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 July 31, 2003

OR

**o 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 o

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

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 July 31, 2003
Common Stock, par value $0.50 per share	16,079,973

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	July 31, 2003	October 31, 2002
ASSETS		
Current assets:		
Cash and equivalents	$ 10,831	$ 18,283
Accounts and notes receivable, net	117,071	116,122
Other Receivables	6,421	—
Inventories	100,344	90,756
Deferred income taxes	7,270	9,302
Other current assets	1,763	1,338
Total current assets	243,700	235,801
Property, plant and equipment	788,379	773,855
Less accumulated depreciation and amortization	(448,153)	(420,723)
Property, plant and equipment, net	340,226	353,132
Goodwill, net	66,436	66,436
Cash surrender value insurance policies, net	24,651	25,799
Intangible assets	2,784	2,870
Other assets	3,485	5,102
	$ 681,282	$ 689,140
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,072	$ 76,588
Accrued liabilities	37,886	48,973
Income taxes payable	1,602	4,839
Other current liabilities	—	3,970
Current maturities of long-term debt	425	434
Total current liabilities	115,985	134,804
Long-term debt	69,394	75,131
Deferred pension credits	6,019	4,960
Deferred postretirement welfare benefits	8,035	7,928
Deferred income taxes	34,941	29,210
Other liabilities	13,910	15,712
Total liabilities	248,284	267,745
Stockholders' equity:		
Preferred stock, no par value	—	—
Common stock, $.50 par value	8,260	8,227
Additional paid-in capital	188,044	185,972
Retained earnings	253,092	232,074
Unearned compensation	(196)	(418)
Accumulated other comprehensive income	(3,043)	(3,479)
	446,157	422,376
Less: Common stock held by rabbi trust	(1,716)	(981)
Less: Cost of shares of common stock in treasury	(11,443)	—
Total stockholders' equity	432,998	421,395
	$ 681,282	$ 689,140

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Net sales	$ 260,277	$ 266,891	$ 744,396	$ 720,634
Cost and expenses:				
Cost of sales	217,838	216,469	625,331	591,882
Selling, general and administrative expense	12,643	14,099	40,238	39,960
Depreciation and amortization	11,728	11,292	35,769	33,884
Operating income	18,068	25,031	43,058	54,908
Other income (expense):				
Interest expense	(542)	(1,070)	(2,113)	(9,179)
Capitalized interest	—	346	—	1,879
Retired executive life insurance benefit	2,152	9,020	2,152	9,020
Other, net	399	(375)	2,211	1,469
Income before income taxes	20,077	32,952	45,308	58,097
Income tax expense	(6,454)	(8,615)	(15,537)	(17,668)
Net income	$ 13,623	$ 24,337	$ 29,771	$ 40,429
Earnings per common share:				
Basic	$ 0.85	$ 1.56	$ 1.84	$ 2.83
Diluted	$ 0.84	$ 1.42	$ 1.82	$ 2.55
Weighted average shares outstanding:				
Basic	16,055	15,560	16,176	14,303
Diluted	16,267	16,557	16,401	16,093
Cash dividends per share	$ 0.17	$ 0.16	$ 0.51	$ 0.48

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)
(Unaudited)

	Nine Months Ended July 31,	
	2003	2002
Operating activities:		
Net income	$ 29,771	$ 40,429
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of Piper Utah property	(405)	—
Loss on early extinguishment of debt	—	922
Retired executive life insurance benefit	(2,152)	(9,020)
Depreciation and amortization	36,032	34,107
Deferred income taxes	7,763	2,437
Deferred pension and postretirement benefits	1,166	(1,610)
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	(949)	293
Increase in inventory	(9,588)	(7,722)
Increase (Decrease) in accounts payable	(516)	3,678
Decrease in accrued liabilities	(11,087)	(697)
Increase (Decrease) in income taxes payable	(3,237)	2,457
Other, net	(4,861)	261
Cash provided by operating activities	41,937	65,535
Investment activities:		
Acquisition of Colonial Craft, net of cash acquired	—	(17,283)
Proceeds from sale of Piper Utah property	2,832	—
Capital expenditures, net of retirements	(22,752)	(28,100)
Other, net	(3,383)	(1,143)
Cash used for investment activities	(23,303)	(46,526)
Financing activities:		
Bank revolver and note repayments, net	(5,000)	(66,029)

Redemption and purchase of subordinated debentures	—	(1,314)
Purchase of Quanex common stock	(13,515)	—
Dividends paid on common stock	(8,120)	(7,012)
Issuance of common stock, net	2,809	30,716
Other, net	(2,260)	(3,603)
Cash used for financing activities	(26,086)	(47,242)
Decrease in cash and equivalents	(7,452)	(28,233)
Cash and equivalents at beginning of period	18,283	29,573
Cash and equivalents at end of period	$ 10,831	$ 1,340
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 2,070	$ 11,312
Cash paid during the period for income taxes	$ 10,734	$ 9,406
Cash received during the period for income tax refunds	$ 155	$ 126

Supplemental disclosures of non-cash financing activity:

The Company converted $57.4 million aggregate principal amount of its subordinated debentures to 1.8 million shares of common stock during the nine month period ended July 31, 2002.

