

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2004

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

(State or other jurisdiction of
incorporation or organization)

38-1872178

(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

<u>Class</u>	<u>Outstanding at January 31, 2004</u>
Common Stock, par value \$0.50 per share	16,421,724

**QUANEX CORPORATION
INDEX**

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

[Consolidated Balance Sheets - January 31, 2004 and October 31, 2003](#)

[Consolidated Statements of Income - Three Months Ended January 31, 2004 and 2003](#)

[Consolidated Statements of Cash Flow - Three Months Ended January 31, 2004 and 2003](#)

Notes to Consolidated Financial Statements

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

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Item 4: Controls and Procedures

PART II. OTHER INFORMATION

Item 5: Other Information

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2004	October 31, 2003
(In thousands)		
ASSETS		
Current assets:		
Cash and equivalents	\$ 10,182	\$ 22,108
Accounts and notes receivable, net of allowance for doubtful accounts of \$7,489 and \$7,222	149,735	123,185
Inventories	125,436	79,322
Deferred income taxes	10,033	6,366
Other current assets	6,576	1,750
Total current assets	301,962	232,731
Property, plant and equipment, net	423,973	335,904
Goodwill, net	137,730	66,436
Cash surrender value insurance policies, net	25,061	24,536
Intangible assets	29,283	2,755
Other assets	5,777	3,501
	<u>\$ 923,786</u>	<u>\$ 665,863</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 117,728	\$ 89,435
Accrued liabilities	47,647	39,209
Income taxes payable	7,043	7,381
Current maturities of long-term debt	3,727	3,877
Other current liabilities	—	46
Total current liabilities	176,145	139,948
Long-term debt	225,902	15,893
Deferred pension credits	945	8,323
Deferred postretirement welfare benefits	7,824	7,845
Deferred income taxes	41,446	34,895
Other liabilities	15,962	13,800
Total liabilities	468,224	220,704
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding – none	—	—
Common stock, \$.50 par value, shares authorized 50,000,000; issued 16,526,059 and 16,519,271	8,263	8,260
Additional paid-in-capital	188,924	187,114
Retained earnings	266,079	264,067
Unearned compensation	(903)	(164)
Accumulated other comprehensive income	(3,656)	(3,641)
	458,707	455,636
Less common stock held by rabbi trust, 54,443 and 47,507 shares	(1,595)	(1,317)
Less cost of shares of common stock in treasury, 49,892 and 294,803 shares	(1,550)	(9,160)
Total stockholders' equity	455,562	445,159
	<u>\$ 923,786</u>	<u>\$ 665,863</u>

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended January 31,	
	2004	2003
(In thousands, except per share amounts)		
Net sales	\$ 281,156	\$ 229,509
Cost and expenses:		
Cost of sales	245,086	194,525
Selling, general and administrative expense	13,108	12,855
Depreciation and amortization	12,730	12,014
Gain on sale of land	(454)	—

Operating income	10,686	10,115
Other income (expense):		
Interest expense	(820)	(975)
Other, net	335	1,459
Income before income taxes	10,201	10,599
Income tax expense	(3,774)	(3,816)
Net income attributable to common stockholders	\$ 6,427	\$ 6,783
Earnings per common share:		
Basic net earnings	\$ 0.39	\$ 0.41
Diluted net earnings	\$ 0.39	\$ 0.41
Weighted average number of shares outstanding:		
Basic	16,318	16,406
Diluted	16,589	16,648
Cash dividends per share	\$ 0.17	\$ 0.17

2

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Three Months Ended January 31,	
	2004	2003
(In thousands)		
Operating activities:		
Net income	\$ 6,427	\$ 6,783
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of property	(454)	—
Depreciation and amortization	12,838	12,107
Deferred income taxes	1,501	1,254
Deferred pension and postretirement benefits	(7,399)	(2,560)
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable	(1,790)	12,412
Increase in inventory	(6,416)	(10,041)
Increase in accounts payable	6,370	2,631
Increase (decrease) in accrued liabilities	2,380	(9,461)
Increase (decrease) in income taxes payable	(487)	2,341
Other, net	(2,078)	(3,476)
Cash provided by operating activities	10,892	11,990
Investment activities:		
Acquisitions, net of cash acquired	(231,913)	—
Proceeds from sale of property	637	—
Capital expenditures, net of retirements	(4,166)	(8,520)
Other, net	(602)	(1,147)
Cash used for investing activities	(236,044)	(9,667)
Financing activities:		
Bank borrowings (repayments), net	210,000	(5,000)
Purchase of Quanex common stock	—	(6,711)
Common stock dividends paid	(2,789)	(2,638)
Issuance of common stock, net	6,715	810
Other, net	(709)	(1,642)
Cash used for financing activities	213,217	(15,181)
Effect of exchange rate changes on cash equivalents	9	—
Decrease in cash and equivalents	(11,926)	(12,858)
Cash and equivalents at beginning of period	22,108	18,283
Cash and equivalents at end of period	\$ 10,182	\$ 5,425
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 301	\$ 908
Cash paid during the period for income taxes	1,503	296
Cash received during the period for income tax refunds	284	13

3

1. Basis of Presentation

The interim unaudited consolidated financial statements of Quanex Corporation and its subsidiaries (“Quanex” or the “Company”) include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company’s financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis and financial statements and notes thereto included in the Quanex Corporation 2003 Form 10-K.

2. New Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) was signed into law. The Act provides a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare. In January 2004, the Financial Accounting Standards Board (“FASB”) FASB Staff Position (“FSP”) No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. SFAS No. 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions, requires that presently enacted changes in the law that affect the future level of healthcare benefit plan coverage should be considered in the current period measurements of postretirement net periodic benefit cost and accumulated postretirement benefit obligation. As permitted, by FSP FAS 106-1, the Company has elected to defer reflecting the effect of the Act on postretirement net periodic benefit cost and the accumulated postretirement benefit obligation, in the financial statements, due to the fact that specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company is currently evaluating the effect of this Act on its postretirement benefits expense.

In December 2003, the FASB issued the revised SFAS No. 132, Employers’ Disclosures about Pensions and Other Postretirement Benefits (SFAS 132). The revised SFAS 132 retains the disclosures required by the original issuance of SFAS 132 and requires additional annual disclosures describing the types of plan assets, investment strategy, measurement date, plan obligations and cash flows. The Company will include the revised SFAS 132 annual disclosures in its Annual Report on Form 10-K for the fiscal year ending October 31, 2004. The revised SFAS 132 also requires additional interim period disclosures, including the components of net periodic benefit cost and changes in planned contributions. The Company is required to include the interim period disclosures of the revised SFAS 132 beginning in the second quarter of 2004.

In December 2003, the FASB issued FASB Interpretation (“FIN”) No. 46(R) Consolidation of Variable Interest Entities. FIN 46(R) replaces FIN 46 and addresses consolidation by business enterprises of variable interest entities. The provisions of FIN 46(R) are effective for the first reporting period that ends after December 15, 2003 for variable interests in those entities commonly referred to as special-purpose entities. Application of the provisions of FIN 46(R) for all other entities is effective for the first reporting period ending after March 15, 2004. The Company has no interest in any entity considered a special purpose entity; therefore, the initial adoption of FIN 46(R) did not have an impact on the Company. The Company anticipates the adoption of the provisions of FIN 46(R) in the second quarter of 2004 will not have a material impact on the Company’s financial position, results of operations or cash flows.

3. Stock Based Employee 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” using the intrinsic value method. The 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 and SFAS No. 148 “Accounting for the Stock-Based Compensation - Transition and Disclosure” is presented below.

	Three Months Ended January 31,	
	2004	2003
	(In thousands)	
Net income, as reported	\$ 6,427	\$ 6,783
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(563)	(357)
Pro forma net income	<u>\$ 5,864</u>	<u>\$ 6,426</u>
Earnings per common share:		
Basic as reported	\$ 0.39	\$ 0.41
Basic pro forma	\$ 0.36	\$ 0.39
Diluted as reported	\$ 0.39	\$ 0.41
Diluted pro forma	\$ 0.35	\$ 0.39

4. Business Acquisitions

During the first quarter of fiscal 2004, the Company acquired the stock of TruSeal Technologies, Inc. (“TruSeal”) and assets of North Star Steel Monroe (“MACSTEEL Monroe”). The acquisitions were accounted for under the purchase method of accounting in accordance with SFAS No. 141. Accordingly, the estimated fair value of assets acquired and liabilities assumed in the acquisitions and the results of operations were included in the Company’s consolidated financial statements as of the respective effective dates of the acquisitions. There were no material differences between the Company’s accounting policies and those of TruSeal and North Star Steel Monroe.

On December 31, 2003, the Company completed the acquisition of TruSeal, a manufacturer of patented and trademarked flexible insulating glass spacer systems and sealants for vinyl, aluminum and wood windows. TruSeal has been integrated into the Engineered Products division within the Building Products segment. The Company acquired TruSeal to further expand the broad range of high quality components and products currently supplied to existing customers and to provide a level of customer diversification. TruSeal has a broad presence in the vinyl and aluminum window markets, whereas the Company's niche is primarily with the wood window OEM's. As consideration for the acquisition of all of the outstanding capital stock of TruSeal, the Company paid \$113.0 million in cash, subject to a working capital adjustment, and assumed \$17.6 million of liabilities. The Company also incurred \$1.4 million in transaction fees, including legal, valuation and accounting fees.

A preliminary allocation of the assets and liabilities acquired and assumed as part of the TruSeal acquisition was completed. The preliminary allocation was based on independent appraisals and management's estimates of fair value. The allocation may be subject to change based on final estimates of fair value. The preliminary allocation of purchase price valued goodwill of \$71.3 million, of which

5

\$46.7 million is expected to be deductible for tax purposes. All \$71.3 million of goodwill has been assigned to the Building Products segment. The preliminary valuation also resulted in \$25.6 million of other intangible assets, excluding goodwill, which are being amortized over periods that reflect the pattern in which the economic benefits of the assets are expected to be realized. Trade names and trademarks of \$8.2 million are being amortized over an average estimated useful life of 16 years, patents of \$14.8 million are being amortized over an average of 17 years and the remaining intangibles are being amortized over an average of 5 years. The weighted average useful life of intangible assets, excluding goodwill, created as a result of the TruSeal acquisition is 15 years. No residual value is estimated for the other intangible assets.

MACSTEEL Monroe

On January 1, 2004, the Company completed the asset purchase of North Star Steel Monroe, a mini-mill steel facility that can produce over 500,000 tons of special bar quality and engineered steel bars in diameters from 0.5625" to 3.25", which primarily serves the light vehicle and heavy-duty truck markets. MACSTEEL Monroe has been integrated into MACSTEEL within the Vehicular Products segment. The Company acquired MACSTEEL Monroe to support and benefit a core business, MACSTEEL, and to expand the range of high quality bar products available to the Company's customers. MACSTEEL Monroe's production of smaller diameter bars complements the Company's existing 1" to 6" size range and expands the customer base and product offerings. As consideration for the MACSTEEL Monroe acquisition, the Company paid \$115.7 million in cash, subject to a working capital adjustment, and assumed \$18.3 million of liabilities. The Company also incurred \$2.0 million in transaction fees, including legal, valuation and accounting fees.

A preliminary allocation of the assets and liabilities acquired and assumed as part of the MACSTEEL Monroe acquisition was completed. The preliminary allocation was based on independent appraisals and management's estimates of fair value. The allocation may be subject to change based on final estimates of fair value. The preliminary allocation of purchase price resulted in no goodwill and \$1.2 million of other intangibles, excluding goodwill. The other intangibles are being amortized over 4 years, which reflects the pattern in which the economic benefits of the assets are expected to be realized. No residual value is estimated for the other intangible assets.

5. Inventories

Inventories consist of the following:

	January 31, 2004	October 31, 2003
	(In thousands)	
Raw materials	\$ 25,497	\$ 18,741
Finished goods and work in process	86,919	51,006
	112,416	69,747
Other	13,020	9,575
	<u>\$ 125,436</u>	<u>\$ 79,322</u>

6

The values of inventories in the consolidated balance sheets are based on the following accounting methods:

	January 31, 2004	October 31, 2003
	(In thousands)	
LIFO	\$ 55,769	\$ 54,032
FIFO	69,667	25,290
	<u>\$ 125,436</u>	<u>\$ 79,322</u>

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$14.6 million as of January 31, 2004 and \$13.9 million as of October 31, 2003.

6. Acquired Intangible Assets

Intangible assets consist of the following (in thousands):

As of January 31, 2004		As of October 31, 2003	
Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

Amortized intangible assets:

Non-compete Agreements	\$	313	\$	136	\$	313	\$	119
Patents		15,277		168		443		82
Trademarks		8,230		42		—		—
Customer Relationships		2,491		83		—		—
Other Intangibles		1,201		—		—		—
Total	\$	27,512	\$	429	\$	756	\$	201

Unamortized intangible assets:

Tradename	\$	2,200	\$	2,200
-----------	----	-------	----	-------

The aggregate amortization expense for the three-month periods ended January 31, 2004 and January 31, 2003 is \$233 thousand and \$26 thousand, respectively. Estimated amortization expense for the next five years follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization
2004 (remaining nine months)	\$ 1,726
2005	\$ 2,303
2006	\$ 2,294
2007	\$ 2,252
2008	\$ 1,988

7

7. Earnings Per Share

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

	For the Three Months Ended January 31, 2004			For the Three Months Ended January 31, 2003		
	Income (Numerator)	Shares (Denominator)	Per- Share Amount	Income (Numerator)	Shares (Denominator)	Per- Share Amount
Basic Earnings Per Share Computation	\$ 6,427	16,318	\$ 0.39	\$ 6,783	16,406	\$ 0.41
Effect of Dilutive Securities						
Effect of common stock equivalents arising from stock options	—	219		—	181	
Effect of common stock held by rabbi trust	—	52		—	61	
Diluted Earnings Per Share Computation						
Total diluted net earnings	\$ 6,427	16,589	\$ 0.39	\$ 6,783	16,648	\$ 0.41

8. Comprehensive Income

Comprehensive income is defined as the sum of net income and all other non-owner changes in equity, including realized and unrealized gains and losses on derivatives, minimum pension liability adjustments and foreign currency translation adjustments. Total comprehensive income for the three months ended January 31, 2004 and January 31, 2003 is \$6.4 million and \$7.1 million, respectively.

9. Long-term Debt

Long-term debt consists of the following:

	January 31, 2004	October 31, 2003
	(In thousands)	
“Bank Agreement” Revolver	\$ 220,000	\$ 10,000
Industrial Revenue and Economic Development Bonds, unsecured, principle due in the years 2005 and 2010, bearing interest ranging from 6.50% to 8.375%	1,665	1,665
State of Alabama Industrial Development Bonds	3,293	3,450
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,200	2,200
Temroc Industrial Development Revenue Bonds	2,178	2,228
Other	293	227
	\$ 229,629	\$ 19,770
Less maturities due within one year included in current liabilities	3,727	3,877
	\$ 225,902	\$ 15,893

8

Bank Agreement

In November 2002, the Company entered into a secured \$200 million Revolving Credit Agreement (“Bank Agreement”). The Bank Agreement is secured by all Company assets, excluding land and buildings. The Bank Agreement expires November 2005 and provides up to \$25 million for standby letters

of credit, limited to the undrawn amount available under the Bank Agreement. All borrowings under the Bank Agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate.

