

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the fiscal year ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
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Commission File Number 1-5725

A. Full title of the plan and the address of the plan, if different from that of the issuer name below:

Nichols-Homeshield 401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Quanex Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
(713) 961-4600

## INDEPENDENT AUDITORS' REPORT

The Benefits Committee  
Quanex Corporation  
Houston, Texas

Re: Nichols Homeshield 401(k) Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Nichols Homeshield 401(k) Savings Plan (the "Plan") as of December 31, 1997 and 1996 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 1997 and 1996 and the changes in net assets available for benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of (1) investments as of December 31, 1997 and (2) 5% reportable transactions for the year ended December 31, 1997 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 1997 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP  
DELOITTE & TOUCHE LLP

May 22, 1998

QUANEX CORPORATION  
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN  
 STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31,	
	1997	1996
Assets:		
Investments, at fair value:		
Mutual fund assets:		
Fidelity Puritan Fund	\$ 397,572	\$ 368,260
Fidelity Magellan Fund	6,336,645	4,613,459
Fidelity Contrafund	4,445,215	3,436,148
Fidelity Growth and Income Fund	8,237,910	5,722,217
Fidelity Overseas Fund	935,104	339,269
Fidelity Balanced Fund	1,951,329	1,441,746
Fidelity Government Money Market Fund	6,234,283	6,587,993
Templeton Foreign Fund	237,963	58,309
Quanex Corporation Common Stock	708,813	518,125
Fidelity Common/Commingled Trust	682,073	764,169
	-----	-----
	30,166,907	23,849,695
Participant loans	1,311,591	1,067,089
	-----	-----
Total	31,478,498	24,916,784
	-----	-----
Employee contributions receivable	170,839	126,604
Employer contributions receivable	107,102	96,848
	-----	-----
Total	277,941	223,452
	-----	-----
Net assets available for benefits	\$31,756,439	\$25,140,236
	=====	=====

See notes to financial statements.

QUANEX CORPORATION  
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN  
 STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE  
 FOR BENEFITS

	Year Ended December 31,	
	1997	1996
	-----	-----
Investment income:		
Interest and dividends	\$ 1,924,289	\$ 1,760,124
Net appreciation in fair value of investments	3,025,902	1,044,037
	-----	-----
Total income	4,950,191	2,804,161
	-----	-----
Contributions:		
Employer	1,375,887	1,302,003
Less forfeitures	36,396	34,342
	-----	-----
Total contributions	1,339,491	1,267,661
	-----	-----
Employee	1,766,898	1,464,390
	-----	-----
Total contributions	3,106,389	2,732,051
	-----	-----
Interest on participant loans	90,456	69,555
	-----	-----
Total additions	8,147,036	5,605,767
	-----	-----
Benefit payments	1,524,355	2,154,169
Administrative fees	6,478	6,125
	-----	-----
Total deductions	1,530,833	2,160,294
	-----	-----
Increase in net assets available for benefits	6,616,203	3,445,473
Net assets available for benefits:		
Beginning of year	25,140,236	21,694,763
	-----	-----
End of year	\$31,756,439	\$25,140,236
	=====	=====

See notes to financial statements.

QUANEX CORPORATION  
NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1997 and 1996

A. DESCRIPTION OF THE PLAN

The following description of the Nichols-Homeshield 401(k) Savings Plan (the "Plan") is provided for general informational purposes only. Participants should refer to the Plan document for more complete information.

- (1) General. The Plan was established on October 1, 1987, and was amended and restated effective January 1, 1989, as a defined contribution plan under Section 401(k) of the Internal Revenue Code ("Code") which covers substantially all salaried and non-union hourly employees at the Nichols-Homeshield division of Quanex Corporation (the "Company") and bargaining unit employees at the Lincolnshire, Illinois plant. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The assets of the Plan are held in trust by Fidelity Management Trust Company ("Fidelity" or the "Trustee"). The Benefits Committee (the "Committee"), appointed by the Company's Board of Directors, serves as the Plan administrator.
- (2) Contributions. Employees are eligible to make salary deferral contributions to the Plan on the entry date next following the date that the employee completes one month of service. Participants may elect salary deferrals between 1% and 15% of compensation as defined by the Plan agreement. The Company makes contributions on behalf of employees who have at least one year of service. The Company contribution is based on Company profits and is calculated based on a percentage of the employee's compensation.
- (3) Participant Accounts. Each participant's account is credited with the participant's contribution, the employer's contribution, and an allocation of investment income. Investment income allocations are based on individual participant account balances as of the end of the period in which the income is earned.
- (4) Investment Options. Participants may direct allocation of their contributions to the following funds:
  - Government Money Market Fund - invested and reinvested in short-term government obligations.
  - Balanced Fund - invested and reinvested in common and preferred stocks and bonds.
  - Growth and Income Fund - invested and reinvested in equity and debt securities of foreign and domestic companies.
  - Magellan Fund - invested and reinvested in equity and debt securities of foreign and domestic companies.
  - Contrafund - invested and reinvested in equities of foreign and domestic companies.
  - Overseas Fund - invested and reinvested in foreign securities.
  - Puritan Fund - invested and reinvested in common and preferred stocks and bonds.
  - Templeton Foreign Fund - invested and reinvested in foreign securities.
  - Quanex Corporation Common Stock - invested and reinvested exclusively in the common stock of Quanex Corporation.
  - Common/Commingled Trust - invested and reinvested in investment contracts issued by insurance companies, banks and other financial institutions.