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Significant Accounting Policies and New Accounting Pronouncements

The interim consolidated financial statements of Quanex Corporation and its subsidiaries (“Quanex” or the “Company”) 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. 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. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 2003 classifications.

The preparation of these financial statements 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, 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. 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: (1) 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, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. 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 11 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 and unanticipated changes to assumptions could require a provision for impairment in a future period.

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

	Years
Land improvements	10 to 25
Buildings	10 to 40
Machinery and equipment	3 to 20

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.

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 disclosed below.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Net income, as reported	$ 13,623	$ 24,337	$ 29,771	$ 40,429
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(397)	(326)	(1,132)	(977)
Pro forma net income	$ 13,226	$ 24,011	$ 28,639	$ 39,452
Earnings per common share:				
Basic as reported	$ 0.85	$ 1.56	$ 1.84	$ 2.83
Basic pro forma	$ 0.82	$ 1.54	$ 1.77	$ 2.76
Diluted as reported	$ 0.84	$ 1.42	$ 1.82	$ 2.55
Diluted pro forma	$ 0.82	$ 1.40	$ 1.76	$ 2.49

New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted this statement and included the new disclosure requirements in this report.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as "derivatives") and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The provisions of this statement are effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

2. Goodwill - - Adoption of SFAS 142

As of November 1, 2001, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. In accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter ended April 30, 2002, which indicated that goodwill was not impaired. The Company again reviewed goodwill for impairment as of August 31, 2002, which indicated that goodwill was not impaired. The Company plans to perform this annual impairment test as of August 31 each year or more frequently if certain indicators arise.

There were no changes in the carrying amount of goodwill for the nine months ended July 31, 2003. Since the Company adopted SFAS No. 142 on November 1, 2001, neither the current period ended July 31, 2003 nor the prior period ended July 31, 2002 included goodwill amortization.

3. Executive life insurance benefit / Other receivables

During the fiscal quarter ended July 31, 2003, a former executive of the Company, on whose life the Company held life insurance policies, died. As a result, the Company is entitled to receive life insurance proceeds totaling $6.4 million. Estimates of the cash surrender value of these life insurance policies amounting to $4.3 million were previously recognized in "Other assets" on the financial statements. The Company has recorded the $6.4 million proceeds as "Other receivables" on the financial statements and reduced "Other assets" by $4.3 million. The excess of the proceeds over the previously recorded cash surrender value amounting to $2.2 million was recognized as a non-taxable benefit on the income statement during the period ended July 31, 2003. The impact to the fiscal third quarter basic and diluted earnings per share of this benefit was $0.13.

4. Inventories

Inventories consist of the following:

	July 31, 2003	October 31, 2002
	(In thousands)	
Raw materials	$ 26,973	$ 24,307
Finished goods and work in process	64,182	58,108
	91,155	82,415
Other	9,189	8,341
	$ 100,344	$ 90,756

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

LIFO	$ 71,206	$ 64,269
FIFO	29,138	26,487

	$ 100,344	$ 90,756

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $9.3 million as of July 31, 2003 and $7.9 million as of October 31, 2002.

5. Acquired Intangible Assets

Intangible assets consist of the following ($ in thousands):

	As of July 31, 2003		As of October 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete Agreements	$ 313	$ 102	$ 313	$ 51
Patents	443	70	443	35
Total	$ 756	$ 172	$ 756	$ 86
Unamortized intangible assets:				
Tradename	$ 2,200		$ 2,200	

The aggregate amortization expense for the three and nine month periods ended July 31, 2003 is $29 thousand and $86 thousand, respectively. The aggregate amortization expense for the three and nine month periods ended July 31, 2002 was $12 thousand and $57 thousand, respectively. Estimated amortization expense for the next five years follows ($ in thousands):

Fiscal years ending October 31,	Estimated Amortization
2003	$ 115
2004	$ 115
2005	$ 100
2006	$ 86
2007	$ 46

6. 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 July 31, 2003			For the Three Months Ended July 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Total basic net earnings	$ 13,623	16,055	$ 0.85	$ 24,337	15,560	$ 1.56
Effect of Dilutive Securities						
Effect of common stock equiv. arising from stock options	—	148		—	296	
Effect of common stock held by rabbi trust	—	64		—	42	
Effect of conversion of subordinated debentures	—	—		(826)	659	
Diluted EPS						
Total diluted net earnings	$ 13,623	16,267	$ 0.84	$ 23,511	16,557	$ 1.42

	For the Nine Months Ended July 31, 2003			For the Nine Months Ended July 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Total basic net earnings	$ 29,771	16,176	$ 1.84	$ 40,429	14,303	$ 2.83
Effect of Dilutive Securities						
Effect of common stock equiv. arising from stock options	—	160		—	293	
Effect of common stock held by rabbi trust	—	65		—	39	
Effect of conversion of subordinated debentures	—	—		534	1,458	
Diluted EPS						
Total diluted net earnings	$ 29,771	16,401	$ 1.82	$ 40,963	16,093	$ 2.55

7. Comprehensive Income

Total comprehensive income for the three and nine months ended July 31, 2003 is $13.7 million and $30.2 million, respectively. Total comprehensive income for the three and nine months ended July 31, 2002 is $24.7 million and $43.4 million, respectively. Included in comprehensive income is net income and the effective portion of the gains and losses on derivative instruments designated as cash flow hedges.

