

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2000

OR

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

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
(Address of principal executive offices)

77027
(Zip Code)

Registrant's telephone number, including area code (713) 961-4600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

COMMON STOCK, \$.50 PAR VALUE
RIGHTS TO PURCHASE SERIES A JUNIOR
PARTICIPATING PREFERRED STOCK
6.88% CONVERTIBLE SUBORDINATED DEBENTURES

NEW YORK STOCK EXCHANGE, INC.
NEW YORK STOCK EXCHANGE, INC.
NEW YORK STOCK EXCHANGE, INC.

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. []

The aggregate market value of the registrant's voting stock held by
non-affiliates as of December 31, 2000, computed by reference to the closing
price for the Common Stock on the New York Stock Exchange, Inc. on that date,
was \$267,952,763. Such calculation assumes only the registrant's officers and
directors were affiliates of the registrant.

At December 31, 2000, there were outstanding 13,438,102 shares of the
registrant's Common Stock, \$.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement, to be filed
with the Commission within 120 days of October 31, 2000, for its Annual Meeting
of Stockholders to be held on February 22, 2000, are incorporated herein by
reference in Items 10, 11, 12, and 13 of Part III of this Annual Report.

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PART I

ITEM 1. BUSINESS

GENERAL

Quanex was organized in 1927 as a Michigan corporation under the name Michigan Seamless Tube Company. The Company reincorporated in Delaware in 1968 under the same name and then changed its name to Quanex Corporation in 1977. The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. References made to the "Company" or "Quanex" include Quanex Corporation and its subsidiaries unless the context indicates otherwise.

Quanex is a technological leader in the production of value-added engineered carbon and alloy steel bars, aluminum flat-rolled products, and precision-formed metal products. The Company uses state-of-the-art manufacturing technologies, low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications. These capabilities also provide Quanex with unique competitive advantages.

The Company seeks to reduce the impact of cyclical economic downturns on its operations by serving diverse markets. These markets include transportation, industrial machinery and capital equipment, homebuilding and remodeling, defense, food packaging and other commercial industries.

The Company's future growth strategy is focused on the continued penetration of higher margin markets, continued expansion of its aluminum and steel manufacturing operations, expansion of precision-formed, value-added metal products, and niche acquisitions.

In January 2000, Quanex completed the purchase of Golden Aluminum, an aluminum sheet production facility based in Fort Lupton, Colorado. Renamed Nichols Aluminum-Golden, the acquisition of the Fort Lupton mill increased the casting, cold-finishing and value-added painting capacities of Nichols Aluminum, Quanex's aluminum sheet business. The Fort Lupton mill can produce more than 50 million pounds annually of high-grade aluminum sheet for a variety of applications, including tab and end stock for beverage cans and other food packaging, computer disks, home furnishing, and other consumer durable products.

In April 2000, Quanex completed the purchase of Imperial Products, Inc., a leading manufacturer of value added exterior door components. The newly acquired company, renamed Imperial Fabricated Products, produces sophisticated residential exterior-door products for customers nationwide. Imperial Fabricated Products expands the products and markets of the Engineered Products Group of Quanex.

In July 2000, the Company completed the sale of Piper Impact Europe. For business segment purposes, the remaining Piper Impact facilities were separated from the Engineered Products Group in the third quarter.

In November 2000, Quanex completed the purchase of Temroc Metals, Inc., an aluminum extrusion and fabrication company based in Hamel, Minnesota. The newly acquired facility expands the Company's Engineered Products Groups' current markets to include outdoor recreational, medical and energy industries, complementing their existing aluminum fabrication, and roll forming businesses.

The Company also has invested significantly in technologically advanced continuous manufacturing processes to meet demanding quality specifications and to achieve additional cost efficiencies.

In the Company's MACSTEEL operations, rotary centrifugal continuous casters are used with an in-line manufacturing process to produce bearing grade and aircraft quality, seam-free, engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets. Since 1992, the Company has invested approximately \$220 million to enhance its steel manufacturing and refining processes, to improve rolling and finishing capability, and to expand manufacturing capacity at its MACSTEEL operations to approximately 700,000 tons per year. Phases I through V of the MACSTEEL expansions have been completed. In Phase V, finished in December 2000, the Company installed additional equipment at each of the MACSTEEL plants in Jackson, Michigan, and at Ft. Smith, Arkansas to maximize the casting and shipping capacity. This project increased engineered steel bar shipping capacity by approximately 13% to 700,000 tons annually. Phase V also included projects at MACSTEEL Heat Treating, based in Huntington, Indiana, where a third processing line was built, and at Kenosha, Wisconsin-based MACSTEEL NitroSteel, where efficiency enhancing equipment has been installed. In May 2000, the Company announced Phase VI which will boost capacity for

MACPLUS cold-finished steel bars. The project includes installation of two additional bar turning and polishing lines, one at the plant in Jackson, Michigan which is scheduled for completion by 2001 year-end and one at the Ft. Smith, Arkansas plant, scheduled for completion by 2002 year-end. After the project is complete, MACSTEEL will have a total of six MACPLUS lines.

In November 2000, Quanex completed a \$4 million capital project at AMSCO, which provides an additional 40,000 square feet of manufacturing space and equipment to expand existing lines and produce new products.

The Company's businesses are managed on a decentralized basis. Each operating group has administrative, operating and marketing functions. Financial reporting systems measure each group's return on investment, and the Company seeks to reward superior performance with incentive compensation, which is a significant portion of total employee compensation. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by both corporate officers and key division executives. Also, a small corporate staff provides corporate accounting, financial and treasury management, tax, and human resource services to the operating divisions.

MANUFACTURING PROCESSES, MARKETS, AND PRODUCT SALES BY BUSINESS SEGMENT

The Company's operations are grouped into four business segments: (i) engineered steel bars, (ii) aluminum mill sheet products, (iii) engineered products, and (iv) Piper Impact. General corporate expenses are classified as other operations.

Information with respect to major markets for the Company's products, expressed as a percentage of consolidated net sales, is shown under the heading "Sales by Major Markets" as set forth below. For financial information regarding each of Quanex's business segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein and Note 13 to the Consolidated Financial Statements. Although Quanex has attempted to estimate its sales by product and market categories, many products have multiple end uses for several industries and sales are not recorded on the basis of product or market categories. A portion of sales is made to distributors who sell to different industries. Net sales by principal market are based upon the total dollar volume of customer invoices. For the year ended October 31, 2000, no one customer accounted for 10% or more of the Company's sales. For the years ended October 31, 1999 and 1998, one customer, Autoliv Inc., accounted for 12% and 13%, respectively, of Company sales.

Quanex operates 16 manufacturing facilities in ten states in the United States. These facilities feature efficient plant design and flexible manufacturing processes, enabling the Company to produce a wide variety of products for various industries and applications. The Company is generally able to maintain minimal levels of finished goods inventories at most locations because it typically manufactures products to customer specifications upon order.

SALES BY MAJOR MARKETS

MARKETS	MARKET DESCRIPTION	QUANEX PRODUCTS	SALES (\$ MILLIONS)		
			Fiscal Year 2000	Ended October 1999	October 31, 1998
TRANSPORTATION	Auto/Truck	Steel bars, impact-extruded components, aluminum sheet	\$ 394.1 42.2%	\$ 384.1 47.4%	\$ 352.9 44.2%
	Other Transportation (including ship/railroad, recreational vehicles and military transportation)	Steel bars, treated tubes and bars, aluminum sheet	\$ 34.0 3.6%	\$ 30.1 3.7%	\$ 31.8 4.0%
	TOTAL TRANSPORTATION		\$ 428.1 45.8%	\$ 414.2 51.1%	\$ 384.7 48.2%
ALUMINUM BUILDING PRODUCTS	Residential and Commercial Building Materials, Other	Aluminum sheet, fabricated aluminum products, aluminum coil, coated aluminum coil	\$ 318.5 34.1%	\$ 293.9 36.3%	\$ 334.8 42.0%
INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT	General Industrial Machinery (including mining, agriculture and construction)	Specialized forgings, impact-extruded products, steel bars	\$ 45.8 4.9%	\$ 37.8 4.7%	\$ 29.9 3.8%
	Capital Equipment (including material handling, machine tools, and office/household)	Steel bars, treated bars and tubes, partition products, impact-extruded products	\$ 16.4 1.8%	\$ 12.3 1.5%	\$ 10.4 1.3%
	TOTAL INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT		\$ 62.2 6.7%	\$ 50.1 6.2%	\$ 40.3 5.1%
OTHER			\$ 125.4 13.4%	\$ 51.9 6.4%	\$ 37.7 4.7%
TOTAL SALES			\$ 934.2 100.0%	\$ 810.1 100.0%	\$ 797.5 100.0%

MARKETS	MARKET DESCRIPTION	QUANEX PRODUCTS	SALES (\$ MILLIONS)	
			Fiscal Year 1997	Ended October 1996
TRANSPORTATION	Auto/Truck	Steel bars, impact-extruded components, aluminum sheet	\$ 322.3 43.2%	\$ 207.2 33.4%
	Other Transportation (including ship/railroad, recreational vehicles and military transportation)	Steel bars, treated tubes and bars, aluminum sheet	\$ 32.8 4.4%	\$ 22.0 3.6%
	TOTAL TRANSPORTATION		\$ 355.1 47.6%	\$ 229.2 37.0%
ALUMINUM BUILDING PRODUCTS	Residential and Commercial Building Materials, Other	Aluminum sheet, fabricated aluminum products, aluminum coil, coated aluminum coil	\$ 327.5 43.9%	\$ 313.1 50.5%
INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT	General Industrial Machinery (including mining, agriculture and construction)	Specialized forgings, impact-extruded products, steel bars	\$ 24.9 3.3%	\$ 47.4 7.6%
	Capital Equipment (including material handling, machine tools, and office/household)	Steel bars, treated bars and tubes, partition products, impact-extruded products	\$ 17.5 2.4%	\$ 22.0 3.6%
	TOTAL INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT		\$ 42.4 5.7%	\$ 69.4 11.2%

OTHER

\$ 21.1
2.8%

\$ 8.4
1.3%

TOTAL SALES

\$ 746.1
100.0%

\$ 620.1
100.0%

Engineered Steel Bars

The Company's Engineered Steel Bars segment comprises engineered steel bar operations, steel bar and tube heat treating services, and steel bar and tube corrosion and wear resistant finishing services.

The Company's engineered steel bar operations are conducted through its MACSTEEL division, consisting of two plants, one located in Ft. Smith, Arkansas, and the other located in Jackson, Michigan. These plants manufacture hot finished, precision engineered, carbon and alloy steel bars. The Company believes that MACSTEEL has the only two plants in North America using continuous rotary centrifugal casting technology. This casting process produces seam-free bars, without surface defects or inclusions, thereby reducing the need for subsequent surface conditioning. The continuous casting and automated in-line manufacturing operations at the MACSTEEL plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most larger, and particularly integrated steel mills. The Company typically sells only complete heat lots, or batches, which are made to specific customer requirements. Heat lots average 45 tons at the Jackson plant and 50 tons at the Ft. Smith plant.