On December 19, 2003, the Company executed an agreement with the banks to increase the Bank Agreement revolver from \$200 million to \$310 million to provide funds necessary for the TruSeal and MACSTEEL Monroe acquisitions, as detailed in Note 4.

The Bank Agreement requires maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of January 31, 2004, the Company was in compliance with all current Bank Agreement covenants.

10. Industry Segment Information

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment is comprised of MACSTEEL, Piper Impact and Temroc. The Building Products segment is comprised of Nichols Aluminum and the Engineered Products division. Below is a presentation of segment disclosure information:

	Three Months Ended	
	January 31,	
	2004	2003
	(In thousands)	
Net Sales		
Vehicular Products(1)	\$ 140,979	\$ 108,932
Building Products(2)	140,177	120,577
Consolidated	\$ 281,156	\$ 229,509
Operating Income (Loss)		
Vehicular Products(1)	\$ 8,680	\$ 9,887
Building Products(2)	5,511	4,167
Corporate & Other(3)	(3,505)	(3,939)
Consolidated	\$ 10,686	\$ 10,115

9

	January 31,	October 31,
	2004	2003
	(In thousands)	
Identifiable Assets		
Vehicular Products(1)	\$ 491,749	\$ 350,767
Building Products(2)	407,641	278,629
Corporate & Other(3)	24,396	36,467
Consolidated	\$ 923,786	\$ 665,863
Goodwill		
Vehicular Products	\$ 13,496	\$ 13,496
Building Products(2)	124,234	52,940
Consolidated	\$ 137,730	\$ 66,436

(1) Fiscal 2004 includes MACSTEEL Monroe operations acquired January 1, 2004.

(2) Fiscal 2004 includes TruSeal operations acquired December 31, 2003.

(3) Included in "Corporate & Other" are inter-segment eliminations, consolidated LIFO inventory adjustments, corporate expenses and assets.

11. Treasury Stock and Stock Option Exercises

On December 5, 2002, the Board of Directors approved a program to purchase up to a total of one million shares of the Company's common stock in the open market or in privately negotiated transactions. At October 31, 2003 there were 294,803 shares in treasury stock with a remaining carrying value of approximately \$9.2 million. During the three months ended January 31, 2004, the Company issued out of treasury stock 214,175 shares for the exercise of options and 30,736 shares to cover deferrals under the Company's deferred compensation plan and restricted stock issuances. There are currently 49,892 shares in treasury stock with a remaining carrying value of approximately \$1.6 million.

The Company has various restricted stock and stock option plans for key employees and directors as described in its Annual Report on Form 10-K for the fiscal year ended October 31, 2003. Below is a table summarizing the stock option activity in all plans since October 31, 2003.

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 2003	602,535	982,630	\$ 26
Granted		194,600	40
Exercised		(220,963)	23
Cancelled / Lapsed		—	—
Balance at January 31, 2004	455,053	956,267	\$ 29

10

12. Financial Instruments and Risk Management

The Company's aluminum mill sheet products group, Nichols Aluminum, uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials 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, net of fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect 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 margins. 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.

During the quarter ended January 31, 2004, Nichols Aluminum primarily used firm price raw material purchase commitments instead of LME forward contracts to lock in raw material prices. At January 31, 2004, the Company had open LME forward contracts covering notional amounts of 496 thousand pounds. These LME contracts were not designated as hedges and as such, all gains and losses are recorded in the income statement and therefore no asset or liability associated with metal exchange derivatives has been recognized. Related to these open LME contracts, a loss of \$3 thousand was recognized in cost of sales for the three months ended January 31, 2004.

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 January 31, 2004, net losses of approximately \$3 thousand (\$2 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 three months ended January 31, 2004, nothing was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness.

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 then existing bank agreement revolver to a fixed rate. The Company's risk management policy related to these swap agreements was 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.

With the execution of the Bank Agreement in November 2002, the interest rate swaps no longer qualified as a hedge. As a result, the Company discontinued hedge accounting under SFAS 133 on the

swaps after the effective date of the Bank Agreement and reclassified the related portion of other comprehensive income to interest expense in the fiscal quarter ended October 31, 2002.

The interest rate swap agreements were effective until July 29, 2003 and the final interest settlement payment was made at that time. During the period from October 31, 2003 to January 31, 2004, there were no open swap agreement contracts and therefore no asset or liability reflected on the balance sheet.

13. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book versus tax differences and tax credits. It also includes the effect of any valuation allowance expected to be necessary at the end of the year. The Company's estimated annual effective tax rate increased to 37% from 36% for the prior year period due to an increase in state tax expense.

14. 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 all applicable 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 January 31, 2004, were approximately \$16.7 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 the Company's 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. Because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities, 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.

As reported in the annual report for the year ended October 31, 2003, the Company currently has a case in Tax Court regarding the disallowance of a capital loss realized in 1997. The Company believes the ultimate resolution of this matter will not have a material impact on its financial position or results of operations.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Although the ultimate resolution and impact of such litigation on the Company is not presently determinable, the Company's management believes that the

eventual outcome of such litigation will not have a material adverse effect on the overall financial condition or results of operations of the Company.

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

General

The discussion and analysis of Quanex Corporation and its subsidiaries' (the "Company's") financial condition and results of operations should be read in conjunction with the January 31, 2004 and October 31, 2003 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, availability of steel and aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular, home building and remodeling markets, any material changes in purchases by the Company's principal customers, labor supply and relations, 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 and acquisition strategies, successful integration of recent acquisitions, 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.

Consolidated Results of Operations

Summary Information

	Three Months Ended January 31,			
	2004		2003	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales
	(Dollars in millions)			
Net sales	\$ 281.2	100%	\$ 229.5	100%
Cost of sales	245.1	87	194.5	85
Selling, general and administrative	13.1	5	12.9	6
Depreciation and amortization	12.7	4	12.0	5
Gain on sale of land	(0.4)	—	—	—
Operating income	10.7	4	10.1	4%
Interest expense	(0.8)	—	(1.0)	—
Other, net	0.3	—	1.5	1
Income tax expense	(3.8)	(2)	(3.8)	(2)
Net income	\$ 6.4	2%	\$ 6.8	3%

Overview

Net sales for the quarter were \$281.2 million, which represents an increase of \$51.7 million or 22.5% when compared to the same period last year. Net sales included one month's results of \$27.4 million from the Company's acquisitions of TruSeal and MACSTEEL Monroe. Excluding the impact of the acquisitions, net sales improved 10.6% primarily related to increased volume and to a lesser extent increased average prices. Demand remained at high levels during the quarter with strong backlogs across all businesses that are measurably higher than the same time a year ago. Net income was \$6.4 million, down 5.9% compared to last year's record first quarter. The decline is a direct result of the escalating raw material costs within both business segments. The increase in steel scrap prices are being driven primarily by a global rebound in manufacturing and demand for steel in addition to increased demand from China and other consumers for scrap metal. The increases in sales volume and average prices were not sufficient to offset the higher raw material prices.

Diluted earnings per share were \$0.39, with TruSeal and MACSTEEL Monroe combining to contribute approximately \$0.05 (net of interest expense) of the diluted earnings per share.

Business Segments

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment is comprised of MACSTEEL, Piper Impact and Temroc. The Vehicular segment's main market drivers are North American light vehicle builds and to a lesser extent, heavy-duty truck builds. The Building Products segment is comprised of Nichols Aluminum and the Engineered Products division. The main market drivers of this segment are residential housing starts and remodeling expenditures.

2004 First Quarter Compared to 2003 First Quarter

Vehicular Products

Vehicular Products: (1)	Three Months Ended January 31,	
	2004	2003
	(In millions)	
Net sales	\$ 141.0	\$ 108.9
Cost of sales	119.9	87.4
Selling, general and administrative	4.3	4.0
Depreciation and amortization	8.1	7.6
Operating income	\$ 8.7	\$ 9.9
Operating income margin	6.2%	9.1%
Identifiable assets	\$ 491.8	\$ 357.4

(1) Fiscal 2004 includes MACSTEEL Monroe operations acquired January 1, 2004.

North American light vehicle sales, a primary market driver for the Vehicular Products segment, increased roughly 2% when comparing the first quarter of 2004 to the first quarter of 2003. Related data indicates North American light vehicle production was flat to last year while heavy-duty truck builds posted gains of roughly 25% versus the same period from a year ago. MACSTEEL shipments increased nearly 10% excluding the impact of one month of shipments from MACSTEEL Monroe. MACSTEEL's strongest market presence is with the "Big 3" automakers and their production continued to trend lower quarter-to-quarter. MACSTEEL continues to work toward growing share with the New American Manufacturers ("NAMs") on domestic part sourcing. The addition of MACSTEEL Monroe and this facility's expertise in the .5625" to 3.25" steel bar size range will expand MACSTEEL's customer base and product offering. MACSTEEL is in a solid position with the backlog up 55.7% on a volume basis compared to a year ago.

Net sales from the Company's Vehicular Products segment for the three-month period ended January 31, 2004 were \$141.0 million, representing an increase of \$32.1 million or 29.5% when compared to the same period last year. Excluding the impact of one month of revenues from MACSTEEL Monroe, net sales were higher than the first quarter of 2003 by 10.8%. The increase in net sales was primarily a result of the 8.2% increase in volume at MACSTEEL, excluding MACSTEEL Monroe. Average prices also increased due to growth of the value added MACPLUS products as well as overall price increases from higher steel scrap surcharges that became effective on January 1, 2004. Piper Impact continued to experience a decline in sales volumes from airbag components and ordnance, which was partially offset by price increases implemented during the first quarter of 2004.

Cost of sales from the Company's Vehicular Products segment for the three-month period ended January 31, 2004 was \$119.9 million, representing an increase of \$32.5 million or 37.2% when compared to the same period last year. The increase is attributable to one month's costs from MACSTEEL Monroe and an increase in material scrap prices, coupled with an overall increase in volume. Material scrap prices, primarily steel, escalated during the quarter with the average price up approximately \$65 per ton compared to the first quarter of 2003. Material scrap prices have significantly increased over the past year as a result of an exponential growth in scrap exports due in most part to the large amount of demand by China and other consumers. Outside of the favorable volume growth the segment has experienced, scrap prices have had the largest impact on increasing the cost of sales.

Selling, general and administrative expenses for the Company's Vehicular Products segment in the three month period ended January 31, 2004 were \$4.3 million, representing an increase of \$0.3 million or 7.5% when compared to the same period last year. Excluding the impact from MACSTEEL Monroe, selling, general and administrative expenses were reduced from last year by 2.4%. The general trend across all of the businesses was a decline when compared to the same period last year, with the largest percentage decline at Piper Impact as a result of a gradual reduction of expenses throughout 2003, consistent with efforts at reshaping the business organization.

Depreciation and amortization expense from the Company's Vehicular Products segment increased \$0.5 million compared to the same period last year. Most of the increase is directly related to one month of depreciation expense associated with the assets of MACSTEEL Monroe included in the results as of the date of acquisition.

Operating income from the Company's Vehicular Products segment for the three-month period ended January 31, 2004 was \$8.7 million, representing a decrease of \$1.2 million or 12.1% when compared to the same period last year. Operating income was lower than the first quarter of 2003 due primarily to the impact from escalating material scrap prices, which were only partially offset by one month's results from MACSTEEL Monroe, increased volume, higher average prices, improved product mix, process improvements, reduced fixed costs and scrap surcharges. All of the businesses continue to look for ways to reduce costs and improve operating income through increased lean initiatives.

Building Products

Building Products: (1)	Three Months Ended	
	January 31,	
	2004	2003
	(In millions)	
Net sales	\$ 140.2	\$ 120.6
Cost of sales	124.5	106.2
Selling, general and administrative	5.6	5.9
Depreciation and amortization	4.6	4.3
Operating income	\$ 5.5	\$ 4.2
Operating income margin	3.9%	3.5%
Identifiable assets	\$ 407.6	\$ 284.5

(1) Fiscal 2004 includes TruSeal operations acquired December 31, 2003.

The first fiscal quarter historically is the slowest quarter for both Nichols Aluminum and the Engineered Products division and while inclement weather slowed business somewhat, the momentum in construction activity from 2003 carried over into 2004. Nichols Aluminum experienced a strong first quarter in terms of volume demand, which was higher than the first quarter of 2003. This was offset by a decline in margin as costs significantly increased from a year ago due to rising open market and London Metal Exchange (LME) prices for aluminum scrap and ingot. The Engineered Products division produce record operating income for a first quarter, excluding the favorable impact of the TruSeal acquisition. In general, business within the Engineered Products division was flat to slightly higher compared to the same time last year, but as a result of continued cost improvement the operating margin increased \$0.2 million from the same period last year. Management believes the acquisition of TruSeal to be an excellent compliment to the current product offerings and will allow the Engineered Products

16

division to expand its catalog of high quality products. TruSeal's operations were included in the results beginning on January 1, 2004.

Net sales from the Company's Building Products segment for the three-month period ended January 31, 2004 were \$140.2 million, representing an increase of \$19.6 million or 16.3% when compared to the same period last year. Excluding the impact of one month of revenues from TruSeal, net sales were higher than the first quarter of 2003 by 10.3%. The increase in net sales was primarily a result of the increased volume at Nichols Aluminum and a slight increase at the Engineered Products division. Average prices within Nichols remained the same. Price increases have been announced for the second quarter at Nichols to offset rising raw material prices.

Cost of sales from the Company's Building Products segment for the three-month period ended January 31, 2004 was \$124.5 million, representing an increase of \$18.3 million or 17.2% when compared to the same period last year. The increase is attributable to one month's costs from TruSeal and an increase in material scrap prices coupled with an overall increase in volume. Raw material prices, primarily aluminum, escalated during the quarter compared to the first quarter of 2003. Similar to the Vehicular Products segment, the favorable volume growth this segment has experienced has not been able to offset the escalating raw material prices, which continue to have the largest impact on cost of sales.

Selling, general and administrative expenses for the Company's Building Products segment in the three month period ended January 31, 2004 were \$5.6 million, representing a reduction of \$0.3 million or 5.1% when compared to the same period last year. Excluding the impact from TruSeal, selling, general and administrative expenses actually declined from last year's first quarter by 21.4%. Nichols Aluminum experienced reduced selling, general and administrative expenses due to the transfer of some personnel from overhead into operations, thereby moving the corresponding expense to cost of sales. The Building Products segment also realized lower expenses due to continued process improvements and overall cost controls.

Depreciation and amortization expense from the Company's Building Products segment increased \$0.3 million compared to the same period last year. Most of the increase is directly related to one month of depreciation and amortization expense associated with the assets of TruSeal included in the results as of the date of acquisition.

Operating income from the Company's Building Products segment for the three-month period ended January 31, 2004 was \$5.5 million, representing an increase of \$1.3 million or 31.0% when compared to the same period last year. Operating income was higher than the first quarter of 2003 due to one month's results from TruSeal, increased volume, higher average prices, improved product mix, process improvements and reduced fixed costs, all of which more than offset the impact from the higher raw material prices. Similar to the Vehicular Products segment, all of the businesses remain focused on improving all processes to remain competitive in an increasingly global economy.