8. Long-term Debt

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 for up to $25 million for standby letters of credit, limited to the undrawn amount available under the new 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. The Bank Agreement requires facility

fees, which are not significant, and maintenance of certain financial ratios and a minimum consolidated tangible net worth on a quarterly basis. Management believes the Company is currently in compliance with those requirements.

Long-term debt consists of the following (in thousands):

	July 31, 2003	October 31, 2002
Bank Agreement Revolver	$ 60,000	$ —
Previous Bank Agreement Revolver	—	65,000
Temroc Industrial Development Revenue Bonds	2,277	2,425
Industrial Revenue and Economic Development Bonds	1,665	1,665
State of Alabama Industrial Development Bonds	3,450	3,800
Scott County, Iowa Indus. Waste Recycling Revenue Bonds	2,200	2,400
Other	227	275
	$ 69,819	$ 75,565
Less maturities due within one year included in current liabilities	425	434
	$ 69,394	$ 75,131

9. Industry Segment Information ($ in thousands)

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 Engineered Products. Below is a presentation of segment disclosure information:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2003	2002	2003	2002
Net Sales				
Vehicular Products	$ 111,153	$ 117,416	$ 338,103	$ 337,489
Building Products(1)	149,124	149,475	406,293	383,145
Consolidated	$ 260,277	$ 266,891	$ 744,396	$ 720,634
Operating Income (Loss)				
Vehicular Products	$ 9,459	$ 14,709	$ 33,682	$ 41,807
Building Products (1)	12,298	14,330	20,683	24,347
Corporate & Other (2)	(3,689)	(4,008)	(11,307)	(11,246)
Consolidated	$ 18,068	$ 25,031	$ 43,058	$ 54,908

	For the periods ended	
	July 31, 2003	October 31, 2002
Identifiable Assets		
Vehicular Products	$ 352,057	$ 363,559
Building Products	294,092	283,475
Corporate & Other(2)	35,133	42,106
Consolidated	$ 681,282	$ 689,140
Goodwill (Net)		
Vehicular Products	$ 13,496	$ 13,496
Building Products	52,940	52,940
Consolidated	$ 66,436	$ 66,436

(1) Fiscal 2003 results include COLONIAL CRAFT operations acquired in February 2002.
(2) Included in "Corporate and Other" are inter-segment eliminations, consolidated LIFO inventory adjustments and corporate expenses and assets.

10. Treasury Stock and Stock Option Exercises

On December 5, 2002, the Board of Directors approved a program to purchase up to a total of 1 million shares of its common stock in the open market or in privately negotiated transactions. During the nine months ended July 31, 2003, the Company repurchased 438,600 shares at a cost of approximately $13.5 million. These shares were placed in treasury stock. There are currently 371,453 shares in treasury stock with a remaining carrying value of approximately $11.4 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, 2002. Below is a table summarizing the stock option activity in all plans since October 31, 2002.

	Shares Exercisable	Shares Under Option		Average Price Per Share
Balance at October 31, 2002	602,366	940,602	$	23
Granted		266,500		32
Exercised		(103,198)		22
Cancelled / Lapsed		(42,786)		27
Balance at July 31, 2003	548,301	1,061,118	$	25

11. Financial Instruments and Risk Management

Metal Exchange Forward Contracts

The Company's aluminum mill sheet products segment, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material 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.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the 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 the Company. 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.

At July 31, 2003, there were no open LME forward contracts and therefore no asset or liability associated with metal exchange derivatives. Nichols Aluminum used firm price raw material purchase commitments instead of LME forward contracts to lock in raw material prices.

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 July 31, 2003, net gains of approximately $21 thousand ($13 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 July 31, 2003, nothing was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness. For the nine months ended July 31, 2003, a net gain of $14 thousand was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness. No components of these gains and losses were excluded from the assessment of hedge effectiveness. Additionally, no hedge contracts were discontinued due to determinations that the original forecasted transactions would not occur.

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. As of July 31, 2003, there were no open swap agreement contracts and therefore no asset or liability reflected on the balance sheet. A net loss of $5 thousand and $81 thousand, respectively, was recorded in interest expense in the three and nine month periods ended July 31, 2003, representing the change in the fair market value of the swap agreements since October 31, 2002.