MACSTEEL produces various grades of customized, engineered steel bars by melting steel scrap and casting it in a rotary centrifugal continuous caster. MACSTEEL's molten steel is further processed through secondary refining processes that includes argon stirring, ladle injection, and vacuum arc degassing prior to casting. These processes enable MACSTEEL to produce higher quality, "cleaner" steels.

As a result of its state-of-the-art continuous manufacturing technology, which reduces labor, energy and process yield loss, the Company believes that MACSTEEL is one of the lowest cost producers of precision engineered carbon and alloy steel bars. The Company believes that energy costs at MACSTEEL are significantly lower than those of its competitors because its bars are moved directly from the caster to the rolling mill before cooling, eliminating the need for costly reheating. MACSTEEL's low unit labor costs are achieved with its highly automated manufacturing process, enabling it to produce finished steel bars using less than two man-hours of labor per ton compared with an estimated average of four to five man-hours per ton for U.S. integrated steel producers.

MACSTEEL products are custom manufactured for customers in the passenger car, light truck, sport utility vehicle (SUVs), heavy truck, anti-friction bearing, off-road and farm equipment, defense, capital equipment, and seamless tubular industries. These industries use engineered steel bars in critical applications such as camshafts, crankshafts, transmission gears, wheel spindles and hubs, bearing cages and rollers, steering components, hydraulic mechanisms and seamless tube production. Also, MACSTEEL engineered steel bars are used for the manufacture of components for safety critical steel air bag inflators at the Company's Piper Impact plant in New Albany, Mississippi.

Also included in the Engineered Steel Bars segment is a heat treating plant in Huntington, Indiana ("Heat Treat"), and a plant in Kenosha, Wisconsin, that improves the wear and corrosion resistance properties of steel bars and tubes ("NitroSteel").

The Heat Treat facility uses custom designed, in-line equipment to provide tube and bar heat treating and related services, such as quench and temper, stress relieving, normalizing, "cut-to-length", and metallurgical testing. This plant serves customers in the energy, automotive, ordnance and mining markets.

The NitroSteel plant processes steel bars and tubes using the patented Nitrotec treatment to improve corrosion and wear resistance while providing an environmentally friendly, non-toxic alternative to chrome plating. NitroSteel's products are made for specific customer applications and sold into fluid power markets.

Aluminum Mill Sheet Products

The Company's Aluminum Mill Sheet Products segment comprises aluminum sheet continuous casting operations and cold rolling, annealing, painting, and other finishing operations through its Nichols Aluminum Division ("Nichols").

Nichols manufactures mill finished and coated aluminum sheet for the home improvement, residential and light commercial construction, transportation, appliance, food packaging, and service center markets. The division comprises five plants: a thin-slab casting and hot rolling mill ("NAC") located in Davenport, Iowa, and three cold rolling and finishing plants located in Davenport, Iowa ("NAD"), Lincolnshire, Illinois ("NAL"), Decatur, Alabama ("NAA") and Nichols Aluminum-Golden ("NAG"), an aluminum production facility in Fort Lupton, Colorado.

NAC's mini-mill uses a single, in-line casting process that can produce 400 million pounds of reroll (hot-rolled aluminum sheet) annually. The mini-mill converts aluminum scrap to sheet through melting, continuous casting, and in-line hot rolling processes. NAC has shredding and blending capabilities, including two rotary barrel furnaces that broaden its sources of raw material and allow it to melt lower grades of scrap. Delacquering equipment improves the quality of the raw material before it reaches the melting furnaces by burning off combustibles in the scrap. Scrap is blended using computerized processes to most economically achieve the desired molten aluminum alloy composition. The molten metal flows into a Hazelett thin-slab caster, which casts an aluminum slab up to 52-inches wide and .75 inches thick. The slab is fed directly to a hot mill where three in-line rolling stands reduce the slab to gauges as thin as .045 inches. This hot rolling process substantially reduces subsequent cold rolling requirements. NAC also has an efficient, in-house dross recovery system to improve raw material yields.

The Company believes the combination of capacity increases and technological enhancements directed at producing higher quality reroll results in a significant manufacturing advantage with savings derived from reduced raw material costs, optimized scrap utilization, reduced unit energy cost, reduced cold rolling requirements and lower labor costs.

Further processing of the reroll occurs at NAD, NAL or NAA, where customers' specific product requirements can be met through cold rolling to various gauges, annealing for additional mechanical and formability properties, tension leveling to improve the flatness of the sheet, and slitting to specific widths. Products at the NAD and NAA plants can also be custom painted, an important value-added feature for the applications of certain customers in building products, transportation, and appliance markets.

Operations at NAG include melting and casting aluminum into sheet, cold rolling to specific gauge, annealing, leveling, custom coating and slitting to width. NAG manufactures high quality aluminum for engineered applications in niche markets such as end tab stock for food packaging, metal components for computer disks, and home accessory products.

Engineered Products

The Company's Engineered Products segment consists of aluminum and steel fabrication operations conducted at AMSCO in Rice Lake, Wisconsin, two Homeshield Fabricated Products ("HFP") plants in Chatsworth, Illinois, Imperial Fabricated Products ("IFP") in Richmond, Indiana, and aluminum extrusion and fabrication operations conducted at Temroc Metals ("TM") in Hamel, Minnesota.

The Engineered Products Group manufactures aluminum window and patio door screens, window frames, residential exterior door products, and a broad line of custom designed, roll formed products and stamped shapes for manufacturers of premium wood windows and vinyl windows for the home improvement, residential, and commercial construction markets. AMSCO combines strong product design and development expertise with reliable, just-in-time delivery. HFP also coats and/or paints aluminum sheet in many colors, sizes, and finishes, and it fabricates aluminum coil into rain carrying systems, soffit, exterior housing trim and roofing products. IFP produces sophisticated residential exterior door thresholds, astragals, patio door systems and other miscellaneous door components. TM produces high quality aluminum extrusions and fabricated parts for numerous industries including industrial, architectural, recreational, computer, electronics, appliances, medical and energy.

Piper Impact

The Piper Impact division includes two impact-extrusion facilities in New Albany, Mississippi, dedicated to aluminum and steel impact-extruded products.

Piper Impact is a technological leader in the manufacture of custom designed, impact extruded aluminum and steel parts for transportation, electronics, defense, and other commercial applications. Piper Impact's operations use impact extrusion technology to produce highly engineered near-net shaped components from aluminum and steel bar slugs. The pressure resulting from the impact of the extrusion presses causes metal to flow into the desired shape. This cost efficient, coldforming of the metal results in a high quality, work hardened product with a superior finish. Products may be further processed with heat treating and precision machining. The parts are then delivered to customers' assembly lines, requiring little or no additional processing. The majority of Piper Impact's sales are to one customer, Autoliv Inc., for use in automotive air bag systems.

RAW MATERIALS AND SUPPLIES

The Company's MACSTEEL plants purchase on the open market their principal raw material, steel scrap or substitutes such as pig iron, beach iron and hot briquetted iron. Collection and transportation of these raw materials to Company plants can be adversely affected by extreme weather conditions.

Prices for scrap also vary in relation to the general business cycle, typically declining in periods of slow economic activity.

Nichols' principal raw material is aluminum scrap purchased on the open market, which can also be adversely affected by weather. Nichols purchases and sells in limited quantities aluminum ingot futures contracts on the London Metal Exchange to hedge against fluctuations in the price of aluminum scrap required to manufacture products for fixed-price sales contracts.

In the Engineered Products Group, AMSCO and Homeshield Fabricated Products' primary raw material is coated and uncoated aluminum sheet purchased primarily from Nichols Aluminum. Raw materials utilized at Imperial Fabricated Products include aluminum, wood and vinyl. Imperial's primary raw material is aluminum, which is available from a number of suppliers. Prices for aluminum are typically set on a monthly basis based upon market rates. In addition, Imperial purchases two types of wood materials - hardwood and softwood, which it purchases at market prices. Temroc's raw materials consist primarily of aluminum billet, which it purchases from several suppliers on the open market.

Piper Impact's raw materials consist of aluminum bars and slugs that it purchases on the open market, and steel bars that it purchases from MACSTEEL.

BACKLOG

At October 31, 2000, Quanex's backlog of orders to be shipped in the next twelve months was \$157.8 million. This compares to \$164.1 million at October 31, 1999. Because many of the markets in which Quanex operates have short lead times, the Company does not believe that backlog figures are reliable indicators of annual sales volume or operating results.

COMPETITION

The Company's products are sold under highly competitive conditions. Quanex competes with a number of companies, some of which have greater financial and other resources. Competitive factors include product quality, price, delivery, and ability to manufacture to customer specifications. The amounts of engineered steel bars, aluminum mill sheet products, engineered products and impact extruded products made by the Company represent a small percentage of annual domestic production.

The Company's engineered bar plants compete primarily with two large integrated steel producers, two large non-integrated steel producers, and two smaller companies. Although these producers may be larger and have greater resources than the Company, Quanex believes that the technology used at MACSTEEL facilities permits it to compete effectively in the markets it serves.

The Company's aluminum mill sheet businesses compete with many small and large aluminum sheet manufacturers. Some of these competitors are divisions or subsidiaries of major corporations with substantially greater resources than the Company. The Company also competes with major aluminum producers in coil-coated and mill finished products, primarily on the basis of the breadth of product lines, the quality and responsiveness of its services, and price.

The Company's Engineered Products Group competes with many small metal fabricators and aluminum extrusion facilities, primarily on the basis of custom engineering, quality, service, and price.

Piper Impact competes with several other impact extrusion companies, and companies that offer other technologies that can provide similar products, on the basis of design, quality, price and service.

SALES AND DISTRIBUTION

The Company's four businesses have sales organizations with sales representatives in many parts of the U. S. MACSTEEL sells hot rolled and cold finished engineered steel bars primarily to original equipment manufacturers (OEMs) through its sales organization and manufacturers' representatives. Nichols' products are sold directly to OEMs and through metal service centers. The Company's engineered products are sold primarily to OEMs, except for some residential building products, which are also sold through distributors. Piper Impact sells directly to OEM's.

SEASONAL NATURE OF BUSINESS

The Company's aluminum mill sheet and Engineered Products businesses are seasonal. The primary markets of these businesses are in the Northeast and Midwest regions of the United States, where winter weather reduces homebuilding and home improvement activity. Historically in these businesses, lowest sales have occurred during the Company's first fiscal quarter. Profits for the operations in these businesses tend to be lower in quarters with lower sales because a high percentage of their

manufacturing overhead and operating expense is due to labor and other costs that are generally fixed throughout the year. The other businesses in which the Company competes are generally not seasonal. However, due to the holidays in the Company's first fiscal quarter and steel plant shutdowns for vacations and maintenance in the Company's third fiscal quarter, sales have historically been lower in those periods. As a result of these trends, combined with the effects of seasonality, the Company generally expects that, absent unusual activity or changes in economic conditions, its lowest sales will occur in the first fiscal quarter.