Corporate and Other

Corporate level operating expenses, which are not included in the two operating segments mentioned above, were \$3.5 million for the three months ended January 31, 2004, which represents a \$0.4 million or 11.0% reduction from the same prior year period. Included in corporate and other are the consolidated LIFO inventory adjustments, corporate office expenses and inter-segment eliminations. Also included in the first quarter of 2004 was a gain of \$0.5 million on the sale of vacant property that has been held for sale for several years.

17

Interest expense for the three months ended January 31, 2004 was \$0.8 million compared to \$1.0 million from the same period a year ago. The reduction in interest expense primarily relates to the interest rate swap agreements that expired on July 29, 2003. There was no impact from interest rate swaps in the first quarter of 2004 compared to \$0.3 million of interest rate swap interest expense in the same period last year. Interest expense on borrowings increased \$0.1 in the three months ending January 31, 2004 compared to the same period of last year due to an increase in the average debt outstanding for the comparative quarters. The \$220 million of borrowings against the revolver outstanding at the end of the first quarter of 2004 were used to finance the

acquisitions of TruSeal and MACSTEEL Monroe on January 1, 2004. Had the \$220 million of revolver debt been outstanding during the entire first quarter of 2004, interest expense would have been higher by an estimated \$0.9 million.

“Other, net” (on the income statement) for the three months ended January 31, 2004 was \$0.3 million of income compared to \$1.5 million of income from the same period a year ago. Reductions to both the annual adjustment and the quarterly accrual of the cash surrender values of Company held life insurance policies resulted in \$0.6 million of reduced income. The remaining decrease was primarily a result of the mark to market impact of the Company’s stock held in the deferred compensation plan.

Outlook

Demand in the Company’s two target markets, vehicular products and building products, continues to be bolstered by a rebounding economy and favorable interest rates. Business conditions and the economy are expected to continue to gain strength throughout 2004.

In Quanex’s Vehicular Products segment, business activity looks promising going forward; however, the tightening of available scrap supplies and the related unprecedented sharp spikes in scrap prices remain an ongoing concern at MACSTEEL. The January and February 2004 cost increases have been particularly painful because of their sheer magnitude, and are well in excess of our current scrap surcharge, which is based on a three month trailing index. This situation will result in a temporary, yet significant reduction in margins at MACSTEEL in the second quarter, if not longer.

In the Building Products segment, order activity remains strong, and while weather sensitive, the Company expects better second quarter results compared to a year ago. At Nichols Aluminum, both rising London Metal Exchange (LME) aluminum ingot prices and scrap prices remain an issue, however, sales prices have also increased, mitigating part of an expected second quarter margin squeeze. Housing starts for 2004 are expected to moderate only slightly from last year’s record 1.85 million units. Building Products’ other driver, remodeling expenditures, is also expected to remain at high levels.

The overall sales outlook remains positive. However, uncertainties surrounding the cost of steel and aluminum scrap in the second quarter and their eventual recovery complicates the Company’s ability to accurately forecast its earnings for both the second quarter and the year. At this time, Quanex expects its fiscal second quarter 2004 diluted earnings per share to be down significantly from the year ago period.

Liquidity and Capital Resources

Sources of Funds

The Company’s principal sources of funds are cash on hand, cash flow from operations, and borrowings under its secured \$310 million Revolving Credit Agreement (“Bank Agreement”). On December 19, 2003, the Company executed an agreement with our credit facility banks to increase the Bank Agreement revolver from \$200 million to \$310 million to provide funds necessary for the TruSeal and MACSTEEL Monroe acquisitions. At January 31, 2004, the Company had \$220 million borrowed under the Bank Agreement. This represents a \$210 million increase from October 31, 2003 borrowing levels, resulting from the TruSeal and MACSTEEL Monroe acquisitions, completed during the first quarter of 2004.

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

The Company’s working capital was \$125.8 million at January 31, 2004 compared to \$92.8 million at October 31, 2003. The change in working capital was largely a result of the \$43.5 million of working capital added as a result of the TruSeal and MACSTEEL Monroe acquisitions that were completed during the quarter. The cash balance decreased \$11.9 million and inventories increased \$6.4 million due to a mix of higher raw material prices and a lower level of inventory volumes. Also included in the working capital change were increases in accounts receivable, other current assets, accounts payable and accrued liabilities.

Operating Activities

Cash provided by operating activities during the three months ended January 31, 2004 was \$10.9 million compared to \$12.0 million for the same three-month period of 2003. This decrease is largely due to the slightly lower net income compared to the same prior year period and various changes in working capital as discussed above.

Investment Activities

Net cash used for investment activities during the three months ended January 31, 2004 was \$236.0 million compared to \$9.7 million for the same period of 2003. Investment activities for the three months ended January 31, 2004 included the acquisition and related costs for TruSeal of \$114.2 million, net of cash acquired, and the MACSTEEL Monroe assets for \$117.7 million. Also included in the first quarter of 2004 were proceeds of \$0.6 million from the sale of property. There were no comparable property sales in the same period of 2003. Additionally, capital expenditures decreased to \$4.2 million in the three months ended January 31, 2004 from \$8.5 million in the same period of the previous year. This decline was primarily due to reduced spending at Nichols Aluminum of \$3.6. The Company estimates that fiscal 2004 capital expenditures will be approximately \$32 million. At January 31, 2004, the Company had commitments of approximately \$5 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations.

Financing Activities

Net cash provided by financing activities for the three months ended January 31, 2004 was \$213.2 million compared to a use of \$15.2 million during the same prior year period. The Company made net borrowings of \$210.0 million on the bank revolver in the three months ended January 31, 2004,

compared to repaying \$5.0 million during the same three months of fiscal 2003. No shares of the Company's common stock were purchased in the three months ended January 31, 2004 compared to the payment of \$6.7 million to repurchase shares of the Company's common stock in the same period last year. Additionally, Quanex received \$6.7 million in the three months ended January 31, 2004 for the issuance of common stock related to the exercise of options, versus \$0.8 million in the same quarter last year.

On February 26, 2003, the Board of Directors of the Company authorized an annual dividend increase of \$.04 per common share outstanding, increasing the annual dividend from \$.64 to \$.68, or \$.01 per quarter. This increase was effective with the Company's 2003 first quarter.

Critical Accounting Policies

The preparation of financial statements included in this Quarterly Report on Form 10-Q requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting policies used in the preparation of the Company's consolidated financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Inherent in the Company's revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

Inventory

The Company records inventory valued at the lower of cost or market value. The method used to determine the cost of inventories varies among the Company's operations. MACSTEEL (excluding Monroe), Temroc, Nichols Aluminum (excluding Nichols Aluminum Golden), AMSCO and HOMESHIELD determine cost using the last-in, first-out (LIFO) valuation methodology. The remainder of the operations determine cost using the first-in, first-out (FIFO) valuation methodology. Under the LIFO methodology for determining inventory cost, management projections are made during the year (on a fiscal quarter end basis) of inventory prices at the end of that fiscal year. Those projections and

estimates are used to review the LIFO reserve balance and determine whether it is adequate or should be adjusted quarterly. To the extent management's judgments are estimates, the actual results at the end of the fiscal year can and do vary from those estimates. The LIFO reserve is then adjusted at the end of the fiscal year based on the actual pricing levels at that time.

Additionally, inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

Risk Management and Derivative Instruments

The Company's current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include the use of commodity futures and options to fix the price of a portion of anticipated future purchases of certain raw materials, including aluminum scrap, and energy to offset the effect of fluctuations in the costs of those commodities. The Company accounts for these derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". Some of these derivative instruments qualify for the normal purchase and sale exemption. Some derivatives have not been designated as "hedges". For those derivatives, the gains and losses are realized and recorded in the statement of income as they occur. Some hedges have been designated as cash flow hedges. For those cash flow hedges, the effective portion of gains and losses is recorded in the accumulated other comprehensive income (loss) component of stockholders' equity. The Company evaluates cash flow hedges each quarter to determine if they are highly effective. Any ineffectiveness is recorded in the statement of income. If the anticipated future transactions are no longer expected to occur, the unrealized gains and losses on the related hedge are reclassified to the consolidated statement of income. (See Note 12 to the financial statements for further explanation.)

Long-Lived Assets

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, and other assets, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are periodically reviewed for impairment and further reviewed whenever events or changes in circumstances indicate that carrying value may be impaired. The carrying values are compared with the fair value of such assets calculated based on the anticipated future cash flows related to those assets. If the carrying value of a long-lived asset exceeds its fair value, an impairment charge is recorded in the period in which such review is performed. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Significant changes to assumptions could require a provision for impairment in a future period.

Income Taxes

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's consolidated balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax

liability reflects the Company's assumption that the Company will be able to generate sufficient future taxable income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its

deferred tax assets. This could result in additional income tax expense in a future period in the consolidated statement of income.

Retirement and Pension Plans

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

New Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act provides a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare. In January 2004, the Financial Accounting Standards Board ("FASB") FASB Staff Position ("FSP") No. FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, requires that presently enacted changes in the law that affect the future level of healthcare benefit plan coverage should be considered in the current period measurements of postretirement net periodic benefit cost and accumulated postretirement benefit obligation. As permitted, by FSP FAS 106-1, the Company has elected to defer reflecting the effect of the Act on postretirement net periodic benefit cost and the accumulated postretirement benefit obligation, in the financial statements, due to the fact that specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company is currently evaluating the effect of this Act on its postretirement benefits expense.

In December 2003, the FASB issued the revised SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS 132). The revised SFAS 132 retains the disclosures required by the original issuance of SFAS 132 and requires additional annual disclosures describing the types of plan assets, investment strategy, measurement date, plan obligations and cash flows. The Company will include the revised SFAS 132 annual disclosures in its Annual Report on Form 10-K for the fiscal year ending October 31, 2004. The revised SFAS 132 also requires additional interim period disclosures, including the components of net periodic benefit cost and changes in planned contributions. The Company is required to include the interim period disclosures of the revised SFAS 132 beginning in the second quarter of 2004.

In December 2003, the FASB issued FASB Interpretation ("FIN") No. 46(R) Consolidation of Variable Interest Entities. FIN 46(R) replaces FIN 46 and addresses consolidation by business enterprises of variable interest entities. The provisions of FIN 46(R) are effective for the first reporting period that ends after December 15, 2003 for variable interests in those entities commonly referred to as special-purpose entities. Application of the provisions of FIN 46(R) for all other entities is effective for the first reporting period ending after March 15, 2004. The Company has no interest in any entity considered a special purpose entity; therefore, the initial adoption of FIN 46(R) did not have an impact on the Company. The Company anticipates the adoption of the provisions of FIN 46(R) in the second quarter of 2004 will not have a material impact on the Company's financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

The Company and its subsidiaries have a Bank Agreement and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates. The Company and certain of its subsidiaries' floating-rate obligations total \$225.5 million at January 31, 2004. Since the expiration of its swap agreements on July 29, 2003, the Company has not entered into any other interest swap agreements and as such is subject to the variability of interest rates on its variable rate debt.

At January 31, 2004, the Company had fixed-rate debt totaling \$4.2 million, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. The aggregate availability under the Bank Agreement was \$79.2 million at January 31, 2004, which is net of \$10.8 million of outstanding letters of credit. Based on the outstanding balance of the Bank Agreement of \$220 million at January 31, 2004, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately \$2.2 million on an annualized basis.

Commodity Price Risk

MACSTEEL has an effective scrap surcharge program in place, which is a practice that is well established within the engineered steel bar industry. The scrap surcharge is based on a three month trailing average of #1 bundle scrap prices. The Company's long-term exposure is significantly reduced because of the surcharge program. Over time, MACSTEEL recovers the majority of its scrap cost increases, though there is a level of exposure to short-term volatility because of the three month lag.

The Company's aluminum mill sheet products business, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as raw materials 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 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, net of fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect 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 margins. 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.

During the quarter ended January 31, 2004, Nichols Aluminum primarily used firm price raw material purchase commitments instead of LME forward contracts to lock in raw material prices. At January 31, 2004, the Company had open LME forward contracts covering notional amounts of 496 thousand pounds. These LME contracts were not designated as hedges and as such, all gains and losses are recorded in the income statement and therefore no asset or liability associated with metal exchange derivatives has been recognized. Related to these open LME contracts, a loss of \$3 thousand was recognized in cost of sales for the three months ended January 31, 2004.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Quanex management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II. OTHER INFORMATION

Item 5. Other Information

Not applicable.

Item 6. Results of Votes of Security Holders

The registrant held its Annual Meeting of Shareholders on February 26, 2004. Proxies for the meeting were solicited and there was no solicitation in opposition to management's nominees for directors as listed in the Proxy Statement, and all such nominees (Vincent R. Scorsone, Joseph J. Ross and Richard L. Wellek) were elected. Of the 15,215,745 shares voted, at least 14,800,275 shares granted authority to vote for these directors and no more than 415,470 shares withheld such authority.

The ratification of the Quanex Employee Stock Purchase Plan was approved by shareholders with 12,352,737 shares voted for ratification, 1,226,413 shares voted against ratification, 460,480 shares abstained and broker non-votes of 1,176,115 shares.

Item 7. Exhibits and Reports on Form 8-K.

a) 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 Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2002. Certain schedules and exhibits to this Revolving Credit Agreement were not filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
- 4.4 First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated January 31, 2003.
- 4.5 Consent and First Amendment to Revolving Credit Agreement dated December 19, 2003, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2003. Certain schedules and exhibits to this Consent and First Amendment to Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
- * 4.6 Waiver and Second Amendment to Revolving Credit Agreement dated March 11, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks.
- * 10.1 Quanex Corporation Employee Stock Purchase Plan as amended and restated as of February 26, 2004.
- * 10.2 Quanex Corporation Supplemental Benefit Plan (as amended and restated effective January 1, 2004).
- * 10.3 Third [sic] Amendment to the Quanex Corporation Hourly Bargaining Unit Savings Plan (effective January 1, 2004).
- * 10.4 First [sic] Amendment to the Quanex Corporation Employee Savings Plan (effective January 1, 2004).

25

-
- * 10.5 Second Amendment to the Quanex Corporation 401(k) Savings Plan (effective June 2, 2003).
- * 10.6 First [sic] Amendment to the Piper Impact 401(k) Savings Plan (September 15, 2003).
- * 10.7 Quanex Corporation Long-Term Incentive Plan (as amended and restated effective December 1, 2003).
- * 14.1 Quanex Corporation Code of Business Conduct & Ethics for Senior Financial Executives.
- * 31.1 Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
- * 31.2 Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
- * 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q 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 Registrants 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

On November 24, 2003, the Company filed a Current Report on form 8-K, which included a press release announcing definitive agreement to purchase the stock of TruSeal Technologies, Inc.

On December 4, 2003, the Company filed a Current Report on form 8-K, which included a press release reporting the earning results for the fourth quarter and fiscal year ended October 31, 2003.

On December 31, 2003, the Company filed a Current Report on form 8-K, which included a press release announcing the completion of the acquisition of TruSeal Technologies, Inc.