12. 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 various of its 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 July 31, 2003, were approximately $17 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 its annual report dated October 31, 2002, the Company filed a petition in Tax Court over the disallowance of a 1997 capital loss by the IRS. A September 2003 trial date has now been set. The disputed taxes of $13.5 million, as well as penalties and interest have been adequately provided for in the financial statements.

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 July 31, 2003 and October 31, 2002 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, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular and 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, 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.

Results of Operations

Summary Information as % of Sales**:** ($ in millions)

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2003		2002		2003		2002	
	Dollar Amount	%of Sales	Dollar Amount	%of Sales	Dollar Amount	%of Sales	Dollar Amount	%of Sales
Net Sales	$ 260.3	100	$ 266.9	100%	$ 744.4	100	$ 720.6	100%
Cost of Sales	217.8	84	216.5	81	625.3	84	591.9	82
Selling, general and administrative	12.7	5	14.1	5	40.2	5	40.0	5
Depreciation and amortization	11.7	5	11.3	5	35.8	5	33.8	5
Operating Income	18.1	6%	25.0	9%	43.1	6%	54.9	8%
Interest Expense	(0.5)	—	(1.1)	—	(2.1)	—	(9.2)	(1)
Capitalized Interest	—	—	.3	—	—	—	1.9	—
Retired Exec. Life Ins.	2.1	1	9.0	3	2.1		9.0	1

Benefit								
Other, net	0.4	—	(.3)	—	2.2	—	1.5	—
Income tax expense	(6.5)	(2)	(8.6)	(3)	(15.5)	(2)	(17.7)	(2)
Net income	$ 13.6	5%	$ 24.3	9%	$ 29.8	4%	$ 40.4	6%

Overview

Quanex's third fiscal quarter ended July 31, 2003 included excellent results at its Engineered Products business, particularly after experiencing rather slow market conditions in the second fiscal quarter ended April 30, 2003. At MACSTEEL, which is linked to the "Big 3" automotive performance, new programs were overshadowed by a drop in production schedules. Nichols Aluminum results were negatively impacted by lower volumes and higher conversion costs. Cash provided by operating activities showed a marked improvement over both last quarter and year ago figures. Significant progress in managing inventories and receivables was the key to this improvement.

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 driver is North American light vehicle builds. The Building Products segment is comprised of Nichols Aluminum and Engineered Products. The main market drivers of this segment are residential housing starts and remodeling expenditures.

The following table sets forth selected operating data for the Company's two business segments:

	Three Months Ended July 31, 2003	Three Months Ended July 31, 2002	Nine Months Ended July 31, 2003	Nine Months Ended July 31, 2002
	(In millions)		(In millions)	
Vehicular Products:				
Net sales	**$ 111.2**	$ 117.4	**$ 338.1**	$ 337.5
Operating income	**9.5**	14.7	**33.7**	41.8
Depreciation and amortization	**7.5**	7.1	**22.8**	21.4
Identifiable assets	**$ 352.1**	$ 364.3	**$ 352.1**	$ 364.3
Building Products: (1)				
Net sales	**$ 149.1**	$ 149.5	**$ 406.3**	$ 383.1
Operating income	**12.3**	14.3	**20.7**	24.3
Depreciation and amortization	**4.2**	4.0	**12.7**	12.1
Identifiable assets	**$ 294.1**	$ 288.1	**$ 294.1**	$ 288.1

(1) Fiscal 2003 results include COLONIAL CRAFT operations acquired February 12, 2002.

Vehicular Products

Within the Vehicular Products segment, North American light vehicle sales remained at a relatively robust pace during the quarter and vehicle inventories receded as overall light vehicle builds were down about 7% for the quarter versus

a year ago. MACSTEEL's strongest market presence is with the "Big 3" automakers and builds there were down about 10%. This decline in light vehicle builds drove MACSTEEL's volume down about 7% from the prior year and operating income down approximately 20%. MACSTEEL continues to work with the New American Manufacturers ("NAMs"), or non "Big 3" automakers, on domestic part sourcing and our share with them is growing. Qualification efforts with the NAMs require time consuming evaluation periods.

Additionally, ongoing erosion in demand for its aluminum and steel airbag components continues at Piper Impact and they have been unable to replace those losses with significant new product development initiatives.

Building Products

Engineered Products net sales and operating income for the quarter were record-setting. Many of the large door and window customers who suffered through a weak second quarter, came back strong during the third quarter and Engineered Products experienced strong order entry at all of its facilities.

Nichols Aluminum results for the quarter benefited from higher selling prices and a slightly improved spread versus a year ago, the result of a better mix of painted sheet sales versus mill finished sheet. However, business activity in its secondary markets went down from a year ago, resulting in lower volumes, which caused results to trail last year.

Fiscal Quarter and Nine Months ended July 31, 2003 vs. 2002

Net Sales - Consolidated net sales for the three and nine month periods ended July 31, 2003 was $260.3 million and $744.4 million, respectively, representing a decrease of $6.6 million, or 2%, and an increase of $23.8 million, or 3%, when compared to consolidated net sales for the same periods in 2002. For the three month period ended July 31, 2003, both the Vehicular and Building Products segments experienced reduced net sales. For the nine month period ended July 31, 2003, both the Vehicular and Building Products segments experienced higher net sales.