SERVICE MARKS, TRADEMARKS, TRADE NAMES, AND PATENTS

The Company's Quanex, Quanex design, Seam-Free design, NitroSteel, MACGOLD, MACSTEEL, MACSTEEL design, MAC+, Ultra-Bar, Homeshield, Homeshield design, and "The Best Alloy & Specialty Bars" marks are registered trademarks or service marks. The Company's Piper Impact name is used as a service mark, but is not yet registered in the United States. The trade name Nichols-Homeshield and the Homeshield and the Homeshield design trademarks are used in connection with the sale of the Company's aluminum mill sheet products and residential building products. The Homeshield, Piper Impact, MACSTEEL and Quanex word and design marks and associated trade names are considered valuable in the conduct of the Company's business. The businesses conducted by the Company generally do not depend upon patent protection. Although the Company holds numerous patents, in many cases the proprietary technology that the Company has developed for using the patents is more important than the patents themselves.

RESEARCH AND DEVELOPMENT

Expenditures for research and development of new products or services during the last three years were not significant. Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to custom engineering and qualifying the Company's products for specific customer applications.

ENVIRONMENTAL MATTERS

As a manufacturer of specialized metal products, Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. Quanex is required to make capital and other expenditures on an ongoing basis in order to satisfy such requirements. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations or financial condition.

Under applicable state and federal laws, the Company may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations Quanex has owned or operated at any time. The Company is currently participating in environmental assessments or remediation at a number of those locations.

From time to time, Quanex also has been alleged to be liable for all or part of the costs incurred to clean up third-party sites where it is alleged to have arranged for disposal of hazardous substances. The Company's allocable share of liability at those sites, taking into account the likelihood that other parties will pay their shares, has not been material to its operations or financial condition.

Total remediation reserves, at October 31, 2000, for Quanex's current plants, former operating locations, and disposal facilities were approximately \$18 million. Of that, approximately 80% is allocated to the cleanup of historical soil and groundwater contamination and other corrective measures at a plant operated by the Company's Piper Impact division in New Albany, Mississippi. Depending upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences, final remediation costs may be more or less than amounts accrued; however, management believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities.

Environmental agencies continue to develop regulations implementing the Federal Clean Air Act. Depending on the nature of the regulations adopted, Quanex may be required to incur additional capital and other expenditures sometime in the next several years for air pollution control equipment, to maintain or obtain operating permits and approvals, and to address other air emission-related issues. The Company incurred capital expenditures totaling approximately \$20 million between 1996 and 1998 to meet those requirements. That amount included spending toward a significant upgrade to pollution control systems at MACSTEEL to ensure compliance with the air standards. Based upon its analysis and experience to date, Quanex does not believe that its compliance with Clean Air Act requirements will have a material effect on its operations or financial condition.

Quanex incurred approximately \$5 million and \$7 million during fiscal 2000 and 1999, respectively, in expenses in order to comply with existing or proposed environmental regulations. The Company estimates expenses at various of its facilities during fiscal 2001 will be approximately \$5 million for continuing compliance with environmental regulations. Capital expenditures for these environmental regulations during fiscal 2000 and 1999 were immaterial and are expected to be immaterial for fiscal 2001 as well. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and its facilities of future regulations and government decisions. Quanex will continue to have expenditures in connection with environmental matters beyond 2001, but it is not possible at this time to reasonably estimate the amount of these expenditures.

EMPLOYEES

At October 31, 2000, the Company employed 3,302 persons. Of the total employed, 28% were covered by collective bargaining agreements. In January of 2000, a three year agreement was ratified by the United Steel Workers representing 253 employees at MACSTEEL's Arkansas plant. No collective bargaining agreements will expire during the fiscal year ending October 31, 2001.

FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

For financial information on the Company's foreign and domestic operations, see Note 13 of the Financial Statements contained in this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

The following table lists Quanex's principal plants together with their locations, general character and the industry segment which uses the facility. Each of the facilities identified as being owned by the Company is free of any material encumbrance.

LOCATION -----	PLANT -----	SQUARE FOOTAGE -----
Owned:		
ENGINEERED STEEL BARS		
Fort Smith, Arkansas	MACSTEEL	543,000
Jackson, Michigan	MACSTEEL	281,000
Huntington, Indiana	Heat Treating	96,000
Leased (expires 2009):		
Kenosha, Wisconsin	NitroSteel	35,000
Owned:		
ALUMINUM MILL SHEET PRODUCTS		
Lincolnshire, Illinois	Nichols Aluminum	142,000
Davenport, Iowa	Nichols Aluminum	236,000
Davenport, Iowa	Nichols Aluminum Casting	245,000
Fort Lupton, Colorado	Nichols Aluminum Golden	238,000
Leased (4 leases expiring 2003, 2004, 2005 and 2018):		
Decatur, Alabama	Nichols Aluminum Alabama	410,000
Owned:		
ENGINEERED PRODUCTS		
Rice Lake, Wisconsin	AMSCO	336,000
Chatsworth, Illinois	Homesfield Fabricated Products (two plants)	212,000
Richmond, Indiana	Imperial Fabricated Products	76,000
Hamel, Minnesota	Temroc	140,000
Owned:		
PIPER IMPACT		
New Albany, Mississippi	Piper Impact (two plants)	683,000
Leased (expires 2010):		
EXECUTIVE OFFICES		
Houston, Texas	Quanex Corporation	21,000

ITEM 3. LEGAL PROCEEDINGS

On or about August, 2, 1999, the United States District Court for the Southern District of Texas entered a consent decree resolving the federal government's allegations that the Company and Vision Metals, Inc. had violated water discharge requirements at the Company's former plant in Rosenberg, Texas. The consent decree required the Company to pay in three installments an aggregate civil penalty of \$466,421 plus interest. Pursuant to the purchase agreement by which Vision Metals acquired the Rosenberg facility and assumed certain environmental liabilities, Vision Metals had acknowledged its responsibility for the penalty and made the first two payments, totaling \$310,946 plus interest. Because Vision Metals filed a bankruptcy petition on or about November 13, 2000, it is unclear whether Vision Metals will be able to make timely payment of the remaining \$155,475 plus interest.

On or about September 27, 1999, US EPA Region V sent to the Company's MACSTEEL Michigan division findings of violation, an administrative order for compliance, and a request for information pursuant to the Clean Water Act. The Agency alleged that the Jackson plant had been in violation of the effluent limitations in its water discharge permit on 236 days from March 31, 1994 to July 1999 and directed the plant to comply with that permit. In response, the MACSTEEL Michigan Division undertook a technical analysis of wastewater handling at its Jackson plant and implemented improvements to its treatment system. By letter dated September 22, 2000, US EPA Region V sent to MACSTEEL Michigan Division an administrative complaint seeking a civil penalty of \$137,500 for violations of the discharge permit's effluent limitations and sampling requirements before the improvements were implemented.

Other than the above matters and proceedings described under Item 1, "Environmental Matters", there are no material legal proceedings to which Quanex, its subsidiaries, or their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Quanex's common stock, \$.50 par value, is traded on the New York Stock Exchange, under the ticker symbol: NX. Quarterly stock price information and annual dividend information for the common stock is as follows:

QUARTERLY COMMON STOCK DIVIDENDS

Quarter Ended:	2000	1999	1998	1997	1996
January .....	.16	.16	.16	.15	.15
April .....	.16	.16	.16	.15	.15
July .....	.16	.16	.16	.15	.15
October .....	.16	.16	.16	.16	.15
Total .....	.64	.64	.64	.61	.60

QUARTERLY COMMON STOCK SALES PRICE
(High & Low) Quarter Ended:

Quarter Ended:	2000	1999	1998	1997	1996
January	26 9/16 19 1/16	23 7/8 16 13/16	30 7/16 27 1/16	29 1/8 24 1/4	21 1/8 18
April	23 11/16 16 1/8	26 1/4 15 3/8	33 13/16 28 1/2	27 7/8 23 3/8	22 3/8 19 5/8
July	18 5/8 14 3/8	29 25 1/8	32 3/16 27 1/4	34 1/8 25 1/8	23 7/8 19 3/8
October	20 11/16 17 1/16	27 3/8 20 1/8	27 7/8 15 5/8	36 1/2 26 1/4	28 3/4 19 5/8

The terms of Quanex's revolving credit arrangements with certain banks limit the total amount of common and preferred stock dividends and other distributions on such stock. Under the most restrictive test under such credit facilities, the total common stock dividends the Company may declare and pay is limited to \$21 million, plus 50% of consolidated net income earned after October 31, 1989, adjusted for other factors as set forth in the credit agreement. As of October 31, 2000, the aggregate amount available for dividends and other restricted payments under its credit facilities was approximately \$25 million.

There were 5,893 holders of Quanex common stock on record as of December 31, 2000.

ITEM 6. SELECTED FINANCIAL DATA

GLOSSARY OF TERMS

The exact definitions of commonly used financial terms and ratios vary somewhat among different companies and investment analysts. The following list gives the definition of certain financial terms that are used in this report:

Capital expenditures: Additions to property, plant and equipment.

Book value per common share: Stockholders' equity less the stated value of preferred stock divided by the number of common shares outstanding.

Asset turnover: Net sales divided by average total assets.

Current ratio: Current assets divided by current liabilities.

Return on investment: The sum of net income and the after-tax effect of interest expense less capitalized interest divided by the sum of the averages for long-term debt and stockholders' equity.

Return on common stockholders' equity: Net income attributable to common stockholders divided by average common stockholders' equity.

ITEM 6. SELECTED FINANCIAL DATA

FINANCIAL SUMMARY 1995 - 2000

(\$ THOUSANDS, EXCEPT PER SHARE DATA)

Fiscal years ended October 31,	2000	1999	1998
REVENUES AND EARNINGS			
Net sales(1)	934,203	810,094	797,490
Cost of sales including operating depreciation and amortization	810,732	681,799	683,954
Gross profit	123,471	128,295	113,536
Piper Impact Asset Impairment Charge	56,300(2)		58,500(2)
Loss on sale of Piper Impact Europe	14,280(3)		
Other depreciation and amortization	3,308	3,434	5,059
Selling, general and administrative expenses	53,545	53,104	47,713
Operating income (loss)	(3,962)	71,757	2,264
Percent of net sales	(0.4)	8.9	0.3
Other income (expense)-net	1,870	1,383	2,278
Interest expense-net	13,314	12,791	10,506
Income (loss) before income taxes, extraordinary items, cumulative effect of accounting change, and income from discontinued operations	(15,406)	60,349	(5,964)
Income taxes (credit)	(5,383)	21,048	(2,087)
Income (loss) from continuing operations	(10,023)	39,301	(3,877)
Income from discontinued operations	0	0	0
Gain on sale of discontinued operations	0	0	13,046
Extraordinary items - early extinguishment of debt, net of taxes	358	415	--
Net income (loss)	(9,665)	39,716	9,169
Percent of net sales	(1.0)	4.9	1.1(6)
PER SHARE DATA			
Basic Earnings per share:			
Income (loss) from continuing operations	(0.73)	2.76	(0.27)
Income from discontinued operations	--	--	--
Gain on sale of discontinued operations	--	--	0.92
Extraordinary items and cumulative effect of accounting change	0.03	0.03	--
Net earnings (loss)	(0.70)(7)	2.79	0.65(6)
Cash dividends declared	0.64	0.64	0.64
Book value	19.90	21.24	19.19
Average shares outstanding (000)	13,727	14,234	14,149
Market closing price range			
High	26 9/16	28 15/16	33 1/2
Low	14 3/8	15 1/2	16
FINANCIAL POSITION - YEAR END			
Working capital	104,944	76,247	62,979
Property, plant and equipment - net	338,248	406,841	395,054
Other assets	71,665	71,218	69,422
Total assets	645,859	690,446	674,288
Noncurrent deferred income taxes	27,620	43,910	33,412
Long-term debt	191,657	179,121	188,302
Stockholders' equity	266,497	301,061	272,044
Total capitalization	458,154	480,182	460,346
Long-term debt percent of capitalization	41.8	37.3	40.9
OTHER DATA			
Asset turnover	1.4	1.2	1.2
Current ratio	1.8 to 1	1.6 to 1	1.4 to 1
Return on average investment - percent	(0.2)(7)	10.0	3.4(6)
Return on average common equity - percent	(3.4)(7)	13.9	3.4(6)
Working capital provided by operations(4)	90,441	94,905	82,830
Depreciation and amortization	48,445	45,883	42,400
Capital expenditures	42,355	60,934	60,936
Backlog for shipment in next 12 months	157,830	164,128	183,847
Number of stockholders	5,697	5,113	5,720
Average number of employees	3,361	3,393	3,261
Sales per employee	278	239	245