On January 1, 2004, the Company filed a Current Report on form 8-K, which included a press release announcing the completion of the North Star Steel – Monroe acquisition.

On January 28, 2004, the Company filed a Current Report on form 8-K, which included a press release issuing guidance for the first quarter of fiscal year 2004.

26

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

Date: March 11, 2004

/s/ Terry M. Murphy
Terry M. Murphy
Vice President – Finance and Chief Financial Officer
(Principal Financial Officer)

Date: March 11, 2004

/s/ Ricardo Arredondo
Ricardo Arredondo
Vice President – Corporate Controller
(Principal Accounting Officer)

WAIVER AND SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT

This Waiver and Second Amendment to Revolving Credit Agreement (this "Second Amendment") is made as of this 11th day of March, 2004 by and among Quanex Corporation, a Delaware corporation (the "Company"), Comerica Bank and the other banks signatory hereto and Comerica Bank, as agent for the Banks (in such capacity, "Agent").

RECITALS

A. Company, Agent and the Banks entered into that certain Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002, as amended by that certain Consent and First Amendment to Revolving Credit Agreement dated as of December 19, 2003 (as amended, the "Credit Agreement") under which the Banks extended (or committed to extend) credit to the Company, as set forth therein.

B. Company has requested that Agent and the Banks amend Section 7.7(j) of the Credit Agreement as specified below, and Agent and the Banks are willing to do so, but only on the terms and conditions set forth in this Second Amendment.

NOW, THEREFORE, Company, Agent and Banks agree:

1. Section 7.7(j) of the Credit Agreement is hereby amended to delete "\$100,000" and insert "\$500,000" in its place.

2. Section 7.7(k) of the Credit Agreement is hereby deleted and the following is inserted in its place:

"(k) other types or categories of Investments not described above in an amount not to exceed \$10,000,000 over the term of this Agreement, provided that at the time of any such Investment, no Default or Event of Default has occurred and is continuing."

3. The undersigned Banks hereby consent and agree that if the Company and its Subsidiaries are not currently or have not been in compliance with Section 7.7(j) of the Credit Agreement, any Event of Default arising from such noncompliance is hereby waived.

4. This Second Amendment shall become effective according to the terms hereof and as of such date (the "Second Amendment Effective Date") that the Agent shall have received counterpart originals of this Second Amendment, in each case duly executed and delivered by Company and the requisite Banks, in form satisfactory to Agent and the Banks and counterpart originals of a Reaffirmation of Guaranty, duly executed and delivered by the Guarantors, in form satisfactory to Agent and Banks, provided that, if the Second Amendment Effective Date shall not have occurred on or before March 30, 2004, this Second Amendment shall not become effective and the offer by the Agent and the Banks to amend the Credit Agreement on the terms set forth herein shall be deemed withdrawn.

5. The Company for itself and each of the Guarantors hereby represents and warrants that, after giving effect to the amendments contained herein, (a) execution and delivery of this Second Amendment and the other Loan Documents required to be delivered hereunder, and the performance by the Company of its obligations under the Credit Agreement as amended hereby are within such undersigned's corporate powers, have been duly authorized, are not in contravention of law or the terms of its articles of incorporation, bylaws or any other organizational documents of the parties thereto, as applicable, and except as have been previously obtained, do not require the consent or approval, material to the amendment contemplated in this Second Amendment or Credit Agreement, as amended, of any governmental body, agency or authority, and this Second Amendment, the Credit Agreement, as amended, and the other Loan Documents required to be delivered hereunder, will constitute the valid and binding obligations of such undersigned parties, enforceable in accordance with its terms, except as enforcement thereof may be limited by applicable bankruptcy, reorganization, insolvency, moratorium, ERISA or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (whether enforcement is sought in a proceeding in equity or at law), (b) the representations and warranties contained in Section 5 of the Credit Agreement, as amended are true and correct on and as of the date hereof, except to the extent such representations and warranties speak only as of certain date, and (c) no Default or Event of Default (other than as waived hereby) has occurred and is continuing as of the Second Amendment Effective Date.

6. Except as specifically set forth above, this Second Amendment shall not be deemed to amend or alter in any respect the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the Loan Documents, or to constitute a waiver by the Banks or Agent of any right or remedy under or a consent to any transaction not meeting the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents.

7. Unless otherwise defined to the contrary herein, all capitalized terms used in this Second Amendment shall have the meaning set forth in the Credit Agreement, as amended.

8. This Second Amendment shall be construed in accordance with and governed by the laws of the State of Michigan.

9. Any references in the Loan Documents to the Credit Agreement shall be deemed a reference to the Credit Agreement as amended by this Second Amendment.

10. This Second Amendment may be executed in several counterparts, and each executed copy shall constitute an original instrument, but such counterparts shall together constitute but one and the same instrument.

[signatures follow on succeeding pages]

WITNESS the due execution hereof as of the day and year first above written.

COMERICA BANK,
as Agent

By: _____

Its: _____

SWING LINE BANK AND
ISSUING BANK:

BANKS:

QUANEX CORPORATION

By: _____

Its: _____

COMERICA BANK

By: _____

Its: _____

COMERICA BANK

By: _____

Its: _____

HARRIS TRUST & SAVINGS BANK

By: _____

Its: _____

U.S. BANK NATIONAL ASSOCIATION

By: _____

Its: _____

BANK OF AMERICA, N.A.

By: _____

Its: _____

WELLS FARGO BANK TEXAS, N.A.

By: _____

Its: _____

BNP PARIBAS

By: _____

Its: _____

UNION BANK OF CALIFORNIA, N.A.

By: _____

Its: _____

THE NORTHERN TRUST COMPANY

By: _____

Its: _____

4

SOUTHWEST BANK OF TEXAS, N.A.

By: _____

Its: _____

CREDIT LYONNAIS

By: _____

Its: _____

GUARANTY BANK

By: _____

Its: _____

5

QUANEX CORPORATION
EMPLOYEE STOCK PURCHASE PLAN
(Amended And Restated Effective February 26, 2004)

1. The Quanex Corporation Employee Stock Purchase Plan (the "*Plan*") which is to be administered by any transfer agent Quanex Corporation ("*Quanex*") may appoint ("*Bank*") is set out in this document.
2. To participate in the Plan, an individual:
 - A. Must be a regular full-time employee of Quanex or any of its subsidiaries;
 - B. Must submit a Payroll Withholding Authorization ("*Withholding Authorization*") to the local Human Resources Department on or before the first day of the month in which the individual wishes to participate, authorizing Quanex to make the payroll deductions specified by the employee, subject to any minimum deduction set by Quanex; and
 - C. Must submit to the Bank (through the local Human Resources Department) an Investment Authorization Card ("*Investment Authorization*"), authorizing the Bank to act as agent for the employee for purposes set out in Section 3.
3. The Bank will establish an account under the Plan (an "*Account*") as agent for each individual who fulfills the conditions in Section 2 (a "*Participant*") and will credit the following sources of cash to the Account for the purchase of full and fractional shares of Quanex Common Stock ("*Plan Shares*") for each Participant's Account:
 - A. Employee payroll deductions received from Quanex;
 - B. An amount from Quanex equal to 15 percent of each Participant's payroll deductions made on or after January 1, 1995 ("*Quanex Contribution*");
 - C. Cash dividends received from Quanex on all Plan Shares in a Participant's Account at the time a dividend is paid; and
 - D. Cash resulting from the sale of any Rights accruing to Plan Shares in the Participant's Account under Section 11.

The minimum contribution that an employee may make to his account is \$10.00 per pay period. Notwithstanding any other provision of the Plan to the contrary, no employee payroll deductions described in Section 3.A. above or Quanex Contributions described in Section 3.B. above shall be made on or after the First Day of the Final Plan Month (as that term is defined in Section 23).

4. The Bank will apply the cash credited to the Participant's Account under Section 3 to the purchase of full and fractional Plan Shares and will credit them to the Participant's Account. In making these purchases the Bank may commingle the cash credited to all Participant's Accounts. The price at which the Bank is deemed to have acquired Plan Shares for a Participant's Account

will be the average price, excluding brokerage and other costs of purchase, of all Plan Shares purchased by the Bank for all Participants in the Plan during the calendar month.

5. Participants may elect to add to their Account any shares of Quanex Common Stock credited to their account under any plan that is similar to the Plan, whether offered to Quanex employees before or after the creation of the Plan. All shares will be held in the name of the Bank or its nominee as Plan Shares subject to the terms and conditions of the Plan.
6. The Bank will make reasonable efforts to apply the cash described in Section 3 that it receives as agent for the Participant to the purchase of Plan Shares on or promptly after the first day of the following month after receipt by the Bank, except as described in this Section 6 and in Section 7. Dividends received on Plan Shares and other amounts of cash credited to the Account will be aggregated with the employee payroll deductions received and amounts contributed by Quanex received during the calendar month and applied to the purchase of Plan Shares. Notwithstanding any other provision of the Plan to the contrary, the Bank shall not use any funds from a Participant's payroll deductions described in Section 3.A. above or Quanex Contributions described in Section 3.B. above to purchase Plan Shares under the Plan on or after the Ten Year Limit Date (as that term is defined in Section 23). If any such funds remain credited to a Participant's Account on the Ten Year Limit Date for any reason (including a suspension of trading described in Section 7) the Bank will remit to the Participant, promptly after the Ten Year Limit Date, all cash credited to the Participant's Account attributable to the Participant's payroll deductions and will remit to Quanex, promptly after the Ten Year Limit Date, all cash credited to the Participant's Account attributable to Quanex Contributions.
7. The Bank will purchase Plan Shares in negotiated transactions or on any securities exchange where Quanex Common Stock is traded from time to time. The purchases will be on terms as to price, delivery and other matters, and will be executed through those brokers or dealers, as the Bank may determine. Under certain circumstances, observance of the rules and regulations of the Securities and Exchange Commission may require temporary suspension of purchases by the Bank or may require that a purchase be spread over a longer period than indicated in Section 6. In that event, subject to the limitations set out in Section 6, purchases will be made or resumed when permitted by the rules and regulations. In that event the Bank will not be accountable for its inability to make all purchases within the applicable period. If any Securities and Exchange Commission suspension of trading in Quanex Common Stock remains effective for 90 consecutive days, the Bank will remit to each Participant, promptly after the end of the period, all cash in the Participant's Account attributable to the Participant's payroll deductions, cash dividends paid to all Quanex stockholders and any sale of Rights pursuant to Section 11.
8. As soon as practicable after the cash credited to the Participant's Account has been applied to the purchase of Plan Shares (but in no event later than 20 calendar days after the purchase) the Bank will mail a statement ("*Statement*") to the Participant summarizing the transactions in the Participant's Account since the last Statement. The Bank will hold the Plan Shares of all Participants in its name or in the name of its nominee evidenced by as many or as few

certificates as the Bank determines. No certificate representing Plan Shares purchased for a Participant's Account will be issued to the Participant unless he or she makes a request in writing or until his or her Account is terminated and he or she makes the election described in

Section 16. Certificates will not be issued for less than 10 shares unless the Account is terminated.

9. Quanex will pay all service charges, brokerage, costs of mailing and other charges incurred because of the purchase of Plan Shares.

10. Each Participant is responsible for all taxes (whether local, state or federal) due because of the Quanex Contribution, because of the payment of a dividend or because of the sale of Plan Shares credited to him or her. The Bank will timely prepare and forward to the Internal Revenue Service, the appropriate state and local authorities and the Participants the information returns required by the Internal Revenue Code and Regulations and all state statutes, presently Forms 1099-Div and 1099-B. All Quanex Contributions will constitute taxable income to the Participant to whose Account it is credited.

11. Any stock dividends and any shares received as a result of a stock split on any Plan Shares accumulated in a Participant's Account will, when received by the Bank, be credited to the Participant's Account. If Quanex makes available to the holders of Plan Shares (a) rights to purchase additional shares of stock, convertible debentures or other securities of Quanex or (b) securities of any other issuer ((a) and (b) collectively "Rights"), the Bank will sell those Rights received on Plan Shares credited to the Participant's Account as soon as practicable and apply the proceeds to the purchase of additional Plan Shares for the Participant's Account unless the Participant directs the Bank prior to the payment date for the Rights to transfer to the Participant all whole Rights accruing to the Plan Shares for the Participant's Account; provided that the Bank will not sell any such Rights until they have become separated from Plan Shares, if applicable, and their sale is permitted under the terms of the Rights and under applicable law. The price at which the Bank will be deemed to have sold any given set of Rights for a Participant's Account will be the average price, excluding commissions and other costs of the sale, of all of that given set of Rights sold by it for all Participants.

12. If a tender offer or exchange offer is commenced for Quanex Common Stock, the Bank, upon receipt of information with respect thereto as the holder of record of the Plan Shares, will either (a) forward, or arrange for the forwarding of, information provided by the offeror to holders of record of Quanex Common Stock to each Participant or (b) provide to the offeror the name and mailing address of each Participant as reflected on the records of the Bank with instructions to mail such material to each Participant. The Bank will tender all or part of a Participant's Plan Shares in response to written instructions from the Participant in such form as the Bank may reasonably require and only if such instructions are received by the Bank at least five days (or such shorter period as may be required by law) prior to the termination of the offer. Unless the Bank has received instructions in accordance with the previous sentence, it will not tender a Participant's Plan Shares. Except to the extent disclosure is required to tender Plan Shares pursuant to proper written instructions, the Bank will maintain the confidentiality of a Participant's election to tender or not tender Plan Shares.

13. Participants may not add any shares of Quanex Common Stock held in their name to their Account except as permitted by Section 5.

14. The Bank will vote the Participant's Plan Shares as instructed by the Participant on a form to be furnished by and returned to the Bank at least five days (or such shorter period as the law may require) before the meeting at which they are to be voted. The Bank will not vote Plan Shares for which no instructions are received.

15. A Participant may request that the Bank sell (a) all or any part of his or her Plan Shares acquired before July 17, 2003, at any time, (b) all or any part of his or her Plan Shares acquired on or after July 17, 2003, and before March 15, 2004, at any time after they have been held in his or her Account for at least 180 days, provided, however, that if the Participant is employed by or in connection with a division or subsidiary of Quanex immediately before Quanex sells or otherwise disposes of that division or subsidiary and after such sale or other disposition the Participant is no longer employed by Quanex or a subsidiary owned by Quanex such 180-day restriction shall not apply after the date Quanex consummates the sale or other disposition of such division or subsidiary, and (c) all or any part of his or her Plan Shares acquired on or after March 15, 2004, at any time after they have been held in his or her Account for at least one year, provided, however, that if the Participant is employed by or in connection with a division or subsidiary of Quanex immediately before Quanex sells or otherwise disposes of that division or subsidiary and after such sale or other disposition the Participant is no longer employed by Quanex or a subsidiary owned by Quanex such one year restriction shall not apply after the date Quanex consummates the sale or other disposition of such division or subsidiary. A Participant who wishes to sell any part of his or her Plan Shares may do so by giving notice to the local Human Resources Department, who will then forward the notice to Quanex's corporate office. Quanex will inform the Bank of the Participant's election to sell Plan Shares within five business days of the receipt by Quanex's corporate office of a notice from the employee. Upon receipt of the notice, the Bank, as the Participant's agent, will sell the number of Plan Shares specified in the Participant's notice within three business days of receipt by the Bank of instructions to sell the Plan Shares, and will deliver to the Participant the proceeds of the sale, less a handling charge, brokerage commissions, and other costs of sale. Whole and fractional shares may be aggregated and sold with those of other Participants, in which case the proceeds for each Participant will be based on the average sales price of all shares aggregated and sold. Any sale may, but need not, be made by purchase for other Accounts in which case the price will be the mean of the high and low selling price of Quanex Common Stock as reported on the principal stock exchange on which the stock is traded on the date of receipt by the Bank of the notice of the Participant's desire to sell Plan Shares or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was so traded. Any fractional shares that are not sold will be paid for in cash at a price equal to the mean of the high and low selling prices of Quanex Common Stock as reported on the principal stock exchange on which Quanex Common Stock is traded on the date of receipt by the Bank of the notice of the Participant's desire to sell Plan Shares or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was traded. If a Participant elects to sell all of his or her Plan Shares, that Participant will be deemed to have terminated participation in the Plan, and the provisions of Section 16 will apply.