Net sales from the Company's Vehicular Products segment for the three and nine month periods ended July 31, 2003, was $111.2 million and $338.1 million, respectively, representing a decrease of $6.3 million, or 5%, and an increase of $0.6 million, or less than 1%, when compared to the same periods last year. For the three months ended July 31, 2003, MACSTEEL had lower net sales due to a 7% decline in volume compared to the same prior year period, which was only partially offset by higher average selling prices. For the nine month period ended July 31, 2003, both volume and average selling price contributed to increased net sales. The increased average selling price resulted from a combination of selling more of the value added MACPLUS product as well as pricing increases that became effective early in the calendar year. The increased volume resulted from strong demand for light vehicles in the first three months of the year, as well as new product programs and market share gains.

Piper experienced lower net sales for both the three and nine month period ended July 31, 2003, as airbag component sales continued to decline from its prior year levels. This decline was partially offset by increased sales of new products.

Net sales from the Company's Building Products segment for the three and nine month periods ended July 31, 2003, was $149.1 million and $406.3 million, respectively, representing a decrease of $0.4 million, or less than 1%, and an increase of $23.1 million, or 6%, when compared to the same periods last year. Within the Building Products segment, Engineered Products' net sales increased for the three and nine months ended July 31, 2003 compared to the prior year as many of the larger door and window customers who suffered through a weak second quarter came back strong during the third fiscal quarter. The nine month period ended July 31, 2003 included a full period of results of COLONIAL CRAFT which was acquired in February 2002. Combined net sales for the other Engineered Products business units, excluding COLONIAL CRAFT, were down slightly for the current nine month period, primarily due to the harsh winter weather earlier in the year.

Nichols Aluminum's net sales decreased for the three months ended July 31, 2003 from the same prior year periods due largely to lower volumes in its secondary markets as business activity slowed, partially offset by higher average selling prices due to a better mix of painted sheet sales versus mill finished sheet. For the nine months ended July 31, 2003, net sales for Nichols Aluminum increased compared to the same prior year period due to increased volume resulting from strength in the building construction markets in the first six months of the year, as well as higher average selling prices.

Operating income - Consolidated operating income for the three and nine month periods ended July 31, 2003 was $18.1 million and $43.1 million, respectively, representing a decrease of $7.0 million, or 28%, and $11.9 million, or 22%, when compared to the same periods last year. Both the Vehicular Products and Building Products segments experienced decreased operating income.

Operating income from the Company's Vehicular Products segment for the three and nine months ended July 31, 2003, was $9.5 million and $33.7 million, respectively, representing a decrease of $5.3 million, or 36%, and $8.1 million, or 19%, when compared to the same periods last year. MACSTEEL experienced lower operating income for the three month period ended July 31, 2003, compared to the same prior year period, largely as a result of lower net sales as volume declined. Higher average selling prices were nearly offset by higher material scrap prices. For the nine months ended July 31, 2003, MACSTEEL's operating income was lower than the same prior year period despite higher net sales due to higher material costs, higher energy and other conversion costs, as well as higher depreciation and amortization. These increased costs were partially offset by lower outside processing costs resulting from recent capital projects.

In addition, within the Vehicular Products segment, Piper Impact and Temroc had lower operating income for the three and nine month periods ended July 31, 2003 compared to the same prior year period. At Piper, demand for its aluminum and steel airbag components continues to erode more quickly than it can be replaced by new business, which resulted in an operating loss for the quarter and nine month results. Temroc continues to experience weaker demand as well, compared to the same prior year periods.

Operating income from the Company's Building Products segment for the three and nine months ended July 31, 2003, was $12.3 million and $20.7 million, respectively, representing a decrease of $2.0 million, or 14%, and $3.7 million, or 15%, when compared to the same periods last year. The Engineered Products business had higher operating income for the three months ended July 31, 2003 compared to the same prior year period due largely to increased demand from larger door and window customers who suffered through a weak second quarter. For the nine month period ended July 31, 2003, the operating income was lower than prior year due largely to the severe winter weather in the first half of the year which negatively impacted sales volumes.

At Nichols Aluminum, operating income for both the three and nine month periods ended July 31, 2003 was lower than the same prior year period. For the three months ended July 31, 2003, the decline was largely a result of lower volumes and higher conversion costs, offset somewhat by improved spreads from a more favorable mix of painted sheet sales and higher average selling prices. For the nine months ended July 31, 2003, the benefit of higher volumes, slightly higher prices and improved spreads versus the prior year were more than offset by higher energy and outside processing costs and production and quality problems at the Nichols Aluminum Alabama facility. The Alabama finishing plant experienced problems with an upgrade to its paint line. Painted coil was produced and shipped, but did not fully meet the high quality standards of the Company. During the second quarter, full process capability was restored, and the Company believes these problems are behind us. Additionally, the prior year's three and nine months ended July 31, 2002 included a gain of $1.6 million from a business interruption insurance recovery.