- (5) Vesting. Participants are immediately vested in their voluntary contributions and earnings thereon. Vesting in the employer contribution is based on years of credited service. A participant is 20% vested for each year of credited service and fully vested after five years. If a participant terminates employment prior to becoming fully vested, the nonvested portion of the employer contributions are immediately forfeited by the participant and utilized to reduce future employer contributions.
- (6) Payment of Benefits. The Plan is intended for long-term savings but provides for early withdrawals and loan arrangements under certain conditions. Upon termination of service, a participant may elect to receive a cash lump-sum distribution equal to the amount of vested benefits in his or her account. As of December 31, 1997 and 1996, net assets available for benefits included benefits of \$3,479 and \$22,530, respectively, due to participants who had withdrawn from participation in the Plan.
- (7) Loans. Loans may be granted to a participant of the Plan at the Committee's discretion. Loan terms range up to five years or seven years if used for the purchase of a primary residence. The loans bear a reasonable rate of interest established by the Committee. Interest on the loan is allocated to the borrower's participant account. Loan set-up fees and carrying fees are paid by the participant to Fidelity.

#### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Accounting Basis. The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.
- (2) Administrative Expenses. Administrative expenses of the Plan are paid by the Company. Loan set up fees and carrying fees are paid by the participant to Fidelity.
- (3) Investment Valuation. The Plan recognizes net appreciation or depreciation in the fair value of its investments. Investments are reflected at fair value in the financial statements. Fair value of mutual fund assets is determined using a quoted net asset value. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined by using the last recorded sales price. The fair value of the common/commingled trust is at face value.
- (4) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in the net assets available for benefits during the reporting period. The Plan's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.
- (5) Payment of Benefits. Benefit payments are recorded when paid.

#### C. PLAN TERMINATION

Although it has not expressed any intention to do so, the Company has the right under the Plan to terminate the Plan at any time subject to the provisions set forth in ERISA. In the event of plan termination, the assets held by the Trustee under the Plan will be valued and fully vested, and each participant will be entitled to distributions respecting his or her account.

## D. FEDERAL INCOME TAX STATUS

The Plan is subject to specific rules and regulations related to employee benefit plans under the Department of Labor and the Internal Revenue Service ("IRS"). The Plan is a qualified trust under Sections 401(a) and 401(k) of the Code and, as a result, is exempt from taxation under Section 501(a) of the Code. The Plan received a favorable determination letter dated December 22, 1994 from the IRS. The Company believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, it believes the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

## E. RELATED PARTY TRANSACTIONS

During the years ended December 31, 1997 and 1996, the Plan purchased and sold shares of Quanex Corporation common stock, as shown below:

	1997			1996		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
Purchases	11,896	\$334,213		6,087	\$145,904	
Sales	5,620	138,365	\$175,262	18,735	370,590	\$435,319

During the years ended December 31, 1997 and 1996, the Plan purchased and sold shares of Fidelity mutual funds, as shown below:

	1997			1996		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
Purchases	2,068,366	\$27,387,956		2,158,747	\$12,577,957	
Sales	2,308,384	23,537,694	\$24,173,502	1,918,003	10,179,781	\$10,508,116

During the years ended December 31, 1997 and 1996, the Plan purchased and sold shares of Fidelity Common/Commingled Trust, as shown below:

	1997			1996		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
Purchases	17,350,916	\$17,350,916		5,950,598	\$5,950,598	
Sales	17,433,012	17,433,012	17,433,012	5,625,983	5,625,983	\$5,625,983

## F. SUPPLEMENTAL FUND INFORMATION

Contributions, benefit payments and investment income by fund were as follows for the years ended December 31:

	1997	1996
	-----	-----
Employee Contributions:		
Fidelity Puritan Fund	\$ 48,109	\$ 24,360
Fidelity Magellan Fund	366,386	339,683
Fidelity Contrafund	293,331	220,724
Fidelity Growth and Income Fund	404,124	333,733
Fidelity Overseas Fund	50,026	41,056
Fidelity Balanced Fund	161,137	129,715
Fidelity Government Money Market Fund	301,382	303,711
Templeton Fund	30,357	4,847
Quanex Corporation Common Stock	37,702	28,928
Fidelity Common/Commingled Trust	74,344	37,633
	-----	-----
	\$1,766,898	\$1,464,390
	=====	=====