16. Participation in the Plan may be terminated by Participants at any time by giving notice to the local Human Resources Department, who will then forward the notice to Quanex's corporate office. Quanex will inform the Bank of any Participant's election to terminate participation within five business days of the receipt by Quanex's corporate office of the notice from the employee. Upon receipt of the notice, unless a Participant makes a contrary election in

written response to the Bank's notice of his Account, the Bank will send to him at no charge a certificate or certificates representing the full Plan Shares accumulated in his Account and a check for the net proceeds of any fractional share in his Account. If a Participant elects to terminate, he or she may not rejoin the Plan for a period of six months from the date of the termination. In any case of termination, the Bank will, if the Participant elects, sell, as the Participant's agent, all or part of his shares within three business days of receipt by the Bank of instructions to sell his Plan Shares, and will deliver to him the proceeds of the sale, less a handling charge, brokerage commissions, and other costs of sale; provided that the Bank may not sell (a) any Plan Shares acquired on or after July 17, 2003, and before March 15, 2004, if they have not yet been held in the Participant's Account for at least 180 days and (b) any Plan Shares acquired on or after March 15, 2004, if they have not yet been held in the Participant's Account for at least one year, provided, however, that if the Participant is employed by or in connection with a division or subsidiary of Quanex immediately before Quanex sells or otherwise disposes of that division or subsidiary and after such sale or other disposition the Participant is no longer employed by Quanex or a subsidiary owned by Quanex such 180 day or one year restriction, as originally applicable, shall not apply after the date Quanex consummates the sale or other disposition of such division or subsidiary. Whole and fractional shares may be aggregated and sold with those of other Participants, in which case the proceeds for each Participant will be based on the average sales price of all shares aggregated and sold. Any sale may, but need not, be made by purchase for other Accounts in which case the price will be the mean of the high and low selling price of Quanex Common Stock as reported on the principal stock exchange on which the stock is traded on the date of receipt by the Bank of the notice of termination or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was so traded. On termination, fractional shares accumulated in a Participant's Account which are not aggregated and sold will be paid for in cash at a price equal to the mean of the high and low selling prices of Quanex Common Stock as reported on the principal stock exchange on which Quanex Common Stock is traded on the date of receipt by the Bank of the notice of termination or, if the stock is not traded on the date of receipt, the mean on the next prior date that it was traded.

17. Quanex may amend the Plan at any time and the Bank may, with the consent of Quanex, amend the Plan. Quanex may terminate the Plan by giving the Bank 30 days written notice of termination. The Bank may terminate the Plan by giving Quanex 90 days written notice of termination. In addition the Bank may, with the consent of Quanex, or shall, if requested to do so by Quanex, appoint a successor to serve as agent for the Participants under the Plan. In any case the Bank and Quanex will cause a notice of the action to be mailed to each Participant. No action will have a retroactive effect that would prejudice the interests of the Participants. The terms and conditions of the Plan as in effect on the effective date of the appointment of the successor will be binding upon the successor.

18. Any notice, instruction, request, election or direction which, by any provision of the Plan, is required or permitted to be given or made by a Participant to the Bank must be in writing and should be given to the Participant's local Human Resources Department, which will then forward the notice to Quanex's corporate office; Quanex will then provide the Bank with the notice, instruction, request, election or direction within five business days of its receipt by Quanex's corporate office. Any notice, instruction, request, election or direction intended for the Bank will be deemed to be given or made when received by the Bank. Any notice or certificate which, by

5

any provision of the Plan, is required or permitted to be given by the Bank to a Participant, must be in writing and will be deemed to have been given or made when received by the Participant, or five business days after it has been mailed to the Participant's address as it last appears on the Bank's records.

19. The Bank will not be liable for any action which is in compliance with the terms and conditions of the Plan taken or omitted in good faith, including without limitation, any claim of liability:

A. Arising out of failure to terminate a Participant's Account upon the Participant's death or otherwise prior to the receipt of written notice of the event causing termination, accompanied by documentation deemed satisfactory by the Bank;

B. With respect to the prices at which Plan Shares are purchased or Plan Shares or Rights are sold for a Participant's Account and the timing and terms on which the purchase or sale is made; or

C. For the market value, or any fluctuation in the market value, after purchase of the Plan Shares or sale of Plan Shares or Rights for a Participant's Account.

20. Except as is expressly provided in the Plan, no Participant can sell, pledge, hypothecate or otherwise assign or transfer his Account, any interest in his Account or any cash or stock credited to his Account. Any attempt to sell, pledge, hypothecate, assign or transfer his Account, any interest in his Account or any cash or stock credited to his Account will be void.

21. A Participant who receives a financial hardship distribution from a qualified cash or deferred arrangement described in Section 401(k) of the Internal Revenue Code of 1986, as amended, that is maintained by Quanex or any of its affiliates may not contribute to the Plan for a period of 12 months after receipt of the financial hardship distribution. The Participant must submit a new Withholding Authorization to the Human Resources Department in order to recommence contributions to the Plan after he or she has received the financial hardship distribution.

22. The Withholding Authorization, the Investment Authorization, and the Plan and its operation will be governed by and construed in accordance with the laws of the State of New York.

23. For all purposes of the Plan, the term "*Ten Year Limit Date*" shall mean February 26, 2014, the date that is ten years after February 26, 2004, the date the Plan as amended and restated was ratified by the stockholders of Quanex; provided, however, that if after February 26, 2004, and before February 26, 2014, the terms of the Plan are ratified again by the stockholders of Quanex, the term "*Ten Year Limit Date*" shall mean the date that is ten years after the date the shareholders of Quanex ratify again the terms of the Plan. For all purposes of the Plan, the term "*First Day of the Final Plan Month*" shall mean (a) the first day of the month in which occurs the "*Ten Year Limit Date*" if the "*Ten Year Limit Date*" occurs on or after the tenth calendar day of a calendar month or (b) the first day of the month preceding the month in which occurs the "*Ten Year Limit Date*" if the "*Ten Year Limit Date*" occurs before the tenth calendar day of a calendar month.

6

IN WITNESS WHEREOF, effective February 26, 2004, Quanex Corporation has adopted this amendment and restatement on the 26th day of February 2004.

QUANEX CORPORATION

By: _____
Title: _____

**QUANEX CORPORATION
SUPPLEMENTAL BENEFIT PLAN**

*Amended and Restated
Effective January 1, 2004*

TABLE OF CONTENTS

	Section
<u>ARTICLE I - NAME AND PURPOSE</u>	
<u>ARTICLE II - DEFINITIONS</u>	
<u>Actuarial Equivalent</u>	<u>2.01</u>
<u>Board</u>	<u>2.02</u>
<u>Change of Control</u>	<u>2.03</u>
<u>Code</u>	<u>2.04</u>
<u>Committee</u>	<u>2.05</u>
<u>Company</u>	<u>2.06</u>
<u>Disability</u>	<u>2.08</u>
<u>Early Retirement Date</u>	<u>2.10</u>
<u>Earnings</u>	<u>2.11</u>
<u>Employee</u>	<u>2.12</u>
<u>Final Average Earnings</u>	<u>2.13</u>
<u>Forfeiting Act</u>	<u>2.14</u>
<u>Incentive Bonus or Incentive Bonuses</u>	<u>2.15</u>
<u>Normal Retirement Date</u>	<u>2.16</u>
<u>Participant</u>	<u>2.17</u>
<u>Plan</u>	<u>2.18</u>
<u>Plan Year</u>	<u>2.19</u>
<u>Qualified Plan</u>	<u>2.20</u>
<u>Qualified Plan Benefit</u>	<u>2.21</u>
<u>Service</u>	<u>2.23</u>
<u>Social Security Benefit</u>	<u>2.24</u>
<u>Termination of Employment</u>	<u>2.25</u>
<u>ARTICLE III - PARTICIPATION</u>	
<u>Eligibility</u>	<u>3.01</u>
<u>Reemployment</u>	<u>3.02</u>
<u>ARTICLE IV - RETIREMENT BENEFITS</u>	
<u>Normal Retirement</u>	<u>4.01</u>
<u>Deferred Retirement</u>	<u>4.02</u>
<u>Early Retirement</u>	<u>4.03</u>
<u>Disability Benefit</u>	<u>4.04</u>
<u>Deferred Vested Benefit</u>	<u>4.05</u>
<u>Change of Control Benefit</u>	<u>4.06</u>
<u>Forms of Payment</u>	<u>4.07</u>
<u>Forms of Payment Elections</u>	<u>4.08</u>
<u>Lump Sum Payment of Small Amounts</u>	<u>4.09</u>
<u>Time of Payment of Benefit</u>	<u>4.10</u>
i	
<u>ARTICLE V - DEATH BENEFITS</u>	
<u>In General</u>	<u>5.01</u>
<u>Death During Employment</u>	<u>5.02</u>
<u>Death After Termination of Employment</u>	<u>5.03</u>
<u>ARTICLE VI - BENEFICIARIES</u>	
<u>Designation of Beneficiary</u>	<u>6.01</u>
<u>Payment of Benefits Upon Death</u>	<u>6.02</u>
<u>Minors and Persons Under Legal Disability</u>	<u>6.03</u>

[ARTICLE VII - FORFEITURE FOR CAUSE](#)

[ARTICLE VIII - AGREEMENT FUNDED THROUGH RABBI TRUST](#)

[ARTICLE IX - PLAN COMMITTEE PROCEDURE](#)

<u>Committee</u>	<u>9.01</u>
<u>General Rights, Powers and Duties of Plan Committee</u>	<u>9.02</u>
<u>Rules and Decisions</u>	<u>9.03</u>
<u>Committee Procedures</u>	<u>9.04</u>
<u>Authorization of Benefit Payments</u>	<u>9.05</u>
<u>Application and Forms of Benefits</u>	<u>9.06</u>
<u>Facility of Payment</u>	<u>9.07</u>
<u>Claims Procedure</u>	<u>9.08</u>
<u>Responsibility</u>	<u>9.09</u>

[ARTICLE X - AMENDMENT AND TERMINATION](#)

<u>Amendment</u>	<u>10.01</u>
<u>Right to Terminate Plan</u>	<u>10.02</u>

[ARTICLE XI - MISCELLANEOUS](#)

<u>Inalienability of Benefits</u>	<u>11.01</u>
<u>No Implied Rights</u>	<u>11.02</u>
<u>Actions by Company</u>	<u>11.03</u>
<u>Binding Effect</u>	<u>11.04</u>
<u>Number and Gender</u>	<u>11.05</u>
<u>Governing Law</u>	<u>11.06</u>

ARTICLE I

NAME AND PURPOSE

This plan, as adopted effective February 28, 1980 and amended and restated October 22, 1981, November 1, 1988, June 1, 1999, and January 1, 2004, shall be known as the Quanex Corporation Supplemental Benefit Plan (the “Plan”).

The Plan provides retirement benefits for certain designated management employees in addition to those provided under the benefit plans for salaried employees of Quanex Corporation, as in effect from time to time.

The purpose of the Plan is to supplement those retirement benefits that a Participant may be entitled to receive as a salaried employee of Quanex Corporation. Except as may be otherwise provided herein, the terms used in the Plan shall have the meanings specified in the Quanex Corporation Employees’ Pension Plan.

ARTICLE II

DEFINITIONS AND DESIGNATIONS

2.01 “**Actuarial Equivalent**” means equality in value of the aggregate amounts expected to be received under different forms of payment calculated utilizing the mortality and interest rate assumptions specified in the Qualified Plan at the time of the calculation.

2.02 “**Board**” means the Board of Directors of the Company.

2.03 “**Change of Control**” means the occurrence of one or more of the following events:

(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 (the “Outstanding Company Common Stock”), or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company 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 the Company: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, 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; or

(b) individuals who, as of June 1, 1999, 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 the Company’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; or

(c) the consummation of (xx) a reorganization, merger or consolidation or sale of the Company 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 Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, direct 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

II-1

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 the Company or all or substantially all of the Company'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 Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Covered Person (excluding any employee benefit plan (or related trust) of the Company 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, providing for such Business Combination; or

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

2.04 "**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

2.05 "**Committee**" means the Committee established under Article IX to administer the Plan.

2.06 "**Company**" means Quanex Corporation, a Delaware corporation.

2.07 "**Disability**" means physical or mental condition which, during the first 24 months of the existence of the condition totally prevents the Participant from performing each and every duty of his own job. Subsequently, the disabling physical or mental condition must totally and permanently prevent the Participant from engaging for remuneration or profit in any equivalent occupation for which he is reasonably qualified by education, training, or experience. Proof of total and permanent disability must be based upon a medical examination or other evidence submitted in a statement by a licensed physician or clinic. Notwithstanding any other provision, the Participant will not qualify for disability benefits as defined herein if the disability results from chronic alcoholism, self-addiction to narcotics or other drugs, a willfully self-inflicted

II-2

injury, an injury as the result of engaging in a felonious or criminal act or enterprise; injury or disease sustained during and arising out of employment by anyone other than the Company, or service in the Armed Forces of the United States which entitles the Participant to a veteran's disability pension.

2.08 "**Early Retirement Date**" means the first day of any month after a Participant's attainment of age 55 and the completion of five years of Service.

2.09 "**Earnings**" means all wages as defined in section 3401 of the Code (for purposes of income tax withholding) for services rendered in the course of employment with the Company; modified by excluding reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, welfare benefits, BeneFlex dollars under the Quanex Corporation Medical Reimbursement Plan, Incentive Bonuses and restricted stock awards and stock options; and modified further by including elective contributions under a cafeteria plan maintained by the Company that is governed by section 125 of the Code and elective contributions to any plan maintained by the Company that contains a qualified cash or deferred arrangement under section 401(k) of the Code.

2.10 "**Employee**" means any person hired by the Company who is receiving remuneration in the form of a salary for personal services rendered to the Company.

2.11 "**Final Average Earnings**" means the highest monthly average of a Participant's Earnings which is produced by averaging his Earnings and Incentive Bonuses over any 36 consecutive month period during the 60 consecutive month period immediately preceding the date of the Participant's Termination of Employment. However, for the purposes of this definition, no more than three Incentive Bonuses shall be taken into account in calculating a Participant's earnings over any 36 consecutive month period.

