

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, 1996

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

38-1872178

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(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 X No

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

Class	Outstanding at January 31, 1996
-------	---------------------------------

----- Common Stock, par value \$0.50 per share	----- 13,517,825
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QUANEX CORPORATION  
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	January 31, 1996 ----- (Unaudited)	October 31, 1995 ----- (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and equivalents .....	\$ 17,565	\$ 45,213
Accounts and notes receivable, net .....	95,773	104,240
Inventories .....	96,823	84,676
Deferred income taxes .....	6,829	6,848
Prepaid expenses .....	1,757	1,398
	-----	-----
Total current assets .....	218,747	242,375
Property, plant and equipment .....	529,817	525,325
Less accumulated depreciation and amortization ....	(275,556)	(266,761)
	-----	-----
Property, plant and equipment, net .....	254,261	258,564
Goodwill, net .....	31,826	32,064
Other assets .....	13,425	13,744
	-----	-----
	\$518,259	\$546,747
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable .....	\$ -	\$ 10,000
Accounts payable .....	73,473	91,730
Income taxes payable .....	2,965	423
Accrued expenses .....	35,484	42,087
Current maturities of long-term debt .....	135	20,968
	-----	-----
Total current liabilities .....	112,057	165,208
Long-term debt .....	138,060	111,894
Deferred pension credits .....	16,236	16,656
Deferred postretirement welfare benefits .....	53,706	53,185
Deferred income taxes .....	27,546	29,278
	-----	-----
Total liabilities .....	347,605	376,221
Stockholders' equity:		
Common stock, \$.50 par value .....	6,759	6,743
Additional paid-in capital .....	93,008	92,406
Retained earnings .....	73,923	74,426
Unearned compensation .....	(304)	(317)
Adjustment for minimum pension liability .....	(2,732)	(2,732)
	-----	-----
Total stockholders' equity .....	170,654	170,526
	-----	-----
	\$518,259	\$546,747
	=====	=====

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

	Three Months Ended January 31,	
	1996	1995
	(Unaudited)	
Net sales .....	\$188,772	\$199,886
Cost and expenses:		
Cost of sales .....	167,486	177,189
Selling, general and administrative expense .....	11,609	12,286
Operating income .....	9,677	10,411
Other income (expense):		
Interest expense .....	(2,880)	(3,116)
Capitalized interest .....	49	1,030
Other, net .....	132	(303)
Income before income taxes and extraordinary charge ...	6,978	8,022
Income tax expense .....	(2,931)	(3,369)
Income before extraordinary charge .....	4,047	4,653
Extraordinary charge - early extinguishment of debt ...	(2,522)	(2,021)
Net income .....	1,525	2,632
Preferred dividends .....	-	(1,484)
Net income attributable to common stockholders .....	\$ 1,525	\$ 1,148
Earnings per common share:		
Earnings before extraordinary charge .....	\$ 0.30	\$ 0.23
Extraordinary charge .....	(0.19)	(0.15)
Earnings per common share .....	\$ 0.11	\$ 0.08
Weighted average shares outstanding .....	13,595	13,566
	=====	=====

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)

	Three Months Ended January 31,	
	1996	1995
	(Unaudited)	
<b>Operating activities:</b>		
Net income .....	\$ 1,525	\$ 2,632
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization .....	9,347	8,494
Deferred income taxes .....	(1,732)	(532)
Deferred pension costs .....	(420)	(336)
Deferred postretirement welfare benefits .....	521	676
	9,241	10,934
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable ....	8,467	(14,491)
Decrease (increase) in inventory .....	(12,147)	(11,991)
Increase (decrease) in accounts payable .....	(18,257)	12,336
Increase (decrease) in accrued expenses .....	(6,603)	(1,378)
Other, net .....	2,202	10
	(17,097)	(4,580)
<b>Investment activities:</b>		
Capital expenditures, net of retirements .....	(4,502)	(9,242)
Decrease in short-term investments .....	-	54,070
Other, net .....	15	216
	(4,487)	45,044
Cash provided (used) by investment activities .....	(4,487)	45,044
Cash provided (used) by operating and investment activities .....	(21,584)	40,464
<b>Financing activities:</b>		
Notes payable borrowings (repayments) .....	(10,000)	10,000
Purchase of Senior Notes .....	(44,667)	(59,500)
Bank borrowings (repayments), net .....	50,000	-
Common dividends paid .....	(2,028)	(1,879)
Preferred dividends paid .....	-	(1,484)
Other, net .....	631	1,095
	(6,064)	(51,768)
Cash used by financing activities .....	(6,064)	(51,768)
Increase (decrease) in cash and equivalents .....	(27,648)	(11,304)
Cash and equivalents at beginning of period .....	45,213	34,041
	\$17,565	\$22,737
Cash and equivalents at end of period .....	\$17,565	\$22,737
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest .....	\$ 5,369	\$ 2,475
Income taxes .....	\$ 273	\$ 1,147

QUANEX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Accounting Policies

-----  
The interim consolidated financial statements of Quanex Corporation and subsidiaries are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1995 Annual Report on Form 10-K, which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1996 classifications.