In addition to the two operating segments mentioned above, corporate level operating expenses for the three months ended July 31, 2003, were $3.7 million, representing a decrease of $0.3 million, or 8%, compared to the same prior year

period. Corporate level operating expenses for the nine months ended July 31, 2003, were $11.3 million, representing an increase of $0.1 million, or 1%, compared to the same prior year period. Included in corporate expenses are the consolidated LIFO inventory adjustments, corporate office expenses and inter-segment eliminations. Also included for the nine months ended July 31, 2003 was a gain of $0.4 million on the sale of the Piper Utah facility which has not been in operation and was held for sale. (See Note 4 to the financial statements regarding LIFO valuation method of inventory accounting.)

Selling, general and administrative expense was $12.6 million and $40.2 million, respectively, for the three and nine months ended July 31, 2003 representing a decrease of $1.5 million, or 10%, and $0.3 million, or 1%, when compared to the same periods last year. For the three months ended July 31, 2003, both operating segments, as well as the corporate office experienced lower expenses compared to the same prior year period. For the nine months ended July 31, 2003 the Vehicular Products segment experienced lower expenses, however the building products segment had increased expenses largely as a result of severance expenses and consulting costs at Nichols Aluminum and the fact that the nine month period ended July 31, 2003 included the results of COLONIAL CRAFT, which was acquired in February 2002, for the entire period.

Depreciation and amortization - Depreciation and amortization expense increased $0.4 million and $1.9 million, respectively, for the three and nine month periods ended July 31, 2003 as compared to the same prior year periods. The increase was largely due to recently completed capital projects at MACSTEEL as well as the acquisition of COLONIAL CRAFT in February 2002.

Interest expense for the three and nine months ended July 31, 2003 was $0.5 million and $2.1 million, respectively, compared to $1.1 million and $9.2 million from the same periods last year. The decrease in interest expense is due to: 1) the 6.88% convertible subordinated debentures conversion to Company stock and/or redemption in June of 2002, 2) the Company having lower Bank Revolver balances and 3) the Company paying down principal on other interest bearing debt and notes.

Another factor that contributed to the decrease in interest expense was the interest rate swap agreement. 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 terminated July 29, 2003.

During the prior year's nine months ended July 31, 2002, losses related to the swap agreement were reclassified out of other comprehensive income into interest expense as interest payments were made. This reclassification was completed during the prior fiscal year and did not impact the nine months ended July 31, 2003. (See Note 11 to the financial statements for further discussion.)

Capitalized interest for the prior year's three and nine months ended July 31, 2002 was due to the long-term capital expansion programs underway at MACSTEEL at that time. There were no long-term capital expansion programs underway during the first nine months ended July 31, 2003 and therefore no capitalized interest.

Net income was $13.6 million and $29.8 million for the three and nine month periods ended July 31, 2003, compared to $24.3 million and $40.4 million for the same periods of 2002. In addition to the items mentioned above, the three and nine month periods ended July 31, 2003 and 2002, respectively, included a non-taxable $2.2 million and $9.0 million retired executive life insurance benefit. (See Note 3 to the financial statements.) Additionally, as a result of the redemption of the Company's subordinated debentures in June 2002, the three and nine months ended July 31, 2002 include a loss of $922 thousand associated with early extinguishment of debt.

Outlook

The Company's two target markets are vehicular products and building products. Overall North American light vehicle builds year-to-date are below comparable year-ago levels by 4%. More important to the Company's results are the "Big 3" light vehicle builds, which are down 7% for the year, and are expected to be down 10% for the third calendar quarter versus last year. As a result, Quanex expects MACSTEEL to report modestly lower results in its fiscal fourth quarter compared to a year ago. Share gains and higher prices are expected to be a plus for MACSTEEL in the quarter but will likely be offset by lower volumes. Piper Impact is expecting another difficult quarter, and at this time the Company expects the division to report a fourth quarter loss. Because of dimming prospects to develop major new programs targeting the automotive market in a reasonable timeframe, the Company is revisiting its strategic options for the Piper Impact business.

Within the Building Products segment, the Company expects Nichols Aluminum to post lower volumes and earnings for the fiscal fourth quarter versus a year ago. Business activity at Engineered Products remains robust and Quanex expects the division to exceed quarterly results from last year. Housing starts and remodeling expenditures for 2003 are now expected to be essentially flat to last year's excellent performance. Based on the factors discussed above, the Company expects its fourth quarter diluted earnings per share to be in the range of $0.70 to $0.85.

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 $200 million Revolving Credit Agreement ("Bank Agreement"). At July 31, 2003, the Company had $60.0 million borrowed under the Bank Agreement. This represents a $5.0 million decrease from October 31, 2002 borrowing levels. There have been no significant changes to the terms of the Company's debt structure during the three month period ended July 31, 2003.