II-3

2.12 "**Forfeiting Act**" means the Participant's fraud, dishonesty, willful destruction of Company property, committing of a felony, revealing Company trade secrets, acts of competition against the Company or acts in aid of a competitor of the Company.

2.13 "**Incentive Bonus**" or "**Incentive Bonuses**" means compensation earned under the Quanex Corporation Executive Incentive Compensation Plan, whether or not deferred under the Quanex Corporation Deferred Compensation Plan.

2.14 "**Normal Retirement Date**" means the first day of the month coincident with or next following a Participant's 65th birthday.

2.15 "**Participant**" means an Employee designated by the Board as eligible for participation in the Plan, and who meets the requirements of Article III.

2.16 "**Plan**" means the Quanex Corporation Supplemental Benefit Plan.

2.17 "**Plan Year**" means the period commencing on November 1 and ending on October 31.

2.18 "**Qualified Plan**" means the Quanex Corporation Employees' Pension Plan maintained by the Company.

2.19 "**Qualified Plan Benefit**" means the aggregate of all benefits which would be payable to the Participant from the Qualified Plan payable on or after his Normal Retirement Date. In calculating the amount of the Qualified Plan Benefit, for the purposes of the Plan the following shall apply:

(a) If the normal form of benefit of the Qualified Plan is other than a straight life annuity, the benefit shall be expressed in the form of a straight life annuity by using the actuarial assumptions contained in the Qualified Plan.

(b) If benefits under the Qualified Plan are paid or are payable to the Participant prior to the date his benefits commence under the Plan, the Actuarial Equivalent of such benefits as of his Normal Retirement Date (as defined in the Qualified Plan) shall be used.

II-4

(c) The amount of a Participant's Qualified Plan Benefit shall be determined based on the provisions of the Qualified Plan as in effect on the date his benefits under the Plan are determined.

(d) The amount of a Participant's Qualified Plan Benefit shall be determined by disregarding any offset for benefits payable under a terminated retirement plan that was previously maintained by the Company or one of its affiliates.

2.20 "**Service**" means service for purposes of the Qualified Plan. In determining a Participant's Service, all years of Service after the Participant's date of hire shall be taken into account.

2.21 "**Social Security Benefit**" means, for all purposes other than determining the Disability benefit, the monthly amount payable commencing on the later of the Participant's 65th birthday or the date of his Termination of Employment under the provisions of Title II of the Social Security Act. Such benefit shall be determined based on (1) the Participant's average monthly wage or indexed earnings (as defined in the Social Security Act, as amended) on the date of his Termination of Employment, computed under the Social Security Act as in effect on the January 1 of the calendar year in which benefits are determined and using the Participant's annual total wages from the Company for the prior calendar year, as defined in section 3121(b), assuming his wages increased prior thereto at the rate of increase in the average per worker total wages reported by the Social Security Administration, and assuming continuation of such wages without increase thereafter until his Termination of Employment (with no wages thereafter); and (2) the Table of Primary Social Security Benefits under the Social Security Act as in effect on the January 1 of the calendar year in which his Termination of Employment actually occurs. "Social Security Benefit" means, for purposes of determining a Disability benefit, any actual disability benefit for which the Participant is eligible under Title II of the Social Security Act.

II-5

2.22 "**Termination of Employment**" means the complete severance of the employment relationship between the Company and every entity that is required to be treated as a single employer together with the Company for certain employee benefit purposes pursuant to section 414 of the Code.

II-6

ARTICLE III

PARTICIPATION

3.01 **Eligibility to Participate.** An Employee shall become eligible to become a Participant in the Plan by designation of the Board. The Committee shall notify each Participant of his eligibility. Each designated Employee shall furnish such information and perform such acts as the Committee may require prior to becoming a Participant.

3.02 **Reemployment.** Any person who terminates employment with the Company shall not be eligible to participate in the Plan upon his reemployment by the Company unless the Board so determines. In such event, the Board shall specify whether and under what conditions the person shall receive credit for all or any of his Service completed prior to reemployment.

III-1

ARTICLE IV

RETIREMENT BENEFITS

4.01 **Normal Retirement Benefit.** Subject to Article VIII, if a Participant terminates employment with the Company on or after his Normal Retirement Date, he will be entitled to a monthly benefit payable to the Participant for life only in an amount equal to:

(a) 2.75 percent of his Final Average Earnings multiplied by his years of Service (not in excess of 20 years), less

(b) the sum of:

(1) the Participant's Qualified Plan Benefit, and

(2) one-half of the Participant's Social Security Benefit multiplied by a fraction (which shall not exceed one) the numerator of which is the Participant's number of years of Service and the denominator of which is 20.

Notwithstanding any other provision of the Plan, a Participant's monthly benefit under this Section 4.01 shall not be less than his monthly benefit accrued as of the date of the execution of this Agreement.

4.02 Deferred Retirement Benefit. If a Participant terminates employment with the Company on or after his Normal Retirement Date, he will be entitled to a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01. The benefit will not be actuarially increased to reflect the later benefit payment date or his shorter life expectancy. In determining a Participant's deferred retirement benefit, his Service subsequent to his Normal Retirement Date and the computation of his Final Average Earnings shall take into account his Service after his Normal Retirement Date.

4.03 Early Retirement Benefit. If a Participant terminates employment with the Company on or after his Early Retirement Date but before age 65, he shall be entitled to a monthly benefit payable to the Participant for life only determined in accordance with the

IV-1

provisions of Section 4.01 based upon his years of Service and Final Average Earnings on the date of his Termination of Employment. The monthly amount shall be reduced by five percent for each year (and fractional year) that the Participant's benefit commencement precedes the Participant's 65th birthday.

4.04 Disability Benefit. If a Participant who has completed six months of Service terminates employment with the Company prior to his Early Retirement Date due to his Disability, he shall receive a monthly Disability benefit, for so long as he has a Disability but no longer than his Normal Retirement Date (on which date the Participant shall be treated as a retiree entitled to benefits under Section 4.01), in an amount equal to:

(a) 50 percent of the sum of his monthly Earnings in effect at the date of his Disability and the monthly equivalent of the average of his Incentive Bonuses for the prior three Plan Years, less

(b) the sum of:

(1) the Participant's Qualified Plan Benefit;

(2) the Participant's Social Security Benefit;

(3) the Participant's benefit under the Company's group long-term disability insurance plan;

(4) the Participant's benefit under an individual disability policy provided by the Company, and;

(5) the Participant's benefit under the Company's wage continuation policy plan.

Upon the occurrence of the Normal Retirement Date of a former Participant with a Disability, he will be entitled to a monthly benefit payable to him for life only determined in accordance with the provisions of Section 4.01. In determining his benefit payable upon the occurrence of his Normal Retirement Date, his Final Average Earnings and his years of Service shall be determined as of the date of his Disability.

IV-2

4.05 Deferred Vested Benefit. If a Participant terminates employment with the Company prior to his Early Retirement Date but has five or more years of Service, he will upon attaining age 55 be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01 based upon his years of Service and Final Average Earnings at his Termination of Employment. The benefit calculated under Section 4.01 however, shall be reduced, using the factors described in Section 4.03. If the Participant has fewer than five years of Service when he terminates employment prior to his Early Retirement Date, he shall not be entitled to any benefits under the Plan.

4.06 Change of Control Benefit. Notwithstanding any other provisions of the Plan, if a Participant's Termination of Employment occurs after a Change of Control, he will be entitled to the lump-sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01 based upon his years of Service and Final Average Earnings at his Termination of Employment. The benefit calculated under Section 4.01 shall not be reduced because of the Participant's age or early payment of his benefit under the Plan. Any benefit paid pursuant to this Section 4.06 shall be in lieu of any other benefit otherwise payable to the Participant under the Plan.

4.07 Forms of Payment. Subject to the provisions of Section 4.09, a Participant who is entitled to a benefit under Section 4.01, 4.02 or 4.03 may elect, in accordance with procedures established by the Committee, to have his benefit paid in one of the following forms, each of which shall be the Actuarial Equivalent of the Participant's benefit accrued under Section 4.01, 4.02, or 4.03, as applicable:

(a) A lump sum payment.

IV-3

(b) An optional form of payment permitted under the Qualified Plan.

(c) Monthly, quarterly, or annual installment payments for a specified number of years (not in excess of 20). Such payments shall be made to the Participant while he is alive, and the balance of the payments shall be paid on an installment basis to his designated beneficiary if he dies prior to the

payment of all the installment payments.

If a Participant fails to make a valid election concerning the form of his payment, his benefit shall be paid in the form of a lump sum.

All payments under the Plan shall be made in cash.

4.08 **Forms of Payment Elections.** In order to be valid, a Participant's form of payment election must be made in accordance with procedures established by the Committee and must be filed with the Committee at least 12 months prior to the date on which the Participant's Plan benefit is to be paid or commence to be paid. In accordance with procedures established by the Committee, a Participant may make a one-time irrevocable election to change the form of payment he previously selected. In order to be effective, any such change election must be filed with the Committee at least 12 months prior to the date on which the Participant's Plan benefit is to be paid or commence to be paid.

4.09 **Lump Sum Payment Of Small Amounts.** Notwithstanding any other provision of the Plan, if the present value of a benefit payable under Section 4.01, 4.02 or 4.03 of the Plan is less than or equal to \$20,000, such benefit shall be paid in the form of a lump sum in cash.

4.10 **Time of Payment of Benefit.** The payments provided for Normal Retirement, Deferred Retirement, and Early Retirement shall be paid or commence to be paid on the 90th day after the Participant's Termination of Employment. The monthly Disability benefit shall commence being paid on the first day of the month coincident with or next following the

IV-4

Participant's Termination of Employment due to Disability and shall cease with the last payment prior to his recovery or attainment of his Normal Retirement Date. If a former Participant who terminated employment with the Company due to Disability continues to have a Disability until his Normal Retirement Date, the lump sum payment then due shall be paid on his Normal Retirement Date. A Participant's Change of Control benefit shall be payable on the 90th day after the later of his attainment of age 55 or the date of his Termination of Employment. A Participant's deferred vested benefit shall be payable on the 90th day after the Participant's Termination of Employment.

IV-5

ARTICLE V

DEATH BENEFITS

5.01 **In General.** The benefits under the Plan payable subsequent to a Participant's or former Participant's death shall be limited to those contained in this Article, and shall in any case be subject to Article VII.

5.02 **Death During Employment.** If a Participant's death occurs while he is in the employ of the Company, no death benefit shall be payable under the Plan with respect to the Participant.

5.03 **Death After Termination of Employment.**

(a) *In General.* Except as provided in this Section, no benefits shall be payable to or on behalf of a Participant or former Participant whose death occurs subsequent to his Termination of Employment.

(b) *Before Benefits Commence.* If a former Participant dies before his benefit is paid or commences to be paid but after his Termination of Employment on or after his Normal Retirement Date, his Early Retirement Date or a Change of Control, or after he has become entitled to a deferred vested benefit under Section 4.05, his designated beneficiary, if any, shall be entitled to receive a lump sum benefit equal to the benefit which he would have received had he lived to the date his benefit would have been paid out. If a former Participant dies before his benefit commences to be paid and he was eligible for a Disability benefit, his designated beneficiary, if any, shall be entitled to receive a lump sum benefit which is Actuarially Equivalent to a survivor annuity equal to the survivor portion of a qualified joint and 50 percent survivor annuity as if the former Participant had been entitled to elect and had elected such survivor annuity on the day before his death. The survivor lump sum death benefit shall be payable on the 90th day following the date of the Former Participant's death. In calculating the survivor portion for the survivor lump sum benefit, the benefit shall be reduced in the same manner it is reduced under Section 4.03, 4.04 or 4.05, whichever is applicable, for payment earlier than Normal Retirement Date. In the event of a Participant's Termination of Employment after a Change of Control, the death benefits payable under this Section 5.03 on his behalf will not be reduced for payment before the Participant's Normal Retirement Date.

(c) *After Disability Benefits Commence.* If a former Participant who is receiving a Disability benefit dies prior to reaching his Normal Retirement Date but while he still has a Disability, his designated beneficiary shall receive a lump sum benefit which is Actuarially Equivalent to the survivor portion of a qualified joint and 50 percent survivor annuity as if the

V-1

former Participant had been entitled to elect and had elected such survivor annuity on the day before his death. Such benefit shall be payable on the 90th day after his death.

(d) *After Benefits Under Section 4.01, 4.02 or 4.03 Commence.* If a former Participant dies after receiving payments pursuant to Section 4.01, 4.02, or 4.03 of the Plan, his designated beneficiary shall be entitled to receive any death benefit payable under the optional form of payment selected by the former Participant.

V-2

ARTICLE VI
BENEFICIARIES

6.01 **Designation of Beneficiary.** Each Participant or former Participant shall designate as his beneficiary the person or persons who shall, upon his death, receive the death benefits, if any, payable pursuant to Article V. The designation shall be in such form as the Committee requires and may include contingent beneficiaries. A beneficiary designation shall be effective when filed with the Committee during the Participant's or former Participant's life, and shall cancel and revoke all prior designations.

6.02 **Payment of Benefits Upon Death.** If a Participant's or former Participant's death occurs prior to payment of his benefit, the benefit payable upon his death, if any, shall be paid to the persons or persons designated as his primary beneficiary, but if the primary beneficiary does not survive him, then to the person or persons designated as the contingent beneficiary. If no primary or contingent beneficiary survives him or if no beneficiary designation is in effect upon his death, then the benefit under Article V shall be paid to his spouse. If his spouse does not survive him, then the benefit shall be paid to his descendants who survive him by right of representation, and if no descendants of the Participant or former Participant survive him, then to his estate.

6.03 **Minors and Persons Under Legal Disability.** Payments to a minor or a person under a legal disability shall be made by the Company at the direction of the Committee as follows:

- (a) to the natural or adoptive parents or legal guardian or conservator of such person, or to any other person *in loco parentis*;
- (b) to a custodian for such person under the Uniform Gifts to Minors Act or Gifts of Securities to Minors Act; or

VI-1

- (c) by expending amounts directly for the education and support of such person.

VI-2

ARTICLE VII
FORFEITURE FOR CAUSE

Except with respect to persons whose terminations of employment with the Company occur after a Change of Control, notwithstanding any other provision of the Plan to the contrary, in all cases where a written document is executed by the Company expressly making acts of competition against the Company or acts in aid of a competitor of the Company by the Participant or former Participant a Forfeiting Act, if the Participant commits one or more Forfeiting Acts during his employment with the Company or following his Termination of Employment, any and all unpaid benefits due the Participant or his designated beneficiary shall be forfeited. This provision shall apply regardless of the date the Company first learns of the occurrence of a Forfeiting Act.