2. Inventories

Inventories consist of the following:	January 31, 1996	October 31, 1995
	-----	-----
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials .....	\$33,110	\$27,655
Finished goods and work in process.....	53,376	48,071
	-----	-----
	86,486	75,726
Other.....	10,337	8,950
	-----	-----
	\$96,823	\$84,676
	=====	=====

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$22 million at January 31, 1996, and \$24 million at October 31, 1995.

3. Long-Term Debt and Financing Arrangements

-----  
On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). Interest is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

In December 1995, the Company acquired all of its outstanding 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses resulted in an after-tax extraordinary charge of approximately \$2.5 million (\$4.3 million before tax) in the first quarter of 1996.

At January 31, 1996, the Company had \$50.0 million outstanding under its unsecured \$75 million Revolving Credit and Letter of Credit Agreement ("Bank Agreement"). In December 1995, the Bank Agreement was amended to increase the amount of the credit facility from \$48 million to \$75 million. The Bank Agreement consists of a revolving line of credit ("Revolver"), which expires March 31, 1999, and up to \$20 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. Borrowings under the Revolver during the first quarter of 1996 were used to fund the repurchase of the Company's 10.77% Senior Notes.



QUANEX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

4. Industry Segment Information

Quanex is principally a specialty metals producer. The Company's operations primarily consist of four segments: hot rolled steel bars, cold finished steel bars, steel tubes, and aluminum products.

Three Months Ended January 31, 1996	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consoli- dated
-----						
(in thousands)						
Units shipped:						
To unaffiliated companies	103.2 Tons	39.4 Tons	22.9 Tons	49,874 Lbs.		
Intersegment.....	7.6	-	-	-		
-----						
Total.....	110.8 Tons	39.4 Tons	22.9 Tons	49,874 Lbs.		
=====						
Net Sales:						
To unaffiliated companies	\$57,108	\$37,625	\$30,150	\$63,889	-	\$188,772
Intersegment(2).....	4,443	-	-	-	\$(4,443)	-
-----						
Total.....	\$61,551	\$37,625	\$30,150	\$63,889	\$(4,443)	\$188,772
=====						
Operating income (loss)..	\$ 7,335	\$ 2,672	\$ 1,955	\$ 1,651	\$(3,936)	\$ 9,677
=====						

Three Months Ended January 31, 1995	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consoli- dated
-----						
(in thousands)						
Units shipped:						
To unaffiliated companies	111.9 Tons	48.0 Tons	22.8 Tons	51,173 Lbs.		
Intersegment.....	5.2	-	-	-		
-----						
Total.....	117.1 Tons	48.0 Tons	22.8 Tons	51,173 Lbs.		
=====						
Net Sales:						
To unaffiliated companies	\$59,564	\$43,327	\$28,795	\$68,200	-	\$199,886
Intersegment(2).....	2,916	-	-	-	\$(2,916)	-
-----						
Total.....	\$62,480	\$43,327	\$28,795	\$68,200	\$(2,916)	\$199,886
=====						
Operating income (loss)..	\$ 6,976	\$ 2,669	\$ 1,879	\$ 4,185	\$(5,298)	\$ 10,411
=====						

(1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.

(2) Intersegment sales are conducted on an arm's-length basis.



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

RESULTS OF OPERATIONS

The Company classifies its operations into four business segments: hot rolled steel bars, cold finished steel bars, steel tubes and aluminum products. The Company's products are marketed to the industrial machinery and capital equipment industries, the transportation industry, the energy processing industry and the home building and remodeling industries.