FINANCIAL SUMMARY 1995 - 2000

(\$ THOUSANDS, EXCEPT PER SHARE DATA)

Fiscal years ended October 31,	1997	1996	1995
REVENUES AND EARNINGS			
Net sales(1)	746,093	620,069	603,985
Cost of sales including operating depreciation and amortization	644,041	526,886	521,521
Gross profit	102,052	93,183	82,464
Piper Impact Asset Impairment Charge			
Loss on sale of Piper Impact Europe			
Other depreciation and amortization	3,669	1,791	1,258
Selling, general and administrative expenses	43,375	44,959	33,746
Operating income (loss)	55,008	46,433	47,460
Percent of net sales	7.4	7.5	7.9

Other income (expense)-net	1,637	4,544	1,721
Interest expense-net	14,002	11,360	8,870
	-----	-----	-----
Income (loss) before income taxes, extraordinary items, cumulative effect of accounting change, and income from discontinued operations	42,643	39,617	40,311
Income taxes (credit)	14,925	16,639	16,931
	-----	-----	-----
Income (loss) from continuing operations	27,718	22,978	23,380
Income from discontinued operations	5,176	9,912	10,480
Gain on sale of discontinued operations	36,290		
Extraordinary items - early extinguishment of debt, net of taxes	--	(2,522)	(2,021)
	-----	-----	-----
Net income (loss)	69,184	30,368	31,839
Percent of net sales	9.3(5)	4.9	5.3
	-----	-----	-----
PER SHARE DATA			
Basic Earnings per share:			
Income (loss) from continuing operations	2.01	1.70	1.44
Income from discontinued operations	0.37	0.73	0.78
Gain on sale of discontinued operations	2.63	--	--
Extraordinary items and cumulative effect of accounting change	--	(0.19)	(0.15)
Net earnings (loss)	5.01	2.24	2.07
Cash dividends declared	0.61	0.60	0.59
Book value	19.13	14.50	12.81
Average shares outstanding (000)	13,807	13,524	13,443
Market closing price range			
High	36 1/2	28 5/8	26
Low	23 3/8	18 3/8	18 3/8
	-----	-----	-----
FINANCIAL POSITION - YEAR END			
Working capital	52,818	88,238	53,629
Property, plant and equipment - net	379,071	319,165	233,982
Other assets	119,738	117,142	55,989
Total assets	685,705	638,948	466,458
	-----	-----	-----
Noncurrent deferred income taxes	48,111	40,454	45,740
Long-term debt	201,858	253,513	111,894
Stockholders' equity	268,823	197,009	172,814
Total capitalization	470,681	450,522	284,708
Long-term debt percent of capitalization	42.9	56.3	39.3
	-----	-----	-----
OTHER DATA			
Asset turnover	1.1	1.0	1.3
Current ratio	1.4 to 1	1.8 to 1	1.4 to 1
Return on average investment - percent	16.7(5)	9.8	11.1
Return on average common equity - percent	29.7(5)	16.4	17.4
	-----	-----	-----
Working capital provided by operations(4)	73,321	60,378	57,767
Depreciation and amortization	37,865	36,499	29,062
Capital expenditures	69,146	34,737	21,629
Backlog for shipment in next 12 months	225,498	123,382	94,464
	-----	-----	-----
Number of stockholders	5,488	3,425	3,659
Average number of employees	2,994	1,950	1,653
Sales per employee	249	318	365
	-----	-----	-----

Note: Several acquisitions and divestitures have been made in the past three years. See Notes 2 and 3 to the financial statements for a description of these transactions.

- (1) Excludes sales from discontinued operations for the years 1997-1995, respectively of \$187,123, \$275,641 and \$287,210.
- (2) During fiscal 2000 and 1998, Piper Impact recorded a \$56.3 million and \$58.5 million, respectively, asset impairment charge as described by Statement of Financial Accounting Standards No. 121. See Footnote 4 to the financial statements for further information.
- (3) See Note 3 to the financial statements for further information regarding the loss on the sale of Piper Impact Europe.
- (4) Working capital provided by operations is a supplemental financial measurement used in the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital. Working capital from operations is calculated as income from continuing operations, net of taxes, adjusted for non-cash and nonrecurring items.
- (5) Includes gain on sale of discontinued operations.
- (6) Includes effect of Piper Impact's asset impairment charge (\$58.5 million in FY 1998) and gain on sale of discontinued operations (\$13 million in FY 1998).
- (7) Includes effect of Piper Impact's asset impairment charge (\$56.3 million in FY 2000) and the loss on sale of Piper Impact Europe (\$14.3 million in FY 2000).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements of the Company and the accompanying notes.

PRIVATE SECURITIES LITIGATION REFORM ACT

Certain forward-looking information contained herein is being provided in accordance with the provisions of the Private Securities Litigation Reform Act. Such information is subject to certain assumptions and beliefs based on current information known to the Company and is subject to factors that could produce actual results materially different from those anticipated in the forward-looking statements contained in this report. 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 for the Company's customers, any material changes in purchases by the Company's principal customers, 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, 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.

RESULTS OF OPERATIONS

Overview

Summary Information as % of Sales: (Dollars in millions)

	2000		FISCAL YEAR ENDED OCTOBER 31, 1999		1998	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
Net Sales	\$ 934.2	100%	\$ 810.1	100%	\$ 797.5	100%
Cost of Sales	766.1	82	639.9	79	647.2	81
Selling, general and admin.	53.5	5	53.1	6	47.7	6
Depreciation and amortization	47.9	5	45.3	6	41.8	5
Piper Impact Impairment Charge	56.3	6	--	--	58.5	7
Loss on sale of Piper Impact Europe	14.3	2	--	--	--	--
Operating Income	(3.9)	0%	71.8	9%	2.3	1%
Interest Expense	(15.3)	(2)	(14.4)	(2)	(14.9)	(2)
Capitalized Interest	1.9	0	1.6	0	4.4	1
Other, net	1.9	0	1.4	0	2.2	0
Income tax benefit (expense)	5.4	1	(21.1)	(2)	2.1	0
Income (loss) from continuing operations ...	\$ (10.0)	(1)%	\$ 39.3	5%	\$ (3.9)	0%

For the eighth consecutive year, the Company's continuing operations achieved higher sales over the previous fiscal year. These continued increases are a result of the Company's growth strategies through internal investments as well as acquisitions. The Company's internal growth investments, principally at the MACSTEEL Division, were focused toward capacity expansions, value-added product offerings, quality improvements, and enhanced customer service capabilities.

Acquisitions/Divestitures Since October 31, 1997

In December 1997, the Company completed the sale of its tubing operations ("Tubing Operations"), comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office. The results of the Tubing Operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, these businesses were previously classified as "Steel Tubes". Two small divisions, Heat Treat Division and NitroSteel Division, which

were previously included with this segment, were retained by the Company and are now included in the Engineered Steel Bars segment.

In October 1998, the Company acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based aluminum sheet manufacturer for approximately \$19 million. The newly acquired company has been renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama") in alignment with Quanex's other aluminum mill sheet businesses in its Nichols Aluminum division. Nichols Aluminum Alabama's operations include cold rolling aluminum sheet to specific gauge, annealing, leveling, custom painting and slitting to width.

In January 2000, the Company purchased from Alcoa, Inc. the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for \$9 million plus working capital valued at approximately \$13 million. The newly acquired facility became part of Quanex's flat-rolled aluminum sheet business - Nichols Aluminum (the Aluminum Mill Sheet Products segment). It was renamed Nichols Aluminum-Golden, Inc. ("Nichols Aluminum-Golden"), a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum-Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum-Golden can produce more than 50 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

In April 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately \$15 million. Imperial Products, Inc., now doing business as Imperial Fabricated Products ("Imperial"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's Engineered Products Group.

In July 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in the Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of \$14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a notional amount of 30 million Guilders was closed. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the charge on the sale of Piper Impact Europe.

On November 30, 2000, the Company completed the purchase of all of the Capital stock of Temroc Metals, Inc., a Minnesota corporation ("Temroc") for approximately \$21 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Temroc has production facilities in Hamel, Minnesota, where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's Engineered Products Group and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products.

Business Segments

Business segments are reported in accordance with Statement of Financial Accounting Standards ("SFAS") No. 131. SFAS 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

During the fiscal third quarter ended July 31, 2000, internal management structure changes were made to increase the emphasis and focus on two separate lines of business. These changes affected the way in which operating decisions are made and performance is assessed. In accordance with SFAS No. 131, the industry segment disclosure has been revised to reflect these changes and the previously reported "engineered products" segment has been split. Piper Impact, which includes Piper Impact, the two New Albany, Mississippi based facilities, as well as Piper Impact Europe (until it was sold in July 2000), has been separated out of the "Engineered Products" segment into a separate reporting segment named "Piper Impact". The "Engineered Products" segment now reflects the results of AMSCO, Homeshield Fabricated Products and Imperial Fabricated Products. Previous year's information has also been restated to reflect this change.

As such, the Company has four reportable segments: engineered steel bars, aluminum mill sheet products, engineered products and Piper Impact. The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services and steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures aluminum window and patio door screens, window frames, exterior door components and other roll formed products and stamped shapes. The Piper Impact segment manufactures impact-extruded aluminum and steel parts.

