	(4,322)
18,093	730	Issuance of common stock, net	20,453	1,530

(1,318)	(803)	Cash used by other	(1,617)	(1,112)
		financing activities		
(27,507)	(4,854)	Cash provided (used)	(32,605)	22,164
		by financing activities		
(21,280)	(1,547)	Decrease in cash	(25,675)	(5,077)
25,178	18,879	Beginning of period	29,573	22,409
		cash and equivalents		
\$ 3,898	\$ 17,332	End of period cash and	\$ 3,898	\$ 17,332
		equivalents		

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