The Company's steel businesses reflected slight improvements in operating income for the first quarter of fiscal 1996 as compared to the first quarter of fiscal 1995. The improvements were due primarily to higher selling prices and lower variable costs. Volume was lower in both the hot rolled steel bar business and the cold finished steel bar business. The improved results in the Company's steel businesses reflect the benefits realized from the Company's capital improvement programs, which have allowed the Company to increase capacity, improve quality and manage manufacturing costs. Hot rolled steel bar volume was down during the first quarter by 5% as compared to the first quarter of fiscal 1995. Cold finished steel bar volume was also down for the first quarter by 18% as compared to the first quarter of fiscal 1995.

The lower sales volumes in the Company's steel businesses were primarily attributable to a slowdown in the markets served by these businesses from the high levels experienced in the first quarter of fiscal 1995 and reflect historical seasonal trends in these businesses. Although the Company's first fiscal quarter is typically the slowest quarter with lower sales volumes than the prior fourth quarter, the first quarter of fiscal 1995 did not follow this trend of lower sales volumes due to unusually high demand in the markets served by these businesses.

The improvements realized in the Company's steel businesses were offset by lower profits in the Company's aluminum products business. The Company's aluminum products business was affected by weaker margins between selling prices and raw material costs. These margins, referred to herein as "price spreads", are a key financial performance indicator in the aluminum products business.

The Company currently expects that volume levels in the steel businesses should increase for the balance of fiscal 1996 and is currently seeing an increase in orders. Continued improved financial results, however, will be dependent upon, among other things, the strength of the economy, improvements in the markets which the Company serves and improvement in the price spreads of aluminum products.

In December 1995, the Company acquired its remaining 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The purchase resulted in an extraordinary loss of \$2.5 million in the first quarter of fiscal 1996.

Item 2 - Management's Discussion and Analysis of  
Results of Operations and Financial Condition (Continued)

The following table sets forth selected operating data for the Company's four businesses:

	Three Months Ended January 31,	
	----- 1996 -----	----- 1995 -----
	(In thousands)	
<b>Hot Rolled Steel Bars:</b>		
Units shipped (Tons).....	110.8	117.1
Net Sales.....	\$ 61,551	\$ 62,480
Operating income.....	\$ 7,335	\$ 6,976
Depreciation and amortization.....	\$ 4,590	\$ 3,870
Identifiable assets.....	\$168,405	\$170,467
<b>Cold Finished Steel Bars:</b>		
Units shipped (Tons).....	39.4	48.0
Net Sales.....	\$ 37,625	\$ 43,327
Operating income.....	\$ 2,672	\$ 2,669
Depreciation and amortization.....	\$ 420	\$ 346
Identifiable assets.....	\$ 55,588	\$ 57,143
<b>Steel Tubes:</b>		
Units shipped (Tons).....	22.9	22.8
Net Sales.....	\$ 30,150	\$ 28,795
Operating income.....	\$ 1,955	\$ 1,879
Depreciation and amortization.....	\$ 595	\$ 525
Identifiable assets.....	\$ 43,857	\$ 39,452
<b>Aluminum Products:</b>		
Units shipped (Pounds).....	49,874	51,173
Net Sales.....	\$ 63,889	\$ 68,200
Operating income.....	\$ 1,651	\$ 4,185
Depreciation and amortization.....	\$ 3,483	\$ 3,331
Identifiable assets.....	\$232,616	\$245,021

Consolidated net sales for the three months ended January 31, 1996, were \$188.8 million representing a decrease of \$11.1 million or 6% when compared to the same period last year. The decrease was due principally to lower volume in the hot rolled and cold finished steel bar businesses and lower volume and selling prices in the aluminum products business.

Net sales from the Company's hot rolled steel bar business for the three months ended January 31, 1996, were \$61.6 million as compared to \$62.5 million for the same 1995 period. This represents a decrease of \$929 thousand or 1%. This decrease was attributable to a 5% decrease in volume, principally automotive related business. This decrease was substantially offset by a 4% increase in average selling prices.

Net sales from the Company's cold finished steel bar business for the three months ended January 31, 1996, were \$37.6 million as compared to \$43.3 million for the same 1995 period. This represents a decrease of \$5.7 million or 13%. The decrease reflects a 18% decrease in volume that was partially offset by a 6% increase in average selling prices. The decrease in volume was largely due to steel service center customers working off excess inventories.

Item 2 - Management's Discussion and Analysis of  
Results of Operations and Financial Condition (Continued)

Net sales from the Company's steel tube business for the three months ended January 31, 1996, increased 5% from \$28.8 million in 1995 to \$30.2 million for the first fiscal quarter of 1996. The increase was principally attributable to a 4% improvement in average selling prices. Average prices also improved partly due to product mix changes and continued strength in the heat exchanger/condenser markets.