VII-1

ARTICLE VIII
AGREEMENT FUNDED THROUGH RABBI TRUST

The Company shall pay the benefits due the Participants and former Participants under the Plan; however, should it fail to do so when a benefit is due, such benefit shall be paid by the trustee of that certain Trust Agreement entered into, by and between the Company and Fleet National Bank (the "Trust"). In any event, if the Trust fails to pay for any reason, the Company still remains liable for the payment of all benefits provided by the Plan. The Company may contribute at any time and from time to time such assets to the Trust as it, in its sole discretion, shall determine and shall have the right at any time and from time to time to borrow from the Trust the fair market value of assets held in the Trust which are in excess of the net present value of the largest benefit all Participants and former Participants are entitled to under the Plan as of the beginning of the Plan Year during which the loan is made (exclusive of any Disability or death benefit). Any such loan shall be evidenced by an instrument in writing, shall bear interest at such rate as the Company would be required to pay to its prime lender under the same terms (except for the security), shall provide a repayment schedule which would repay but only to the extent of the funds so borrowed, such amount as is necessary to maintain at the beginning of each Plan Year during the existence of the loan, non-borrowed funds in the Trust at a level at least equal to the net present value of all benefits calculated under the preceding sentence and shall provide for prepayment at the Company's election, without penalty. The above calculations shall use the same actuarial factors set out in the definition of Actuarial Equivalent under Section 2.01. All assets contributed shall be held in and administered according to the terms of the Trust which are incorporated by reference in the Plan for all purposes. However, in no event shall the rights of Participants and former Participants in the assets held by the Trust be greater than the

VIII-1

rights of unsecured creditors of the Company. Nothing contained in the Plan or the Trust constitutes a secured promise by the Company that the assets of the Company will be sufficient to pay any benefit to any person.

VIII-2

ARTICLE IX

PLAN COMMITTEE

9.01 **Committee.** The Plan shall be administered by the Committee, which shall have three members designated in writing by the Company. Any person may resign from the Committee upon 30 days' prior notice to the Company and to any other member of the Committee. The Company may remove any member of the Committee by written notice to him and to any other member of the Plan Committee. The Company shall fill any vacancy and shall give written notice thereof to the other members of the Committee. In the interim, the other member(s) of the Committee shall have full authority to act. If, at any time, there are no members of the Committee, then the Board shall serve as the Committee.

9.02 **General Rights, Powers and Duties of Plan Committee.** The Committee shall be responsible for the management, operation and administration of the Plan. In addition to any powers, rights and duties set forth elsewhere in the Plan, it shall have the following powers and duties:

- (a) to adopt such rules and regulations consistent with the provisions of the Plan as it deems necessary for the proper and efficient administration of the Plan;
- (b) to enforce the Plan in accordance with its terms and any rules and regulations it establishes;
- (c) to maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;
- (d) to construe and interpret the Plan and to resolve all questions arising under the Plan;
- (e) to direct the Company to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan;
- (f) to employ or retain agents, attorneys, actuaries, accountants or other persons, who may also be employed by or represent the Company, and

IX-1

(g) to be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.

The Committee shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided by the Plan, or to waive or fail to apply any requirements of eligibility for benefits under the Plan.

9.03 **Rules and Decisions.** The Committee may adopt such rules and actuarial tables as it deems necessary, desirable or appropriate. All rules and decisions of the Committee shall be uniformly and consistently applied to all Participants in similar circumstances. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished to it by a Participant or beneficiary, the Company, and the legal counsel, actuary and accountant for the Company.

9.04 **Committee Procedures.** The Committee may act at a meeting or in writing without a meeting. The Committee shall elect one of its members as chairman and appoint a secretary, who may or may not be a Committee member. The Secretary shall keep a record of all meetings and forward all necessary communications to the Company. The Committee may adopt such bylaws and regulations as it deems desirable for the conduct of its affairs. All decisions of the Committee shall be made by the vote of the majority, including actions in writing taken without a meeting. A dissenting Committee member who, within a reasonable time after he has knowledge of any action or failure to act by the majority, registers his dissent in writing delivered to the other Committee members and the Company, shall not, to the extent permitted by law, be responsible for any such action or failure to act.

9.05 **Authorization of Benefit Payments.** The Committee shall issue directions to the Company concerning all benefits which are to be paid pursuant to the provisions of the Plan. The

IX-2

Company shall furnish the Committee such data and information as it may require. The records of the Company shall be determinative of each Participant's period of employment, Termination of Employment and the reason therefor, leave of absence, reemployment, years of Service, Earnings, and Final Average Earnings. Participants and their beneficiaries shall furnish to the Committee such evidence, data, or information, and execute such documents, as the Committee requests.

9.06 **Application and Forms of Benefits.** The Committee may require a Participant or former Participant to complete and file with the Committee an application for retirement benefits and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information so furnished it, including the Participant's or former Participant's current mailing address.

9.07 **Facility of Payment.** Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit or installment thereof hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Company to make payments to such person or to his legal representative or to a relative or friend of such person for his benefit, or the Committee may direct the Company to apply the payment for the benefit of such person in such manner as the Committee considers advisable. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liabilities for the making of such payment under the provisions of the Plan.

9.08 **Claims Procedure.** The Committee shall make all determinations as to the right of any person to receive benefits under the Plan. Any denial by the Committee of a claim for benefits under the Plan by a Participant, former Participant beneficiary of a former Participant

(collectively referred to herein as "Claimant") shall be stated in writing by the Committee and delivered or mailed to the Claimant on the 90th day after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant on the 90th day after receipt of the claim and the claim shall thereafter be paid on the 180th day after the date of receipt of the initial claim. Such notice shall set forth the specific reasons for the denial, specific reference to pertinent provisions of the Plan upon which the denial is based, a description of any additional material or information necessary for the Claimant to perfect his claim with an explanation of why such material or information is necessary, and an explanation of claim review procedures under the Plan written to the best of the Committee's ability in a manner that may be understood without legal or actuarial counsel. A Claimant whose claim for benefits has been wholly or partially denied by the Committee may, within 90 days following the date of such denial, request a review of such denial in writing addressed to the Committee. The Claimant shall be entitled to submit such issues or comments, in writing or otherwise, as he shall consider relevant to a determination of his claim, and he may request a hearing in person before the Committee. Prior to submitting his request, the Claimant shall be entitled to review such documents as the Committee shall agree are pertinent to his claim. The Claimant may, at all stages of review, be represented by counsel, legal or otherwise, of his choice, provided that the fees and expenses of such counsel shall be borne by the Claimant. All requests for review shall be promptly resolved. The Committee's decisions with respect to any such review shall be set forth in writing and shall be mailed to the Claimant on the 60th day following receipt by the Committee of the Claimant's request unless special circumstances, such as the need to hold a

hearing, require an extension of time for processing, in which case the Committee's decision shall be so mailed on the 120th day after receipt of such request.

9.09 Responsibility. No member of the Committee or of the Board shall be liable to any person for any action taken or omitted in connection with the administration of the Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

ARTICLE X

AMENDMENT AND TERMINATION

10.01 Amendment. The Plan may be amended in whole or in part by the Company at any time. Notice of any such amendment shall be given in writing to the Committee and to each Participant, former Participant, and beneficiary of a deceased former Participant. No such amendment, however, shall have the effect of reducing that portion of the benefit the Participant or former Participant ultimately becomes entitled to below that amount he would have received for Service to the date of the amendment under the formula set out in the Plan prior to the amendment.

10.02 Right to Terminate Plan. The Company reserves the right to terminate the accrual or vesting of additional benefits under the Plan by any or all Participants at any time by written notice to the Committee. The Committee shall notify any Participant affected by such termination of such action and its effective date within 30 days after it receives notice from the Company. A Participant whose accrual of additional benefits is terminated shall not lose any previously earned and vested benefits, and, subject to Article VII, any such vested benefits shall be payable at the time and in the manner provided hereunder.

ARTICLE XI

MISCELLANEOUS

11.01 Inalienability of Benefits. The right of any Participant, former Participant or beneficiary to any benefit or payment under the Plan shall not be subject to voluntary or involuntary transfer, alienation, pledge, assignment, garnishment, sequestration or other legal or equitable process. Any attempt to transfer, alienate, pledge, assign or otherwise dispose of such right or any attempt to subject such right to attachment, execution, garnishment, sequestration or other legal or equitable process shall be null and void.

11.02 No Implied Rights. Neither the establishment of the Plan nor any modification thereof shall be construed as giving any Participant, former Participant beneficiary or other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by affirmative action of the Company in accordance with the terms and provisions of the Plan.

11.03 Actions By Company. All actions by the Company under the Plan shall be taken by the Board or by a person or persons designated by the Board.

11.04 Binding Effect. The provisions of the Plan shall be binding on the Company, the Committee, and all persons entitled to benefits under the Plan, together with their respective heirs, legal representatives and successors in interest.

11.05 Number and Gender. Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine or neuter.

11.06 Governing Law. The Plan shall be construed and administered according to the laws of the State of Texas.

IN WITNESS WHEREOF, effective January 1, 2004, the Company has adopted this amendment and restatement of the Plan on the _____ day of _____, 2004.

QUANEX CORPORATION

By: _____
Title: _____

**THIRD AMENDMENT TO THE
QUANEX CORPORATION HOURLY
BARGAINING UNIT EMPLOYEES SAVINGS PLAN**

THIS AGREEMENT by Quanex Corporation (the “Sponsor”),

W I T N E S S E T H:

WHEREAS, the Sponsor previously established the Quanex Corporation Hourly Bargaining Unit Employees Savings Plan, as amended and restated effective January 1, 1998 (the “Plan”);

WHEREAS, the Sponsor reserved the right in Section 12.01 to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor hereby agrees that effective January 1, 2004, the Plan is amended as set forth below:

1. The definition of the term “*Eligible Employee*” included in Article I of the Plan is completely amended and restated as follows:
“*Eligible Employee*” means (a) an Employee who (1) is compensated by the Sponsor on an hourly basis for services rendered at its MacSteel Michigan division or, effective February 1, 2001, at its MacSteel Arkansas division, and (2) is included in a unit of employees covered by a collective bargaining agreement between an employees’ representative and the Employer; or (b) an Employee of MacSteel Monroe, Inc. that is included in a unit of employees covered by a collective bargaining agreement between an employees’ representative and the Employer.

2. Article V of the Plan is amended by adding the following new Section 5.14 to the Plan:

5.14 **Loans.** No loans shall be made to Participants under the Plan. If (a) a Participant was a participant in the Cargill Partnership Plan on December 31, 2003, and had a loan outstanding under the Cargill Partnership Plan on December 31, 2003, and (b) the loan note and all other rights with respect to such loan held by or for the Cargill Partnership Plan are rolled over to the Plan, then such loan shall be continued under the Plan, and shall be administered under the terms and provisions applicable to the loan under the loan agreement and the

Cargill Partnership Plan documents applicable to such loan in effect as of December 31, 2003.

3. Article IX of the Plan is amended by adding the following new Section 9.07 to the Plan:

9.07 **Credit for Service With North Star Steel Company.** For purposes of determining an Employee’s Active Service for eligibility to participate and vesting, his service with North Star Steel Company, a Minnesota corporation, and any predecessor will be counted as Active Service under the Plan.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on this _____ day of December, 2003.

QUANEX CORPORATION

By: _____
Title: _____

**FIRST AMENDMENT TO THE
QUANEX CORPORATION EMPLOYEE SAVINGS PLAN**

THIS AGREEMENT by Quanex Corporation (the “*Sponsor*”),

WITNESSETH:

WHEREAS, the Sponsor previously established the Quanex Corporation Employee Savings Plan, as amended and restated effective January 1, 2002 (the “*Plan*”);

WHEREAS, the Sponsor reserved the right in Section 12.01 to amend the Plan; and

WHEREAS, the Sponsor has determined to amend the Plan;

NOW, THEREFORE, the Sponsor hereby agrees that effective January 1, 2004, the Plan is amended as set forth below:

1. Section 1.19 of the Plan is completely amended and restated as follows:

1.19 **“Eligible Employee”** means an Employee who (a) is classified by the Sponsor as (1) working at the Sponsor’s Corporate Office in Houston, Texas; (2) working at or for the Sponsor’s MACSTEEL group office in Jackson, Michigan and compensated on a salaried basis; (3) working at or for the Sponsor’s MACSTEEL operating unit in Jackson, Michigan and compensated on a salaried basis; (4) working at or for the Sponsor’s MACSTEEL operating unit in Fort Smith, Arkansas and compensated on a salaried basis; or (5) working at or for the Sponsor’s MACSTEEL Heat Treating operating unit in Huntington, Indiana; or (b) an Employee of MacSteel Monroe, Inc. and compensated on a salaried basis.

2. Article V of the Plan is amended by adding the following new Section 5.14 to the Plan:

5.14 **Loans.** No loans shall be made to Participants under the Plan. If (a) a Participant was a participant in the Cargill Partnership Plan on December 31, 2003, and had a loan outstanding under the Cargill Partnership Plan on December 31, 2003, and (b) the loan note and all other rights with respect to such loan held by or for the Cargill Partnership Plan are rolled over to the Plan, then such loan shall be continued under the Plan, and shall be administered under the terms and provisions applicable to the loan under the loan agreement and the Cargill Partnership Plan documents applicable to such loan in effect as of December 31, 2003.

3. Article IX of the Plan is amended by adding the following new Section 9.07 to the Plan:

9.07 **Credit for Service With North Star Steel Company.** For purposes of determining an Employee’s Active Service for eligibility to participate and vesting, his service with North Star Steel Company, a Minnesota corporation, and any predecessor will be counted as Active Service under the Plan.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed on this _____ day of December, 2003.

QUANEX CORPORATION

By _____
Title: _____

**SECOND AMENDMENT TO THE
QUANEX CORPORATION 401(k) SAVINGS PLAN**

THIS AMENDMENT by QUANEX CORPORATION (the "Sponsor"),

WITNESSETH:

WHEREAS, on February 27, 2002, the Sponsor executed the amendment and restatement of the Plan known as the "Quanex Corporation 401(k) Savings Plan" (the "Plan");

WHEREAS, pursuant to Section 13.01 of the Plan, the Sponsor has the right to amend the Plan; and

WHEREAS, the Sponsor desires to amend the Plan to exclude interns and students from the eligibility provisions of the Plan;

NOW, THEREFORE, the Sponsor agrees that, effective as of June 2, 2003, Section 2.01 of the Plan is amended to provide as follows:

2.01 **Eligibility Requirements.** Except as specified below, each Eligible 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 one year of Active Service. However, unless the Employee is employed by the Sponsor at its plant in Lincolnshire, Illinois, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer is not eligible to participate in the Plan 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. 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). During any

period in which an individual is classified by an Employer as an intern or student with respect to such Employer, the individual is not eligible to participate in the Plan. 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. Notwithstanding any other provision of the Plan to the contrary, (1) an Employee of Nichols Aluminum-Golden, Inc. who was employed by Nichols Aluminum-Golden, Inc. on January 25, 2000 shall be eligible to participate in the Plan commencing with the first full payroll period that starts on or after February 14, 2000 for purposes of Salary Deferral Contributions, and such an Employee's Supplemental Contributions, if any, shall be based on his Considered Compensation paid by the Employer commencing with the first full payroll period that starts on or after February 28, 2000, and (2) an Employee of Imperial Products, Inc. who was employed by Imperial Products, Inc. on April 1, 2000, shall be eligible to participate in the Plan on June 1, 2000.