The Company believes that it has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. The Company also believes that cash flow from operations, cash balances and available borrowings will be sufficient for 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 (current assets, excluding cash, less current liabilities, excluding current maturities of debt) was $117.3 million at July 31, 2003 compared to $83.1 million at October 31, 2002. The change in working capital was largely a result of: a) the $6.4 million receivable from the executive life insurance benefit which is classified in "Other receivables" on the balance sheet, and b) the $9.6 million increase in inventory balances largely at Nichols Aluminum due to higher scrap prices and the seasonally strong summer months. Also included in the working capital change was the decrease in accrued liabilities, income taxes payable and other current liabilities due to timing of payments on normal trade and other obligations.

Operating Activities

Cash provided by operating activities during the nine months ended July 31, 2003 was $41.9 million compared to $65.5 million for the same nine month period of 2002. This decrease is largely due to higher working capital requirements compared to the same prior year period as discussed above.

Investment Activities

Net cash used for investment activities during the nine months ended July 31, 2003 was $23.3 million compared to $46.5 million for the same period of 2002. Investment activities for the nine months ended July 31, 2002 included the acquisition of COLONIAL CRAFT for $17.3 million. Additionally, capital expenditures decreased from $28.1 million in the nine months ended July 31, 2002 to $22.8 million in the same period of the current year. This decline was largely due to reduced spending at MACSTEEL, partially offset by increased spending at Nichols Aluminum and Engineered Products. The Company estimates that fiscal 2003 capital expenditures will be approximately $32 million. At July 31, 2003, the Company had commitments of approximately $9 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 used for financing activities for the nine months ended July 31, 2003 was $26.1 million compared to $47.2 million during the same prior year period. The Company repaid $5.0 million on the bank revolver and other note payables in the nine months ended July 31, 2003, compared to repaying $66.0 million during the nine months of fiscal 2002. During the nine months ended July 31, 2003, the Company paid $13.5 million to repurchase 438,600 shares of its common stock. Additionally, Quanex received $2.8 million in the nine months ended July 31, 2003 for the issuance of common stock ($2.2 million from option exercises). For the prior year's nine months ended July 31, 2002, the Company received $30.7 million for the issuance of common stock ($25.6 million from option exercises).

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 first quarter dividend paid on March 31, 2003 to shareholders of record on March 14, 2003.

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, 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. 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: (1) 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, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. 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 11 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 August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted this statement and included the new disclosure requirements in this report.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The provisions of this statement are effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The Company does not anticipate

any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

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 and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward-looking information.

Interest Rate Risk

The Company holds certain floating-rate obligations. The exposure of these obligations to increases in short-term interest rates was limited for $100 million of this variable rate debt by interest rate swap agreements entered into by the Company. These swap agreements effectively fixed the interest rate, thus limiting the potential impact that increasing interest rates would have on earnings. Under these 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. At October 31, 2002, the fair market value related to the interest rate swap agreements was a loss of $4.0 million. These swap agreements expired on July 29, 2003 and the final settlement payment was made. 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.

Commodity Price Risk

The Company's aluminum mill sheet producer, 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.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the 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 the Company. 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. At July 31, 2003, the Company had no open LME futures.

Other than the items mentioned above, there were no other material quantitative or qualitative changes during the nine months of fiscal 2003 in the Company's market risk sensitive instruments.

Item 4. Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer of Quanex have concluded that the Company's disclosure controls

and procedures (as defined under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There were no significant changes in Quanex's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

Item 6 - 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, dated January 31, 2003.
* 10.1	First Amendment to the Quanex Corporation Employee Savings Plan effective July 1, 2003.
* 10.2	Second Amendment to the Quanex Corporation 401(k) Savings Plan for Hourly Employees effective July 1, 2003.
* 10.3	Third Amendment to the Quanex Corporation Hourly Bargaining Unit Employee Savings Plan effective July 1, 2003.
* 10.4	First Amendment to the Piper Impact 401(k) Plan, effective July 1, 2003.
* 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 by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted 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 August 27, 2003, the Company filed a Current Report on Form 8-K which included a press release reporting its earnings results for the third quarter ended July 31, 2003. The press release was incorporated by reference as Exhibit 99.1 to that filing.

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/ Terry M. Murphy
	Terry M. Murphy
Date: September 4, 2003	Vice President – Finance and Chief
	Financial Officer
	(Principal Financial Officer)
	/s/ Ricardo Arredondo
	Ricardo Arredondo
Date: September 4, 2003	Vice President – Corporate Controller
	(Principal Accounting Officer)

INDEX TO EXHIBITS

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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, dated January 31, 2003.
* 10.1	First Amendment to the Quanex Corporation Employee Savings Plan effective July 1, 2003.
* 10.2	Second Amendment to the Quanex Corporation 401(k) Savings Plan for Hourly Employees effective July 1, 2003.
* 10.3	Third Amendment to the Quanex Corporation Hourly Bargaining Unit Employee Savings Plan effective July 1, 2003.
* 10.4	First Amendment to the Piper Impact 401(k) Plan, effective July 1, 2003.
* 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 by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