Net sales from the Company's aluminum products business for the three months ended January 31, 1996, were \$63.9 million as compared to \$68.2 million for the same 1995 period. This decrease of \$4.3 million, or 6%, was attributable to a 3% decrease in volume and a 4% decrease in average selling prices. These decreases reflect a return to a more typical seasonal pattern as the first quarter of fiscal 1995 benefitted from unusually strong demand.

Consolidated operating income for the three months ended January 31, 1996, was \$9.7 million, representing a decrease of \$734 thousand, or 7%, when compared to the same period last year. This decrease was principally due to lower sales volume in all but the steel tubes business and substantially lower margins in the Company's aluminum products business.

Operating income from the Company's hot rolled steel bar business for the three months ended January 31, 1996, was \$7.3 million as compared to \$7.0 million for the same 1995 period. This increase of approximately 5% was due to higher selling prices and lower variable costs per ton. The resulting improvement in margins was mostly offset by lower sales volume.

Operating income from the Company's cold finished steel bar business for the three months ended January 31, 1996, was \$2.7 million and was essentially unchanged as compared to the same 1995 period. Lower volume was offset by higher selling prices and improved margins.

Operating income from the Company's steel tube business for the three months ended January 31, 1996, was up 4% to \$2.0 million as compared to \$1.9 million for the same 1995 period.

Operating income from the Company's aluminum products business for the three months ended January 31, 1996, was \$1.7 million as compared to \$4.2 million for the same 1995 period. The \$2.5 million decrease reflected weaker price spreads as well as lower sales volume.

Selling, general and administrative expenses decreased by \$677 thousand, or 6%, for the three months ended January 31, 1996, as compared to the same period of 1995, primarily due to decreased levels of business activity. Selling, general and administrative expenses were unchanged as a percentage of net sales from the same period last year.

Interest expense decreased by \$236 thousand, to \$2.9 million, for the three months ended January 31, 1996, as compared to the same period of 1995 primarily as a result of the early extinguishment of a portion of the Company's senior debt late in the first quarter of fiscal 1995 and the early extinguishment of the Company's remaining senior debt in the first fiscal quarter of 1996. The decrease in interest associated with the Company's senior debt was offset by interest on the Company's \$84.9 million of 6.88% Convertible Subordinated Debentures that were issued in June 1995 in exchange for the Company's outstanding preferred stock.

Item 2 - Management's Discussion and Analysis of  
Results of Operations and Financial Condition (Continued)

Net income attributable to common shareholders for the three months ended January 31, 1996, was \$1.5 million as compared to \$1.1 million for the same 1995 period, after deducting preferred dividends of \$1.5 million from the 1995 period. The improvement was principally attributable to nondeductible preferred stock dividend requirements on the Company's Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock") in 1995 being replaced by tax deductible interest in 1996 on the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007 (the "Debentures") issued in exchange therefor, and investment losses of \$293 thousand in 1995 compared to investment income of \$332 thousand in 1996. These improvements were partly offset by lower operating income and capitalized interest.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under a \$75 million unsecured revolving credit facility with a group of banks (the "Bank Agreement"). All borrowings under the Bank Agreement bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. The Bank Agreement was amended in December 1994 to extend the maturity of the facility to March 31, 1999. In December 1995, the Bank Agreement was amended to increase the amount of the credit facility to \$75 million. Under the Bank Agreement, at January 31, 1996, there were \$50.0 million of outstanding borrowings and \$2.1 million of outstanding letters of credit. The amount outstanding under the Bank Agreement increased during the quarter ended January 31, 1996, in order to fund the repurchase of the Company's remaining senior debt.

In December 1995, the Company acquired all of its outstanding 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses resulted in an after-tax extraordinary charge of approximately \$2.5 million in the first quarter of 1996. The acquisition was funded with cash and additional short-term borrowings.

On June 30, 1995, the Company exercised its right under the terms of the Preferred Stock to exchange such stock for \$84,920,000 of Debentures. Interest on the Debentures is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

At January 31, 1996, the Company had commitments of \$10 million for the purchase or construction of capital assets. The Company's \$52 million (not including approximately \$9 million in capitalized interest) Phase II MacSteel Ultra Clean Steel Program, which increased capacity by approximately 50,000 tons, was completed in fiscal 1995. In December 1995, the Company's Board of Directors approved Phase III of the MacSteel expansion project. Phase III is designed to improve melting and casting capabilities and is expected to increase capacity by approximately 70,000 tons. The project also includes significant upgrades to pollution control systems to ensure compliance with new EPA standards under the Clean Air Act. Phase III is expected to cost approximately \$60 million and should be completed during fiscal year 1998. The Company plans to fund this capital investment through cash flow from operations and, if necessary, additional borrowings.