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

	Years Ended October 31,		
	2000	1999	1998(3)
	(In thousands)		
Engineered Steel Bars:			
Net sales	\$ 344,245	\$ 297,369	\$ 327,296
Operating income	57,702	60,446	58,908
Depreciation and amortization	18,775	16,293	13,097
Identifiable assets	\$ 267,476	\$ 241,783	\$ 219,727
Aluminum Mill Sheet Products:(1)(4)			
Net sales	\$ 404,355	\$ 311,763	\$ 266,355
Operating income	21,529	15,306	7,788
Depreciation and amortization	12,965	12,334	10,670
Identifiable assets	\$ 227,365	\$ 200,733	\$ 198,596
Engineered Products:(5)			
Net sales	\$ 104,948	\$ 92,668	\$ 92,045
Operating income (loss)	14,301	13,006	10,825
Depreciation and amortization	3,443	3,349	7,761
Identifiable assets	\$ 65,527	\$ 46,977	\$ 48,025
Piper Impact:(2)(6)			
Net sales	\$ 105,632	\$ 134,694	\$ 137,967
Operating income (loss)	(82,470)	(853)	(63,431)
Depreciation and amortization	12,362	12,836	14,167
Identifiable assets	\$ 54,518	\$ 162,176	\$ 172,136

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- (1) 1998 results include three weeks of Nichols Aluminum Alabama's operations acquired October 9, 1998. See Note 2 to financial statements.
 - (2) During 1998, Piper Impact recorded a \$58.5 million asset impairment/restructuring charge as described by SFAS No. 121. This impairment/restructuring charge is included in operating income. See Note 4 to financial statements.
 - (3) At the start of fiscal 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. This change has no impact on consolidated results, which remain LIFO based. Prior data has not been restated above. See Note 13 to the consolidated financial statements for further information.
 - (4) Fiscal 2000 results include Nichols Aluminum-Golden operations since the acquisition date of January 25, 2000. See Note 2 to the consolidated financial statements.
 - (5) Fiscal 2000 results include Imperial Fabricated Products operations acquired April 3, 2000. See Note 2 to the consolidated financial statements.
 - (6) Fiscal 2000 results include the one-time \$14.3 million loss on the sale of Piper Impact Europe and \$56.3 million asset impairment charge relating to Piper Impact facilities in New Albany, Mississippi. See Note 3 and 4 to the consolidated financial statements.

The engineered steel bar business posted record annual net sales while working on its Phase V capital expansion program which was completed in December 2000. Operating income, however, was down from the previous year due largely to higher outside processing and raw material costs as well as higher depreciation charges. Phase V will raise the annual shipping capacity to 700,000 tons at MACSTEEL and 25,000 tons at the Heat Treat facility. Also, work has begun at both mills for Phase VI, which will increase their MACPLUS capacity, our highest value-added product line.

The aluminum mill sheet business had a record year in both net sales and operating income. These records resulted from the acquisition of Nichols Aluminum-Golden, operational advancements throughout the division and healthy margins. Some of the operational advancements include the results of the new rotary furnaces at the casting facility in Davenport, Iowa, penetration into more value-added markets and the improvements accomplished in quality and delivery performance.

The engineered products business had increased net sales and operating income, largely as a result of the acquisition of Imperial Fabricated Products. With this acquisition, the Company was able to add new customers and new markets.

Piper Impact's results have been adversely impacted by declining aluminum air bag product sales and higher manufacturing costs associated with new product development as well as cellular manufacturing implementation. While Piper Impact is aggressively developing new products that it hopes will replace the declining aluminum air bag components business, the results are slow. Piper made good progress in the second half of the year reducing its costs and these efforts are continuing. In view of the losses experienced and the anticipated future erosion in the volume of aluminum airbag components at Piper Impact, an impairment charge was taken in the fourth quarter. See Note 4 to the financial statements. The impairment charge represents another step in the Company's process of evaluating strategic alternatives for this business, including its possible sale.

Outlook

The Company's first fiscal quarter is historically its least profitable quarter of each year as there are fewer production days and the Company's customers experience holiday shutdowns. Additionally, the business outlook for Quanax's first fiscal quarter 2001 finds the Company's transportation and housing markets slowing significantly from fiscal 2000 levels. However, because of the acquisitions made since January 2000 and the expected operational improvements at Piper Impact, the Company anticipates, at this time, a modest impact from the slowdown in these markets on overall net sales and operating income in the first fiscal quarter of 2001 compared to the same period last year.

The Company currently expects that the overall business levels for the balance of fiscal year 2001 should be similar to those experienced during 2000. Domestic and global market factors will continue to impact the Company and any further slowdown in the U.S. economy would affect demand and pricing for many of the Company's products. Continuing global pricing pressures in the Engineered Steel Bar business and reduced demand for aluminum airbag components in the Piper Impact business offer significant challenges to our operations in maintaining operating margins. Improvement in financial results will depend upon, among other things, whether the strength of the economy improves, together with the markets which the Company serves, successful new product development efforts at the Piper Impact business and whether the fiscal 2000 margin levels at aluminum mill sheet products can be sustained.

2000 Compared to 1999

Net Sales - Consolidated net sales for fiscal 2000 were \$934.2 million, representing an increase of \$124.1 million, or 15%, when compared to fiscal 1999. This increase reflects higher net sales at all of the business segments except Piper Impact. The acquisitions of Nichols Aluminum-Golden in January of 2000 and Imperial Fabricated Products in April of 2000 contributed to this increase.

Net sales from the Company's engineered steel bar business for fiscal 2000, were \$344.2 million, representing an increase of \$46.9 million, or 16%, when compared to fiscal 1999. This increase was principally due to increased sales volumes as a result of strong primary transportation markets.

Net sales for fiscal 2000 from the Company's aluminum mill sheet products business increased by \$92.6 million, or 30%, to \$404.4 million when compared to fiscal 1999. This increase was due to increased volume from the seasonally strong construction market, increased selling prices resulting from sales of more value-added painted product and the acquisition of Nichols Aluminum-Golden in January 2000.

Net sales from the Company's engineered products business for fiscal 2000 were \$104.9 million, representing an increase of \$12.3 million, or 13%, from last year. The increase was largely due to the acquisition of Imperial Fabricated Products in April of 2000.

Net sales for fiscal 2000 for the Company's Piper Impact business declined by \$29.1 million, or 22%, to \$105.6 million when compared to fiscal 1999. These results were impacted by the sale of Piper Impact Europe in July of 2000 as well as declining aluminum air bag product sales and competitive pricing pressures.

Operating income - Consolidated operating income for fiscal 2000 was \$66.6 million, excluding the \$14.3 million loss on the sale of Piper Impact Europe and the \$56.3 million asset impairment charge. This represents a decrease of \$5.1 million, or 7%, when compared to the operating income of \$71.8 million in fiscal 1999. During fiscal 2000, the aluminum mill sheet products business and the engineered products business had increased operating income while the engineered steel bar and Piper Impact businesses had lower operating income.

Operating income from the Company's engineered steel bar business was \$57.7 million for fiscal 2000, representing a decrease of \$2.7 million, or 5%, when compared to fiscal 1999. This lower operating income resulted despite higher net sales. The major factors in such decrease were lower realized spread as a result of higher material costs and pricing pressures as well as higher costs associated with outside processing. Depreciation expense for fiscal 2000 was also higher than the prior year due to the recent completion of certain capital projects.

Operating income for fiscal 2000 from the Company's aluminum mill sheet products business was \$21.5 million, representing an increase of \$6.2 million, or 41%, from last year. This increase was largely due to significantly higher sales attributable to increased volume and sale of more value-added products, stable spreads and contribution from Nichols Aluminum-Golden, acquired in January 2000.

Operating income from the Company's engineered products business was \$14.3 million for fiscal 2000, representing an increase of \$1.3 million, or 10%, from last year. The increase was due largely to increased volume and sale of more value-added, higher margin products, as well as the acquisition of Imperial Fabricated Products in April 2000.

Operating losses from the Company's Piper Impact business for fiscal 2000 were \$11.9 million, excluding the one-time loss on the sale of Piper Impact Europe of \$14.3 million and the \$56.3 million asset impairment charge. See Note 4 to the financial statements. The operating loss for fiscal 1999 was \$853 thousand. The declining results are largely due to reduced sales of aluminum automotive airbag components, higher material costs and higher manufacturing costs associated with new product development as well as cellular manufacturing implementation.

In addition to the four operating segments mentioned above, operating expenses for corporate and other for fiscal 2000 were \$15.0 million, representing a decrease of \$1.1 million from the \$16.1 million recorded in fiscal 1999. Included in corporate and other are the corporate office expenses, impact of inventory accounting using LIFO method and inter-segment eliminations. See Notes 8 and 13 to the financial statements regarding LIFO valuation method of inventory accounting.

Selling, general and administrative expenses - Selling, general and administrative expenses increased by \$441 thousand, or 1%, in fiscal 2000 as compared to last year. This increase is largely a result of the acquisitions of Nichols Aluminum-Golden and Imperial Fabricated Products as well as increased selling volume at most business segments.

Depreciation and amortization - Depreciation and amortization increased by \$2.6 million, or 6%, in fiscal 2000 as compared to last year. The increase is principally due to increased depreciation at the engineered steel bar, aluminum mill sheet products and engineered products businesses for recently completed projects, partially offset by lower depreciation at the Piper Impact business.

Interest expense - Interest expense increased by \$853 thousand in fiscal 2000 primarily resulting from additional borrowings made during the fiscal year to finance the acquisitions as well as higher interest rates.

Capitalized interest - Capitalized interest increased by \$330 thousand in fiscal 2000 as compared to fiscal 1999 primarily due to the completion of the Phase V capital project underway at MACSTEEL during 2000.

Other, net - "Other, net" increased by \$487 thousand in fiscal 2000 as compared to last year primarily as a result of increased investment income.

Income from continuing operations - The Company earned income from continuing operations of \$35.9 million in fiscal 2000 excluding the \$9.3 million (net of tax) loss on the sale of Piper Impact Europe and the \$36.6 million (net of tax) asset impairment charge. This represents a decrease of \$3.4 million, or 9%, when compared to fiscal 1999 income from continuing operations of \$39.3 million. The decrease (excluding the loss on the sale of Piper Impact Europe and the Piper Impact asset impairment charge) in fiscal 2000 was principally due to lower operating earnings at the engineered steel bar and Piper Impact business segments partially offset by improved results in the other two business segments.

Net income/loss - Fiscal 2000 net loss was \$9.7 million, compared to net income of \$39.7 million for fiscal 1999. Included in the net loss for fiscal 2000 was a \$9.3 million (after-tax) loss on the sale of Piper Impact Europe and a \$36.6 million (after-tax) impairment charge associated with Piper Impact. Additionally, fiscal 2000 net loss included \$358 thousand extraordinary gain on the early extinguishment of debt. Included in net income for fiscal 1999 were \$415 thousand extraordinary gain on early extinguishment of debt.

1999 Compared to 1998

Net Sales - Consolidated net sales for fiscal 1999 were \$810.1 million, representing an increase of \$12.6 million, or 2%, when compared to fiscal 1998. This increase reflects higher net sales at the aluminum mill sheet and engineered products businesses, partially offset by lower net sales at the Company's engineered steel bar and Piper Impact businesses. Nichols Aluminum Alabama, which was acquired in October 1998, contributed a full year of sales in fiscal 1999.

Net sales from the Company's engineered steel bar business for fiscal 1999, were \$297.4 million, representing a decrease of \$29.9 million, or 9%, when compared to fiscal 1998. This decline was principally due to the reduced demand in some of the durable goods market, inventory adjustments by some customers and pricing pressures resulting from global sourcing of engineered bars and forged components.