2

IN WITNESS WHEREOF, the Sponsor has executed this Amendment this 2nd day of June, 2003, effective as of June 2, 2003.

QUANEX CORPORATION

By: _____

Title: _____

3

FIRST AMENDMENT TO
THE PIPER IMPACT 401(K) PLAN

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

WITNESSETH:

WHEREAS, on December 30, 2002, the Sponsor executed the amendment and restatement of the plan agreement known as the "Piper Impact 401(k) Plan" (the "Plan"); and

WHEREAS, the Sponsor retained the right in Section 10.31 of the Plan to amend the Plan from time to time; and

WHEREAS, the Sponsor desires to amend the Plan;

NOW, THEREFORE, the Sponsor agrees that effective as of the date hereof Section 3.04 is amended and restated in its entirety to provide as follows:

3.04 **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 25 percent of the first six percent of such Participant's Considered Compensation for the Plan Year contributed to the Plan pursuant to such Participant's Salary Deferral Contributions and/or After-Tax Contributions.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed this _____ day of September, 2003.

QUANEX CORPORATION

By _____
Title: _____

QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN

Amended and Restated
Effective December 1, 2003

QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN

WHEREAS, Quanex Corporation, A Delaware corporation (“Quanex”), originally established the Quanex Corporation Long-Term Incentive Plan (the “Plan”) effective November 1, 2001 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; and

WHEREAS, Quanex Corporation desires to amend and restate the Plan effective December 1, 2003;

NOW, THEREFORE, Quanex adopts the Plan as follows:

QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN

TABLE OF CONTENTS

ARTICLE I - PLAN PURPOSE AND TERM

[Purpose](#)
[Term of Plan](#)

ARTICLE II – DEFINITIONS

[Affiliate](#)
[Award Agreement](#)
[Board](#)
[Cause](#)
[Change of Control](#)
[Code](#)
[Committee](#)
[Common Stock](#)
[Disability](#)
[Fiscal Year](#)
[Grantee](#)
[Maximum Performance Level](#)
[Performance Award](#)
[Performance Objectives](#)
[Performance Objective Percentage](#)
[Performance Period](#)
[Performance Standard](#)
[Performance Unit](#)
[Performance Unit Value](#)
[Plan](#)
[Quanex](#)
[Retirement](#)
[Separation From Service](#)
[Spouse](#)
[Target Performance Level](#)
[Threshold Performance Level](#)
[Vested Interest](#)

ARTICLE III – ELIGIBILITY

ARTICLE IV – PERFORMANCE AWARDS

[Grants of Performance Awards](#)
[Establishment of Performance Objectives and Performance Standards](#)
[Special Ledger](#)

ARTICLE V – CALCULATION AND PAYMENT OF BENEFITS

[Determination of Amounts Payable Under Performance Awards](#)
[Amounts Payable Upon the Death, Disability or Retirement of the Grantee](#)
[Amount Payable Upon a Change of Control](#)
[No Interest on Performance Awards](#)
[Time of Payment](#)
[Form of Payment](#)
[Payment on Death of Grantee](#)

ARTICLE VI – VESTING AND FORFEITURES

[Determination of Vested Interest](#)
[Forfeiture Upon Separation From Service](#)
[Complete Forfeiture for Cause](#)
[Accelerated Vesting Upon Change of Control](#)
[Treatment of Forfeited Interest in Performance Award](#)

ARTICLE VII - ADMINISTRATION

[General](#)
[Powers of Committee](#)
[Committee Discretion](#)
[Disqualification of Committee Member](#)

ARTICLE VIII - AMENDMENT OR TERMINATION OF PLAN

ARTICLE IX - FUNDING

[Payments Under the Plan Are the Obligation of Quanex](#)
[Grantees Must Rely Solely on the General Credit of Quanex](#)
[Unfunded Arrangement](#)

ii

ARTICLE X - MISCELLANEOUS

[No Employment Obligation](#)
[Tax Withholding](#)
[Indemnification of the Committee](#)
[Indemnification of the Board](#)
[Gender and Number](#)
[Headings](#)
[Other Compensation Plans](#)
[Rights of Quanex and Affiliates](#)
[Nonalienation of Benefits](#)
[Plan and Performance Award Agreements Binding on Quanex's Successor](#)
[Governing Law](#)

EXHIBIT A - EXAMPLE

iii

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

1

(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

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

3

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 prevent Grantee from being entitled to have another Performance Award granted to him during any other Fiscal Year, the basis and terms of any subsequent Performance Award being solely within the

4

absolute discretion of the Committee. 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

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) either prior to a Grantee's Separation From Service or within 120 days after a Grantee's Separation From Service, 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 either prior to the date of a Grantee's Separation From Service or within 120 days after the Grantee's Separation From Service, 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.

6

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 prior to a Grantee's Separation From Service, 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.

7

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,

8

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 or the Committee may amend the Plan at any time and in any manner provided that no such amendment shall be effective as to any Grantee who has not either been paid the entire amount due him under his Performance Award or forfeited his entire interests in his Performance Award pursuant to the terms of the Plan without the prior written consent of such Grantee if such amendment materially and adversely affects the rights of such Grantee.

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.

9

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

10

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.

11

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.

12

IN WITNESS WHEREOF, Quanex has caused this Amended and Restated Agreement to be executed by its authorized officer on this day of December, 2003, effective as of December 1, 2003.

QUANEX CORPORATION

By: _____
Title: _____

EXHIBIT A

**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 (Performance Objective Percentage) X 2000 (Performance Units) X \$200 (Performance Unit Value) = \$160,000.

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

$.60$ (Performance Objective Percentage) X 2000 (Performance Units) X $\$150$ (Performance Unit Value) = $\$180,000$.

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

**QUANEX CORPORATION
CODE OF BUSINESS CONDUCT & ETHICS
SENIOR FINANCIAL EXECUTIVES**

A. POLICY

1. It is the policy of Quanex Corporation and its subsidiaries (the “**Company**”) to conduct its business in accordance with the highest standards of integrity, the provisions of this *Code of Business Conduct & Ethics for Senior Financial Executives* (the “**Code**”), Company Policies contained in the Quanex Management Guide, and all applicable laws and regulations of the United States, and the states, counties and cities and other jurisdictions in which the Company operates.
2. The specific policy and applications of the Company’s commitment to assuring ethical and lawful conduct for all employees, officers, directors and independent agents acting on behalf of the Company (“**Associates**”) is outlined in the Code of Business Conduct & Ethics (Quanex Policy C-1).
3. In addition to the requirements and expectations contained in Quanex Policy C-1, the Company believes that senior financial executives shall abide by a further code of ethics to ensure that the Company maintains the highest integrity with respect to the preparation and reporting of financial information related to the Company. Accordingly, this Code shall apply to the following: Chief Executive Officer; Vice President – Finance & Chief Financial Officer; Vice President – President Building Products; Vice President - General Counsel & Chief Compliance Officer; Vice President – Corporate Controller; President Vehicle Products; Assistant Corporate Controller; Corporate Treasurer; Assistant Corporate Treasurer; Corporate Secretary, Assistant Corporate Secretary; corporate financial, accounting and investor relations executives; controllers throughout the Company and persons performing similar functions (the “**Senior Financial Executives**”).
4. All illegal and/or unethical acts are prohibited under this Code.

B. COMMITMENT & FOCUS

1. The Company is committed to complying with all standards of ethical and lawful conduct. This commitment goes **beyond compliance**. We believe that ethical and lawful conduct is the foundation for our success. Integrity in everything we do is a requirement in all business operations. It is the foundation for mutually beneficial relationships with our customers, suppliers, and communities in which we live and work. All *associates* have assigned responsibilities in the operation of our business. Yet, there is another that we all share – the responsibility of acting with integrity in all business practices and relationships. This unanimity of purpose allows us to move quickly in exploring new ground; to act boldly in the face of competition; and to take risks whenever they are justified.
2. The term “**code of ethics**” shall mean a codification of standards that are reasonably designed to promote and reinforce ethical and lawful conduct. Specifically:
 - a. Honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
 - b. Avoidance of conflicts of interest, including disclosure to an appropriate person or persons identified in this *Code* of any material transaction or relationship that reasonably could be expected to give rise to such a conflict.
 - c. Full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with regulatory authorities or releases to the public.
 - d. Compliance with applicable governmental laws, rules and regulations.
 - e. The prompt reporting to an appropriate person or persons identified in this *Code* of violations of the Code.
 - f. Accountability for adherence to this *Code*.

C. DISCLOSURE CONTROLS

1. Each *Senior Financial Executive* shall endeavor, through actions which include, without limitation, the establishment, maintenance and periodic evaluation of appropriate disclosure controls and procedures and internal controls, to ensure that, with respect to each quarterly or annual report required by law to be filed by the Company (each a “**Report**”):
 - a. The *Report* does not contain any untrue statements of material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading.
 - b. The financial statements, and other financial information contained in each *Report* fairly present in all material respects the financial condition and results of operations of the Company as of, and for, the periods presented in the *Report*.
 - c. The *Report* discloses financial information relating to the Company in a full, fair, accurate, timely and understandable manner.
2. Each *Senior Financial Executive* shall endeavor to design disclosure controls and procedures and internal controls to ensure that material information relating to the Company and its consolidated subsidiaries is made known to such *Senior Financial Executives* by others within the Company.

D. ACCURACY & COMPLETENESS

1. *Senior Financial Executives*, as the primary executives for the complete and accurate financial reporting of the Company, to the best of their ability, shall not permit the reporting of any financial information of the Company which they believe is false or misleading in any material respect.
2. Should any *Senior Financial Executive* shall have reason to believe that the Company has reported or may be intending to report any false or misleading financial information, he/she shall promptly advise the **Chief Executive Officer** of the Company. If having done so, such *Senior Financial Executive* believes that appropriate action will not be taken to prevent such reporting, then the *Senior Financial Executive* shall report the matter to the **Chairman of the Audit Committee** of the Quanex Corporation Board of Directors (the “**Board**”).

E. PRIOR EMPLOYMENT

1. Each *Senior Financial Executive* shall fully disclose to the **Chairman of the Audit Committee** of the Board any prior employment of such executive with any accounting firm which the Company has engaged or proposes to engage, to perform auditing services.
2. Such *Senior Financial Executive* shall also fully disclose the scope of any work performed for the Company while employed by such accounting firm, and the time period during which such work was performed.

F. QUESTIONABLE TRANSACTIONS

1. No *Senior Financial Executive*, shall, directly or indirectly, through any business entity in which he/she or any of such executive’s family members have an interest or otherwise, engage in any transaction with the Company which is required to be reported in, or requires the exercise of any judgment as to whether it is required to be reported in, the financial records or statements of the Company.

2

2. The following are exceptions:

- a. Regular compensation, including bonuses, and employee benefits received in such executive’s capacity as an executive and employee of the Company.
- b. Transactions in goods and services routinely engaged in by the Company with its unaffiliated clients or customers on terms, subject to customary employee discounts and benefits, generally offered to its unaffiliated clients and customers.
- c. Transactions with publicly-held entities in which the executive has less than 0.1% equity interest and with respect to which transactions such executive has no decision-making role on behalf of such entity.
- d. Transactions fully disclosed to and approved in advance by the Audit Committee of the Board.

G. PROMPT DISCLOSURE

1. Each *Senior Financial Executive* shall promptly disclose to the **Company’s independent auditors** and to the **Chairman of the Audit Committee** of the Board his/her knowledge of the following:
 - a. All significant deficiencies in the design or operation of the Company’s internal controls which could adversely affect the Company’s ability to record, process, summarize, and report financial data.
 - b. Any material weakness in the Company’s internal controls.
 - c. Any fraud, whether or not material, that involves the Company’s management or other employees who have a significant role in the Company’s internal controls.
2. The *Senior Financial Executives* shall ensure that each *Report* fully, accurately and timely discloses whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls in connection with such *Report*, including any corrective actions with regard to significant deficiencies and material weakness.

H. REPORTING VIOLATIONS

1. In the event any *Senior Financial Executive* shall believe that the Company has engaged or is about to engage in any activity which violates any foreign, federal, state, or local law, rule or regulation, such *Senior Financial Executive* shall promptly advise the **Chief Executive Officer**, the **Chief Financial Officer**, or the **Chief Compliance Officer** in person, by telephone, letter, or electronic mail as follows:

- a. **By Letter**
Quanex Corporation
1900 West Loop South, Suite 1500
Houston, Texas 77027
- b. **By Telephone**
Direct Telephone (713) 877-5349
Toll Free Telephone (800) 231-8176
Toll Free **HOTLINE** (888) 704-8222
- c. **By Electronic Mail HOTLINE** **hotline@quanex.com**

2. If this is uncomfortable or inappropriate, or if having done so, such *Senior Financial Executive* believes that appropriate action will not be taken to address the violation or potential violation, then such *Senior Financial Executive* shall report the matter to the **Chairman of the Audit Committee** of the board.

-
3. The Company will not permit retaliation of any kind on or on behalf of the Company, against a *Senior Financial Executive*, or any *Associate*, as a result of a good faith report or an actual or suspected violation of this *Code* or any standard of ethical and lawful conduct. Retaliation is itself a violation of this *Code*. Any such retaliation shall be reporting using the reporting procedures outlined above.

I. ENFORCEMENT

1. If a *Senior Financial Executive* is found to be in violation of this *Code* the Company shall take appropriate action up to and including discharge, and if warranted, legal proceedings.
2. To the extent possible, investigations of allegations of violations of this *Code* will be maintained in confidence. The Company will inform only those individuals who have a need to know of the report in order to conduct a full and fair investigation of the allegations that have been made.
3. The **Chief Compliance Officer** may assist in the investigation and resolution of such alleged violation of this *Code*.

I. AMENDMENT, MODIFICATION, WAIVER & INTENT

1. This *Code* may be amended, modified or waived by the Board of Directors and waivers may also be granted by the Nominating & Corporate Governance Committee, subject to the disclosure and other provisions of the Securities Exchange Act of 1934, and the rules thereunder and the applicable rules of the New York Stock Exchange.
2. The *Quanex Corporation Code of Business Conduct & Ethics for Senior Financial Executives (Quanex Policy C-2)* is intended as a directive for the efficient and professional performance of all *Senior Financial Executives*. Nothing herein contained shall be construed to be a contract between Quanex Corporation and the *Senior Financial Executive*. Additionally, this *Code* is not to be construed as containing binding terms and conditions of employment. This employment relationship with the Company is “at will” and the Company retains the absolute right to terminate any Senior Financial Executive, at any time, with or without cause.
3. The Company shall immediately disclose, by means of the filing of a Current Report on Form 8-K or by such other means as the Securities and Exchange Commission may require, any changes in or waiver of this *Code*.

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Raymond A. Jean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

March 11, 2004

/s/ RAYMOND A. JEAN

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

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Terry M. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 11, 2004

/s/ TERRY M. MURPHY

TERRY M. MURPHY

Vice President – Finance and

Chief Financial Officer

(Principal Financial Officer)

**Certification Pursuant To Section 906
of the Sarbanes-Oxley Act of 2002**

We hereby certify that the accompanying Report of Quanex Corporation on Form 10-Q for the quarter ended January 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Corporation.

March 11, 2004

/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*