Item 2 - Management's Discussion and Analysis of  
Results of Operations and Financial Condition (Continued)

In management's opinion, the Company currently has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. Management believes that cash flow from operations, cash balances and available borrowings should be sufficient for the foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements and dividends.

Operating Activities

Cash used by operating activities during the three months ended January 31, 1996, was \$17.1 million as compared to \$4.6 million during the three months ended January 31, 1995. The increase in cash used by operating activities was principally due to increased working capital requirements.

Investment Activities

Net cash used by investment activities during the three months ended January 31, 1996, was \$4.5 million as compared to net cash provided by investment activities of \$45.0 million for the same 1995 period. The decrease in cash provided by investment activities was principally due to decreases in short-term investments during the three months ended January 31, 1995. Capital expenditures for the three months ended January 31, 1996, were \$4.5 million as compared to \$9.2 million for the same 1995 period. The Company estimates that fiscal 1996 capital expenditures will approximate \$50 to \$60 million.

Financing Activities

Cash used by financing activities for the three months ended January 31, 1996, was \$6.1 million, principally consisting of \$44.7 million for the early extinguishment of long-term debt, a \$10.0 million reduction in notes payable and \$2.0 million in common dividends. These uses of funds were mostly offset by long-term bank borrowings of \$50.0 million.

PART II. OTHER INFORMATION

Item 5 - Other Information

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None

Item 6 - Exhibits and Reports on Form 8-K.

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Exhibit 11            Statement re computation of per share earnings.

Exhibit 27            Financial Data Schedule.

No reports on Form 8-K were filed by the Company during the quarter for which this report is being filed.

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

/s/ Viren M. Parikh

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Viren M. Parikh  
Controller (Chief Accounting Officer)

Date    March 8, 1996

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QUANEX CORPORATION  
 COMPUTATION OF EARNINGS PER COMMON SHARE  
 (In thousands, except per share amounts)

	Three Months Ended January 31,	
	1996	1995
	(Unaudited)	
Income before extraordinary charge .....	\$4,047	\$ 4,653
Extraordinary charge - early extinguishment of debt ..	(2,522)	(2,021)
Net income .....	1,525	2,632
Preferred dividend requirements .....	-	(1,484)
Net income attributable to common stockholders .....	\$1,525	\$ 1,148
Weighted average shares outstanding-primary .....	13,595	13,566
Earnings per common share:		
Primary:		
Income before extraordinary charge .....	\$ 0.30	\$ 0.23
Extraordinary charge .....	(0.19)	(0.15)
Earnings per common share .....	\$ 0.11	\$ 0.08
Income before extraordinary charge .....	\$4,047	\$ 4,653
Extraordinary charge - early extinguishment of debt ..	(2,522)	(2,021)
Net income .....	1,525	2,632
Interest on 6.88% convertible subordinated debentures and amortization of related issuance costs, net of applicable income taxes .....	893	-
Adjusted net income .....	\$2,418	\$ 2,632
Weighted average shares outstanding-primary .....	13,595	13,566
Effect of common stock equivalents arising from stock options .....	18	-
Preferred stock assumed converted to common stock .....	-	2,738
Subordinated debentures assumed converted to common stock .....	2,696	-
Weighted average shares outstanding-fully diluted .....	16,309	16,304
Earnings per common share:		
Assuming full dilution:		
Earnings before extraordinary charge .....	\$ 0.30	\$ 0.28
Extraordinary charge .....	(0.15)	(0.12)
Earnings per common share .....	\$ 0.15	\$ 0.16

This schedule contains summary financial information extracted from the balance sheet as of January 31, 1996 and the income statement for the three months ended January 31, 1996 and is qualified in its entirety by reference to such financial statements.

	1,000
	3-MOS
OCT-31-1996	
NOV-01-1995	
JAN-31-1996	17,565
	0
	95,773
	0
	96,823
218,747	529,817
	275,556
	518,259
112,057	
	138,060
	6,759
0	
	0
	163,895
518,259	
	188,772
188,772	
	167,486
	167,486
	0
	0
2,880	
	6,978
	2,931
4,047	
	0
	2,522
	0
	1,525
	0.110
	0.150