Net sales for fiscal 1999 from the Company's aluminum mill sheet products business increased by \$45.4 million or 17% to \$311.8 million when compared to fiscal 1998. This increase was largely due to the acquisition of Nichols Aluminum Alabama in October of 1998.

Net sales from the Company's engineered products business for fiscal 1999 were \$92.7 million, representing an increase of \$623 thousand, or 1% from last year. The increase was largely due to increased demand for traditional window and door products.

Net sales for fiscal 1999 from the Company's Piper Impact business were \$134.7 million, representing a decrease of \$3.3 million, or 2%. The decrease was largely due to reduced demand for older generation aluminum airbag components, partially offset by sales of new non-airbag product lines.

Operating income - Consolidated operating income for fiscal 1999 was \$71.8 million. This represents an increase of \$11.0 million, or 18%, when compared to the operating income in fiscal 1998 of \$60.8 million, excluding the \$58.5 million impairment/restructuring charge. During fiscal 1999, all business segments had increased operating income, partially offset by increased expenses at the corporate office for Year 2000 readiness efforts, relocation expenses and consulting expenses for systems implementation.

At the start of fiscal year 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. See Note 13 to the financial statements for further discussion. This change has no impact on consolidated results, which remain LIFO based.

Operating income from the Company's engineered steel bar business was \$60.4 million for fiscal 1999, representing an increase of \$1.5 million, or 3%, when compared to fiscal 1998. The increase achieved, despite the lower net sales, was largely due to the higher spreads resulting from lower material prices, increased sales of value-added products and productivity improvements realized from the Phase III project completed in 1998. Additionally, approximately \$2 million of benefits were realized as a result of an insurance recovery and a litigation settlement received in fiscal 1999.

Operating income for fiscal 1999 from the Company's aluminum mill sheet products business was \$15.3 million, representing an increase of \$7.5 million or 97% from last year. This increase was largely due to higher sales and operating efficiencies realized from the acquisition of Nichols Aluminum Alabama and improved spreads resulting from lower aluminum scrap prices as well as benefits from the new rotary furnaces and the dross recovery system. Also, the operating income in fiscal 1998 was based on inventory valuation using LIFO method (see Note 13 to the financial statements).

Operating income from the Company's engineered products business was \$13.0 million for fiscal 1999, representing an increase of \$2.2 million, or 20%, when compared to fiscal 1998. The increase was largely due to increased net sales and lower material costs.

Operating loss from the Company's Piper Impact business was \$853 thousand for fiscal 1999. For comparison purposes, fiscal 1998 operating loss of \$63.4 million should be adjusted for the asset

impairment/restructuring charge of \$58.5 million and the decreased amortization expense of \$2.4 million. When compared to the adjusted operating loss of \$2.5 million, fiscal 1999 operating loss represents an improvement of \$1.7 million or 66%. The improvement was largely due to lower material costs and some success at cost management measures.

In addition to the four operating segments mentioned above, operating expenses for corporate and other for fiscal 1999 were \$16.1 million, representing an increase of \$4.3 million over the \$11.8 million recorded in fiscal 1998. Included in corporate and other are the corporate office expenses, impact of inventory accounting using LIFO method and inter-segment eliminations. See Notes 8 and 13 to the financial statements regarding LIFO valuation method of inventory accounting.

Selling, general and administrative expenses - Selling, general and administrative expenses increased by \$5.4 million, or 11% in fiscal 1999 as compared to last year. This increase is largely a result of the acquisition of Nichols Aluminum Alabama, Year 2000 readiness efforts, relocation expenses and consulting expenses for system implementations.

Depreciation and amortization - Depreciation and amortization increased by \$3.5 million, or 8% in fiscal 1999 as compared to last year. The increase is principally due to increased depreciation at the engineered steel bar and aluminum mill sheet products businesses for recently completed projects as well as the inclusion of Nichols Aluminum Alabama, which was acquired in October 1998, partially offset by lower amortization at the Piper Impact and engineered products businesses.

Interest expense - Interest expense decreased by \$500 thousand in fiscal 1999 primarily resulting from the purchase of \$9.7 million principal amount of convertible subordinated debentures.

Capitalized interest - Capitalized interest decreased by \$2.8 million in fiscal 1999 as compared to fiscal 1998 primarily due to the completion of significant capital projects at MACSTEEL during 1998.

Other, net - "Other, net" decreased by \$900 thousand in fiscal 1999 as compared to last year primarily as a result of reduced investment income on lower cash balances.

Income from continuing operations - The Company earned income from continuing operations of \$39.3 million in fiscal 1999. This represents an increase of \$5.2 million or 15% when compared to fiscal 1998 income from continuing operations of \$34.1 million, excluding the restructuring charge. The increase in fiscal 1999 was principally due to increased operating earnings from all four business segments of the Company and inclusion of a full year's earnings from Nichols Aluminum Alabama, which was acquired in October 1998.

Net income - Fiscal 1999 net income was \$39.7 million, compared to \$9.2 million for fiscal 1998. Included in net income for fiscal 1999 were \$415 thousand of extraordinary items representing net gain on early extinguishment of debt. Fiscal 1998 net income included an after-tax impairment/restructuring charge of \$38.0 million at Piper Impact and an after-tax gain of \$13.0 million on the sale of discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

Total capitalization at October 31, 2000 was \$458.4 million, consisting of \$191.9 million of debt and \$266.5 million of equity. The debt-to-capitalization ratio at the end of fiscal 2000 was 41.9% compared with 38.7% at the end of fiscal 1999. The higher debt-to-capitalization ratio results primarily from the borrowings made to finance acquisitions and the decreased equity due to the loss on sale of Piper Europe as well as the asset impairment charge.

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement currently consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003 and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. As of October 31, 2000, there was \$110 million outstanding under the Revolver. See footnote 11 to the financial statements for a detailed description of all of the Company's debt instruments, outstanding balances and aggregate maturities over each of the next five years and beyond.

The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. At October 31, 2000, retained earnings of approximately \$25 million were available for dividends and other restricted payments. As of October 31, 2000, the Company was in compliance with all covenants under the Bank Agreement.

During fiscal 2000, the Company accepted unsolicited block offers to buy back \$10.4 million principal amount of the 6.88% Convertible Subordinated Debentures for \$9.6 million in cash. An after tax extraordinary gain of \$358 thousand was recorded on these transactions. During fiscal 1999, the Company accepted unsolicited block offers to buy back \$9.7 million principal amount of convertible subordinated debentures for \$8.8 million in cash. An after-tax extraordinary gain of \$415 thousand was recorded on these transactions. The outstanding balance of these debentures as of October 31, 2000 was \$63.3 million.

On June 1, 1999, the Company borrowed \$3 million through unsecured Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999.

On December 9, 1999, the Company announced that its Board of Directors approved a program to repurchase shares of the Company's common stock. Under terms of the program, the Company may periodically purchase up to a total of 2 million shares of its common stock in the open market or in privately negotiated transactions. The repurchase plan does not have a time limit, and funds for the program will be provided from the Company's available working capital and bank credit line. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares for \$17.2 million. See Note 15 to the financial statements.

At October 31, 2000, the Company had commitments of \$15 million for the purchase or construction of capital assets. The most significant project included in this total relates to the Company's continued expansions at MACSTEEL. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

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 and dividends.

Operating Activities

Cash provided by operating activities during fiscal 2000 was \$77.9 million. This represents an increase of \$182 thousand, or less than 1%, compared to fiscal 1999.

Investment Activities

Net cash used by investment activities in fiscal 2000 was \$79.6 million compared to \$62.7 million in fiscal 1999. Fiscal 2000 cash from investing activities included the acquisitions of Nichols Aluminum-Golden and Imperial Fabricated Products. There were no acquisitions or divestitures in fiscal 1999. Capital expenditures decreased from \$60.8 million in 1999 to \$42.3 million in 2000. The Company estimates that fiscal 2001 capital expenditures will approximate \$70 million.

Financing Activities

Net cash used by financing activities for fiscal 2000 was \$1.8 million, compared to \$15.4 million in the prior year. During fiscal 2000, the Company had bank borrowings of \$33.4 million, however it used \$9.6 million to purchase subordinated debentures and \$17.2 million to purchase Quanex common stock. During fiscal 1999, the Company used \$8.8 million to purchase subordinated debentures.

Dividend payments amounted to approximately \$9 million in both fiscal 2000 and fiscal 1999. Proceeds from the issuance of stock totaled \$1.0 million in fiscal 2000 compared to \$1.6 million in fiscal 1999.

EFFECTS OF INFLATION

Inflation has not had a significant effect on earnings and other financial statement items.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which deferred the effective date of SFAS No. 133 until the Company's year ending October 31, 2001. The Company adopted SFAS No. 133 as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" an amendment of FASB Statement No. 133", issued in June 2000, subsequent to the fiscal year ended October 31, 2000. See Note 17 to the financial statements for further discussion of its effect.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101. SAB No. 101 provides the staff's views in applying Generally Accepted Accounting Principles ("GAAP") to revenue recognition in financial statements. It does not change any of the existing rules on revenue recognition. All registrants are expected to apply the accounting and disclosures described in this bulletin. The staff, however, will not object if registrants that have not applied this accounting do not restate prior financial statements provided they report a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, no later than the first fiscal quarter of the fiscal year beginning after December 15, 1999. However, SAB No. 101B delays the implementation of SAB No. 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will be analyzing SAB No. 101 to determine what, if any, impact or additional disclosure requirements are necessary. Any such impact will be addressed and reflected in the fourth fiscal quarter of the Company's year ending October 31, 2001 in accordance with SAB No. 101B.

ITEM 7A. QUANTITATIVE/QUALITATIVE DISCLOSURE

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, foreign currency rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information. For a description of the Company's significant accounting policies associated with these activities, see Notes 1 and 17 to the Consolidated Financial Statements.

Interest Rate Risk

The Company and its subsidiaries have a Revolving Credit Facility, Convertible Subordinated Debentures, interest rate swap agreements and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates.

At October 31, 2000 and 1999, the Company had fixed-rate debt totaling \$74 and \$90 million, respectively. This debt is fixed-rate and, therefore, does not expose the Company to the risk of earnings loss due to changes in market interest rates. See Notes 11 and 17 to the Company's Consolidated Financial Statements. The conversion feature of the Company's Subordinated Debentures makes it impractical to estimate the effect of a hypothetical 10% change in interest rates. This is due to the correlation between the market value of these instruments and the market value of the Company's common stock. In general, any changes in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations total \$117.6 and \$99 million at October 31, 2000 and 1999, respectively. See Note 11 to the Company's Consolidated Financial Statements. The exposure of these obligations to increases in short-term interest rates is limited by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate on all of the Company's variable rate debt, 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 (6.76% and 6.21% at October 31, 2000 and 1999, respectively). At October 31, 2000 and 1999, the unrealized losses related to the interest rate swap agreements are \$918 thousand and \$2.0 million. If the floating rates were to change by 10% from October 31 levels, the fair market value of these swaps would change by approximately \$1.5 and \$1.9 million as of October 31, 2000 and 1999, respectively. However, it should be noted that any change in value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the value of the underlying hedged item.