FIRST AMENDMENT TO THE
QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

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

WITNESSETH:

WHEREAS, on December 30, 2002, the Sponsor executed the amendment and restatement of the Plan known as the "Quanex Corporation Employee Savings Plan" (the "Plan");

WHEREAS, pursuant to Section 12.01 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 July 1, 2003, Section 2.01 of the Plan is amended to provide as follows:

2.01 **Eligibility Requirements**. Each Eligible Employee shall be eligible to participate in the Plan beginning on the Entry Date that occurs with or next follows the date on which the Eligible Employee completes 90 days of Active Service. However, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if he has met the requirements for eligibility, 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

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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.

IN WITNESS WHEREOF, the Sponsor has executed this Amendment this 2nd day of June, 2003, effective as of July 1, 2003.

QUANEX CORPORATION

By: /s/ Paul Giddens

Title: Vice President – Human Resources

SECOND AMENDMENT TO THE
QUANEX CORPORATION 401(k) SAVINGS PLAN FOR HOURLY EMPLOYEES

THIS AMENDMENT by **QUANEX CORPORATION** (the “Sponsor”),

WITNESSETH:

WHEREAS, on February 22, 2002, the Sponsor executed the amendment and restatement of the Plan known as the “Quanex Corporation 401(k) Savings Plan for Hourly Employees” (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 July 1, 2003, Section 1.17 of the Plan is amended to provide as follows:

1.17 **Eligible Employee**. means an Employee who is (1) compensated by the Sponsor on an hourly basis and (2) is included in a unit of employees covered by the Teamsters Collective Bargaining Agreement. Effective July 1, 1999, *“Eligible Employee”* also means an Employee who (1) is compensated on an hourly basis by Nichols Aluminum Alabama, Inc., a Delaware corporation, and (2) is included in a unit of employees covered by the Steelworkers Collective Bargaining Agreement. Effective July 1, 2001, *“Eligible Employee”* also means an Employee who (1) is compensated on an hourly basis by Temroc Metals, Inc., a Minnesota corporation, and (2) is included in a unit of employees covered by the UAW Collective Bargaining Agreement. 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.

IN WITNESS WHEREOF, the Sponsor has executed this Amendment this 2nd day of June, 2003, effective as of July 1, 2003.

QUANEX CORPORATION

By : /s/ Paul Giddens

Title: Vice President – Human Resources

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

THIS AMENDMENT by **QUANEX CORPORATION** (the “Sponsor”),

WITNESSETH:

WHEREAS, on February 14, 2002, the Sponsor executed the amendment and restatement of the Plan known as the “Quanex Corporation Hourly Bargaining Unit Employees Savings Plan” (the “Plan”);

WHEREAS, pursuant to Section 12.01 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 July 1, 2003, Section 1.16 of the Plan is amended to provide as follows:

1.16 **“Eligible Employee”** means an Employee who (1) is compensated by the Employer 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. However, 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 an “Eligible Employee.”

IN WITNESS WHEREOF, the Sponsor has executed this Amendment this 2nd day of June, 2003, effective as of July 1, 2003.

QUANEX CORPORATION

By: /s/ Paul Giddens

Title: Vice President – Human Resources

**FIRST AMENDMENT TO THE
PIPER IMPACT 401(k) PLAN**

THIS AMENDMENT by **QUANEX CORPORATION** (the “Sponsor”),

WITNESSETH:

WHEREAS, on December 30, 2002, the Sponsor executed the amendment and restatement of the Plan known as the “Piper Impact 401(k) 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 July 1, 2003, Section 2.01 of the Plan is amended to provide as follows:

2.01 **Eligibility Requirements**. 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 90 days of Active Service. However, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees’ representative and the Employer shall be excluded, even if he has met the requirements for eligibility, 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.

IN WITNESS WHEREOF, the Sponsor has executed this Amendment this 2nd day of June, 2003, effective as of July 1, 2003.

QUANEX CORPORATION

By : /s/ Paul Giddens

Title: Vice President – Human Resources

Exhibit 31.1

CERTIFICATIONS

I, Raymond A. Jean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation;
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(s) 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(s) 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.

September 4, 2003

/s/ RAYMOND A. JEAN

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

Exhibit 31.2

CERTIFICATIONS

I, Terry M. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation;
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(s) 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(s) 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.

September 4, 2003

/s/ TERRY M. MURPHY

TERRY M. MURPHY
Vice President – Finance and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PUSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report of Quanex Corporation (the “Company”) on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Terry M. Murphy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terry M. Murphy

Terry M. Murphy
Chief Financial Officer
September 4, 2003

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PUSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report of Quanex Corporation (the "Company") on Form 10-Q for the period ended July 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Raymond A. Jean, Chief Executive Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Raymond A. Jean

Raymond A. Jean
Chief Executive Officer
September 4, 2003