	1997	1996
	-----	-----
Employer Contributions:		
Fidelity Puritan Fund	\$ 24,300	\$ 20,637
Fidelity Magellan Fund	287,744	268,954
Fidelity Contrafund	205,277	182,916
Fidelity Growth and Income Fund	274,829	247,719
Fidelity Overseas Fund	26,937	24,525
Fidelity Balanced Fund	126,436	121,618
Fidelity Government Money Market Fund	322,674	345,797
Templeton Foreign Fund	11,331	2,311
Quanex Corporation Common Stock	28,513	25,760
Fidelity Common/Commingled Trust	31,450	27,424
	-----	-----
	\$1,339,491	\$1,267,661
	=====	=====

	1997	1996
	-----	-----
Benefit payments:		
Fidelity Puritan Fund	\$ 27,309	\$ 42,523
Fidelity Magellan Fund	265,735	393,328
Fidelity Contrafund	173,081	73,823
Fidelity Growth and Income Fund	362,756	455,730
Fidelity Overseas Fund	21,351	121,544
Fidelity Balanced Fund	75,691	197,261
Fidelity Government Money Market Fund	547,972	842,522
Templeton Foreign Fund	842	--
Quanex Corporation Common Stock	2,853	11,667
Fidelity Common/Commingled Trust	46,765	15,771
	-----	-----
	\$1,524,355	\$2,154,169
	=====	=====



	1997	1996
	-----	-----
Investment income:		
Fidelity Puritan Fund	\$ 69,603	\$ 39,483
Fidelity Magellan Fund	1,263,804	483,131
Fidelity Contrafund	784,366	573,106
Fidelity Growth and Income Fund	1,835,146	937,521
Fidelity Overseas Fund	207,707	74,008
Fidelity Balanced Fund	358,885	118,163
Fidelity Government Money Market Fund	336,082	331,052
Templeton Foreign Fund	3,587	5,015
Quanex Corporation Common Stock	44,145	210,499
Fidelity Common/Commingled Trust	46,866	32,183
	-----	-----
	\$4,950,191	\$2,804,161
	=====	=====

ITEM 27-A SCHEDULE OF ASSETS HELD FOR INVESTMENTS PURPOSES  
 EIN: 38-1872178; PN 017

QUANEX CORPORATION  
 NICHOLS-HOMESHIELD 401(k) SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF INVESTMENTS  
 AS OF DECEMBER 31, 1997

	Shares/ Par Value	Cost	Current Value
	-----	-----	-----
Mutual Fund Assets - Fidelity Investments:			
Puritan Fund*	20,515	\$ 365,283	\$ 397,572
Magellan Fund*	66,512	5,145,551	6,336,645
Contrafund*	95,330	3,608,428	4,445,215
Growth and Income Fund*	216,218	5,648,968	8,237,910
Overseas Fund*	28,737	901,385	935,104
Balanced Fund*	127,788	1,766,041	1,951,329
Government Money Market Fund*	6,234,283	6,234,283	6,234,283
Templeton Foreign Fund*	23,916	257,691	237,963
		-----	-----
Total Mutual Fund Assets		23,927,630	28,776,021
Quanex Corporation Common Stock*	25,202	618,447	708,813
Fidelity Common/Commingled Trust*	682,073	682,073	682,073
Participant loans (bearing interest rates from 7.85% to 11%)		1,311,591	1,311,591
		-----	-----
Total Investments		\$26,539,741	\$31,478,498
		=====	=====

\* Party-in-Interest

## ITEM 27-D - SCHEDULE OF REPORTABLE (5%) TRANSACTIONS EIN 38-1872178; PN 017

QUANEX CORPORATION  
NICHOLS-HOMESHIELD 401(k)SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF 5% REPORTABLE TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 1997

Description	Total Number of Purchases During the Plan Year	Series of Transactions			Cost of Asset	Current	Net Gain (Loss)
		Purchase Price	Total Number of Sales During the Plan Year	Selling Price		Current Value on Transaction Date	
Fidelity Investments: Magellan*	133	\$1,631,892	81	\$ 772,845	\$ 674,389	\$ 772,845	\$ 98,456
Contrafund*	111	1,865,383	67	1,215,906	1,099,347	1,215,906	116,559
Growth & Income*	140	3,665,022	90	2,618,499	2,393,374	2,618,499	225,125
Overseas*	135	17,597,648	69	17,164,239	17,015,413	17,164,239	148,826
Balanced*	85	899,035	55	510,783	476,053	510,783	34,730
Common/Commingled Trust*	148	17,350,916	79	17,433,012	17,433,012	17,433,012	0
Gov't Money Market*	106	1,288,607	98	1,642,318	1,642,318	1,642,318	0

\* Party-in-Interest

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Nichols-Homeshield 401 (k) Savings Plan

Date: June 29, 1998

/s/ Wayne M. Rose

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Wayne M. Rose, Benefits Committee

INDEX TO EXHIBITS

23.1 Independents Auditor's Consent

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-54081 of Quanex Corporation on Form S-8 of our report dated May 22, 1998 appearing in the Annual Report of Form 11-K of the Nichols-Homeshield 401 (k) Savings Plan for the year ended December 31, 1997.

/s/ DELOITTE & TOUCHE LLP  
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DELOITTE & TOUCHE LLP

Houston, Texas  
June 29, 1998