Foreign Currency Exchange Rate Risk

The Company utilized a range forward zero-cost agreement to protect its initial equity investment in its Netherlands subsidiary, Piper Impact Europe, from fluctuations in US Dollar/Dutch Guilder exchange rates. This agreement, which was entered into with a major financial institution, had a notional value of 30 million guilders. By establishing minimum and maximum exchange rates, this agreement limited the potential devaluation of the Company's initial investment in its subsidiary while also limiting any potential appreciation. During the third quarter ended July 31, 2000, the Company sold the Piper Impact Europe subsidiary. As such, this range forward agreement was closed, realizing a gain of approximately \$1.7 million. This gain was offset against the loss on the sale of Piper Impact Europe, as the investment in Piper Impact Europe was the underlying hedged item. At October 31, 1999, the Company booked a gain to stockholder's equity of \$378 thousand.

Commodity Price Risk

In the normal course of business, the Company enters into long-term firm price aluminum sheet sales contracts. In order to hedge the risk of higher prices for the anticipated aluminum purchases required to fulfill these long-term contracts, the Company enters into long futures positions. At October 31, 2000 and 1999, the Company had open futures contracts for aluminum pounds with fair values of \$17.6 and \$5.3 million, respectively. The contracts had unrealized losses of \$372 thousand and unrealized gains of \$117 thousand at October 31, 2000 and 1999, respectively, and covered a notional volume of 25,738,940 and 7,716,170 pounds of aluminum, respectively. A hypothetical 10% change from the October 31, 2000 and 1999 average London Metal Exchange ("LME") ingot price of \$.682 and \$.688, respectively, per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately \$1.8 million and \$530 thousand, respectively. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Quanex Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 2000. Our audits also included the financial statement schedule listed in the index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Houston, Texas
Date: November 30, 2000

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quanex Corporation and subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's best judgments and estimates.

Quanex's system of internal controls is designed to provide reasonable assurance, at justifiable cost, as to the reliability of financial records and reporting and the protection of assets. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. Internal controls are monitored through recurring internal audit programs and are updated as our businesses and business conditions change.

The Audit Committee, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with management, Deloitte & Touche LLP, and Quanex's internal auditors, to review internal accounting control and financial reporting matters. The internal and independent auditors have free and complete access to the Audit Committee.

We believe that Quanex's system of internal controls, combined with the activities of the internal and independent auditors and the Audit Committee, provides reasonable assurance of the integrity of our financial reporting.

/s/ Vernon E. Oechsle

Vernon E. Oechsle
Chairman and Chief Executive Officer

/s/ Terry M. Murphy

Terry M. Murphy
Vice President - Finance and
Chief Financial Officer

Quanex Corporation
CONSOLIDATED BALANCE SHEETS

October 31, -----	2000	1999
	----- (In thousands) -----	
ASSETS		
Current assets:		
Cash and equivalents	\$ 22,409	\$ 25,874
Accounts and notes receivable, less allowance for doubtful accounts of \$11,240,000 in 2000 and \$12,154,000 in 1999	98,465	87,204
Inventories	101,274	78,463
Deferred income taxes	12,771	19,146
Prepaid expenses	1,027	1,700
	-----	-----
Total current assets	235,946	212,387
Property, plant and equipment, net	338,248	406,841
Goodwill, net	47,539	48,990
Other assets	24,126	22,228
	-----	-----
	\$ 645,859	\$ 690,446
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 77,339	\$ 70,187
Accrued expenses	50,189	54,305
Current maturities of long-term debt	256	10,545
Income taxes payable	3,218	1,103
	-----	-----
Total current liabilities	131,002	136,140
Long-term debt	191,657	179,121
Deferred pension credits	7,026	6,691
Deferred postretirement welfare benefits	7,634	7,490
Deferred income taxes	27,620	43,910
Other liabilities	14,423	16,033
	-----	-----
Total liabilities	379,362	389,385
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; issued & outstanding - none in 2000 and 1999	--	--
Common stock, \$.50 par value, 50,000,000 shares authorized; 14,220,666 and 14,269,800 shares issued in 2000 and 1999, respectively.....	7,110	7,135
Additional paid-in capital	111,061	110,317
Retained earnings	165,841	186,867
Unearned compensation	(467)	(171)
Accumulated other comprehensive income	(301)	(765)
	-----	-----
	283,244	303,383
Less common stock held by rabbi trust - 147,689 and 94,606 shares in 2000 and 1999, respectively	(3,349)	(2,322)
Less cost of shares of common stock in treasury (677,526 in 2000 and none in 1999)	(13,398)	--
	-----	-----
Total stockholders' equity	266,497	301,061
	-----	-----
	\$ 645,859	\$ 690,446
	=====	=====

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31, -----	2000 -----	1999 -----	1998 -----
	(In thousands, except per share amounts)		
Net sales	\$ 934,203	\$ 810,094	\$ 797,490
Costs and expenses:			
Cost of sales	766,119	639,911	647,179
Selling, general and administrative	53,545	53,104	47,713
Depreciation and amortization	47,921	45,322	41,834
Loss on sale of Piper Impact Europe	14,280	--	--
Piper Impact asset impairment charge	56,300	--	58,500
Operating income (loss)	(3,962)	71,757	2,264
Other income (expense):			
Interest expense	(15,255)	(14,402)	(14,904)
Capitalized interest	1,941	1,611	4,398
Other, net	1,870	1,383	2,278
Income (loss) from continuing operations before income taxes and extraordinary gain	(15,406)	60,349	(5,964)
Income tax benefit (expense)	5,383	(21,048)	2,087
Income (loss) from continuing operations before extraordinary gain	(10,023)	39,301	(3,877)
Gain on sale of discontinued operations, net of income taxes	--	--	13,046
Income (loss) before extraordinary gain	(10,023)	39,301	9,169
Extraordinary gain on early extinguishment of debt, net of income taxes	358	415	--
Net income (loss) attributable to common stockholders	\$ (9,665)	\$ 39,716	\$ 9,169
Earnings (loss) per common share:			
Basic:			
Continuing operations	\$ (0.73)	\$ 2.76	\$ (0.27)
Gain on sale of discontinued operations	--	--	0.92
Extraordinary gain	0.03	0.03	--
Total basic net earnings (loss)	\$ (0.70)	\$ 2.79	\$ 0.65
Diluted:			
Continuing operations	\$ (0.73)	\$ 2.56	\$ (0.27)
Gain on sale of discontinued operations	--	--	.92
Extraordinary gain	0.03	0.03	--
Total diluted net earnings (loss)	\$ (0.70)	\$ 2.59	\$ 0.65
Weighted average number of shares outstanding			
Basic	13,727	14,234	14,149
Diluted	13,727	16,776	14,149

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollar amounts in thousands)

Years Ended October 31, 2000, 1999, and 1998	Common Stock		Common Stock Held by Rabbi Trust	Additional Paid-in Capital	Retained Earnings
	Shares	Amount			
Balance at October 31, 1997	14,050,411	\$ 7,025		\$ 105,146	\$ 156,528
Comprehensive income:					
Net income					9,169
Adjustment for minimum pension liability (net of tax benefit of \$500)					
Foreign currency translation adjustment					
Total Comprehensive income					
Common dividends (\$.64 per share)					(9,059)
Other	129,423	65		3,478	(360)
Balance at October 31, 1998	14,179,834	\$ 7,090		\$ 108,624	\$ 156,278
Comprehensive income:					
Net income					39,716
Adjustment for minimum pension liability (net of tax expense of \$395)					
Foreign currency translation adjustment					
Total Comprehensive income					
Common dividends (\$.64 per share)					(9,124)
Common stock held by Rabbi Trust			(2,322)		
Other	89,966	45		1,693	(3)
Balance at October 31, 1999	14,269,800	\$ 7,135	\$ (2,322)	\$ 110,317	\$ 186,867
Comprehensive loss:					
Net loss					(9,665)
Adjustment for minimum pension liability (net of tax expense of \$103)					
Foreign currency translation adjustment					
Total Comprehensive loss					
Common dividends (\$.64 per share)					(8,884)
Common stock held by Rabbi Trust			(1,027)		
Cost of common stock in treasury					
Other	(49,134)	(25)		744	(2,477)
Balance at October 31, 2000	14,220,666	\$ 7,110	\$ (3,349)	\$ 111,061	\$ 165,841

Years Ended October 31, 2000, 1999, and 1998	Other Comprehensive Income		Treasury Stock and Other	Total Stockholders' Equity
	Minimum Pension Liability	Foreign Currency Translation		
Balance at October 31, 1997	\$ (298)	\$ 422	\$ 0	\$ 268,823
Comprehensive income:				
Net income				9,169
Adjustment for minimum pension liability (net of tax benefit of \$500)	(782)			(782)
Foreign currency translation adjustment		710		710
Total Comprehensive income				9,097
Common dividends (\$.64 per share)				(9,059)
Other	--	--	--	3,183
Balance at October 31, 1998	\$ (1,080)	\$ 1,132	\$ 0	\$ 272,044
Comprehensive income:				
Net income				39,716
Adjustment for minimum pension liability (net of tax expense of \$395)	618			618
Foreign currency translation adjustment		(1,435)		(1,435)
Total Comprehensive income				38,899
Common dividends (\$.64 per share)				(9,124)
Common stock held by Rabbi Trust				(2,322)
Other			(171)	1,564
Balance at October 31, 1999	\$ (462)	\$ (303)	\$ (171)	\$ 301,061
Comprehensive loss:				
Net loss				(9,665)
Adjustment for minimum pension liability (net of tax expense of \$103)	161			161
Foreign currency translation adjustment		303		303

Total Comprehensive loss				-----	(9,201)			
Common dividends (\$.64 per share)					(8,884)			
Common stock held by Rabbi Trust					(1,027)			
Cost of common stock in treasury			(13,398)		(13,398)			
Other			(296)		(2,054)			
Balance at October 31, 2000	\$	(301)	\$	--	\$	(13,865)	\$	266,497

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended October 31, -----	2000 -----	1999 ----- (In thousands)	1998 -----
OPERATING ACTIVITIES:			
Net Income (Loss)	\$ (9,665)	\$ 39,716	\$ 9,169
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Piper Impact asset impairment charge (net of deferred taxes of \$19,705 and \$20,475 in fiscal 2000 and 1998, respectively).....	36,595	--	38,025
Loss on sale of Piper Impact Europe (net of taxes of \$4,998).....	9,282	--	--
Extraordinary gain on early extinguishment of debt (net of taxes of \$193 and \$223 in fiscal 2000 and 1999, respectively).....	(358)	(415)	--
Gain on sale of discontinued operations (net of taxes)	--	--	(13,046)
Depreciation and amortization	48,445	45,883	42,400
Deferred income taxes	5,483	10,150	6,059
Deferred pension and postretirement benefits	659	(429)	223
Changes in assets and liabilities net of effects from acquisitions and dispositions:			
Decrease (increase) in accounts and notes receivable	(9,149)	(2,665)	3,664
Decrease (increase) in inventory	(12,474)	6,485	(10,994)
Increase (decrease) in accounts payable	5,412	(4,648)	(2,262)
Decrease in accrued expenses	(6,314)	(1,510)	(346)
Other, net (including income tax refund)	9,954	(14,879)	(8,822)
Cash provided by operating activities	77,870	77,688	64,070
INVESTMENT ACTIVITIES:			
Acquisition of Decatur Aluminum Corp., net of cash and equivalents acquired...	--	--	(9,573)
Acquisition of Golden Aluminum, net of cash and equivalents acquired.....	(20,148)	--	--
Acquisition of Imperial Fabricated Products, net of cash and equivalents acquired.....	(15,303)	--	--
Net proceeds from sale of LaSalle Steel Company	--	--	1,366
Net proceeds from sale of the Tubing Operations	--	--	30,068
Capital expenditures, net of retirements	(42,327)	(60,848)	(58,513)
Other, net	(1,809)	(1,832)	(3,168)
Cash used by investment activities	(79,587)	(62,680)	(39,820)
Cash provided (used) by operating and investment activities	(1,717)	15,008	24,250
FINANCING ACTIVITIES:			
Bank borrowings (repayments), net	33,394	1,035	(17,124)
Purchase of subordinated debentures	(9,586)	(8,799)	(1,500)
Purchase of Quanex common stock	(17,185)	--	--
Common dividends paid	(8,884)	(9,124)	(9,059)
Issuance of common stock, net	1,002	1,567	3,183
Other, net	(556)	(60)	(429)
Cash used by financing activities	(1,815)	(15,381)	(24,929)
Effect of exchange rate changes on cash and equivalents	67	(32)	107
Decrease in cash and equivalents	(3,465)	(405)	(572)
Cash and equivalents at beginning of period	25,874	26,279	26,851
Cash and equivalents at end of period	\$ 22,409	\$ 25,874	\$ 26,279

See notes to consolidated financial statements.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Quanex Corporation and its subsidiaries (the "Company" or "Quanex"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

SCOPE OF OPERATIONS

The Company operates primarily in four industry segments: manufacturing of engineered steel bars, aluminum mill sheet products, engineered products and Piper Impact's impact extrusion products. The Company's products include engineered steel bars, coiled aluminum sheet (mill finish and coated), aluminum and steel fabricated products and impact extrusions. The Company's manufacturing operations are conducted primarily in the United States.

REVENUES

The Company recognizes revenues when products are shipped and the title and risk of ownership pass to the customer.

STATEMENTS OF CASH FLOWS

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 2000, 1999, and 1998, cash paid for income taxes was \$10,650,000, \$22,005,000, and \$20,860,000, respectively. These amounts are before refunds of \$7,290,000, \$1,181,000, and \$172,000, respectively. Cash paid for interest for fiscal 2000, 1999, and 1998 was \$14,421,000, \$13,931,000, and \$14,404,000, respectively.

INVENTORIES

Inventories are valued at the lower of cost or market. The accounting methods used in valuing the Company's inventories are described in Note 8.

LONG-LIVED ASSETS

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

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years for the goodwill resulting from the acquisition of Nichols Homeshield in 1989, and over twenty-five years for the goodwill resulting from all other acquisitions (See Note 2). At October 31, 2000 and 1999, accumulated amortization was approximately \$11,746,000 and \$11,035,000, respectively.

In accordance with SFAS No. 121, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. See Note 4 regarding the impact of this statement.

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1. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

HEDGING

The Company enters into various derivative instruments to protect itself from fluctuating prices and rates. The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with related sales transactions. The Company enters into interest rate swap agreements, which effectively exchange variable interest rate debt for fixed interest rate debt. The agreements are used to reduce the exposure to possible increases in interest rates. The Company enters into these swap agreements with major financial institutions. Prior to the sale of Piper Impact Europe, the Company used foreign currency swap agreements to protect the value of its investment in Piper Impact Europe as well as to protect itself from currency fluctuations on certain sales and purchases. The impact of the foreign currency instruments which protected the investment in Piper Impact Europe were recorded as a foreign currency translation adjustment in the equity section of the financial statements when exchange rates went outside of the limits set forth in the agreement. The gains and losses on the forward contracts related to the sales and purchases are deferred off-balance sheet and included as a component of the related transaction when recorded. See Note 17 for further discussion of such financial instruments.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which deferred the effective date of SFAS No. 133 until the Company's year ending October 31, 2001. The Company adopted SFAS No. 133, as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133", issued in June 2000, subsequent to the fiscal year ended October 31, 2000. See Note 17 for further discussion of its effect.

EARNINGS PER SHARE DATA

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at year-end exchange rates, and income and expense items are translated at the average exchange rates for the year. Resulting translation adjustments are reported as a separate component of stockholders' equity.

USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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1. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to fiscal 2000 presentations.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101. SAB No. 101 provides the staff's views in applying Generally Accepted Accounting Principles ("GAAP") to revenue recognition in financial statements. It does not change any of the existing rules on revenue recognition. All registrants are expected to apply the accounting and disclosures described in this bulletin. The staff, however, will not object if registrants that have not applied this accounting do not restate prior financial statements provided they report a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, no later than the first fiscal quarter of the fiscal year beginning after December 15, 1999. However, SAB No. 101B delays the implementation of SAB No. 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will be analyzing SAB No. 101 to determine what, if any, impact or additional disclosure requirements are necessary. Any such impact will be addressed and reflected in the fourth fiscal quarter of the Company's year ending October 31, 2001 in accordance with SAB No. 101B.

2. ACQUISITIONS

On October 9, 1998, the Company acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based coiled aluminum sheet manufacturer for approximately \$19 million. Included in the purchase price was debt totaling \$5 million and other specified liabilities for \$5 million assumed by the Company. The newly acquired company has been renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama"), in alignment with Quanex's other aluminum mill sheet businesses in its Nichols Aluminum division. Goodwill associated with Nichols Aluminum Alabama is approximately \$10 million. Nichols Aluminum Alabama's operations include cold rolling aluminum sheet to specific gauge, annealing, leveling, custom painting and slitting to width.

On January 25, 2000, the Company completed the purchase from Alcoa, Inc. of the Golden Aluminum production facility based in Fort Lupton, Colorado. Quanex acquired the assets of the facility for \$9 million plus working capital valued at approximately \$13 million. The newly acquired facility has become part of Quanex's flat-rolled aluminum sheet business - Nichols Aluminum (the Aluminum Mill Sheet Products segment). It has been renamed Nichols Aluminum-Golden, Inc., ("Nichols Aluminum-Golden") a wholly owned subsidiary of Quanex.

Operations at Nichols Aluminum-Golden include melting and casting aluminum into sheet made from a blend of primary P1020 ingot and selected grades of scrap metal, cold rolling it to specific gauge, annealing, leveling, custom coating and slitting to width. Nichols Aluminum-Golden can produce more than 50 million pounds annually of high quality metal for engineered applications in niche markets, such as end and tab stock for food and beverage packaging, metal components for computer disks, and home accessory products.

On April 3, 2000, the Company acquired the stock of Imperial Products, Inc., a leading manufacturer of value-added exterior door components based in Richmond, Indiana, for approximately \$15 million. Imperial Products, Inc., now doing business as Imperial Fabricated Products ("Imperial"), operates as a wholly owned subsidiary of Quanex. This acquisition expands the specialized design and manufacturing operations of Quanex's Engineered Products Group. Based on preliminary purchase accounting, goodwill associated with Imperial is approximately \$11 million.

Also see Note 19 for acquisitions made subsequent to the fiscal 2000 year end.

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3. DISCONTINUED OR DISPOSED OPERATIONS

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. The Company recorded an after-tax gain on the sale of \$36,290,000 in the second quarter of fiscal 1997. During 1998, an additional after-tax gain of \$668,000 was recorded as a result of post-closing adjustments.

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"). The sale was effective November 1, 1997. The Company recorded an after-tax gain on the sale of \$12,378,000 during fiscal 1998. Included in the gain is an accrual for the Company's best estimate of potential environmental clean-up costs at one of the discontinued operating facilities. Results of these operations have been classified as discontinued and prior periods have been restated. For business segment reporting purposes, Tubing Operations was previously classified as "Steel Tubes".

On July 19, 2000, the Company sold Piper Impact Europe, an impact-extrusion facility based in the Netherlands, to the plant's existing management group for a nominal amount. The transaction was structured as a sale of stock. As a result of this transaction, the Company recorded a pretax charge of \$14.3 million for the fiscal third quarter ending July 31, 2000. In connection with the sale, the Company's range forward foreign currency agreement with a notional amount of 30 million Guilders was cashed in. This agreement was entered into to protect the Company's investment in Piper Impact Europe from foreign currency fluctuations. The settlement of this agreement resulted in a gain, which was offset against the loss on the sale of Piper Impact Europe.

4. PIPER IMPACT IMPAIRMENT DISCLOSURE

Under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", companies must review the carrying amount of long-lived assets and certain intangibles, including related goodwill, whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets may not be recoverable.

Fiscal 1998

During the year ended October 31, 1998, the Company recorded an asset impairment/restructuring charge of \$58.5 million related to Piper Impact. Components of this special charge included \$51.2 million for goodwill impairment; \$6.7 million for impairment of property, plant and equipment; and \$600 thousand for severance benefits to be paid to employees of the Park City, Utah plant. The charge resulted in an after-tax impact on net income of \$38.0 million or \$2.68 per share.

Piper Impact experienced significant changes in market conditions and the relationship with its major customer in fiscal 1998, which led to substantial declines in sales and operating cash flow. Management began an evaluation of the operations of Piper Impact in August 1998. As a result of this evaluation, in September 1998, management approved a plan to close the Park City, Utah facility and move its production to the New Albany, Mississippi facility. Production ceased at the Utah facility and its operations were consolidated in Mississippi by May 1999.

Due to the significance of the changes discussed above and the decision to close one of the acquired production facilities, management performed an evaluation of the recoverability of all of the assets of Piper Impact, excluding the steel plant which was new at the time, as described in SFAS No. 121. Management concluded from the results of this evaluation that a significant impairment of intangible as well as long-lived assets had occurred. An impairment charge was required because the estimated fair value was less than the carrying value of the assets. Fair value of Piper Impact's net assets was determined by discounting estimated future cashflows using a discount rate commensurate with the risks involved. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results may vary significantly from management's estimates.

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4. PIPER IMPACT IMPAIRMENT DISCLOSURE - (CONTINUED)

Fiscal 2000

An asset impairment charge in the amount of \$56.3 million was recorded in the fourth quarter of fiscal 2000 related to the property, plant and equipment of Piper Impact. The impairment charge resulted in an after-tax impact on net income of \$36.6 million or \$2.67 per share.

Piper Impact experienced declines in sales and operating cash flow during fiscal 1999 and fiscal 2000. The declining results were primarily due to decreased demand for aluminum airbag components from Piper Impact's most significant customer. The management of Piper Impact conducted negotiations with this customer during October of 2000 in an attempt to obtain a price increase and a commitment for 100% future sourcing of impacted aluminum airbag components with Piper as well as increased future sourcing of impacted steel airbag parts. Although negotiations continue, the management of Piper Impact became less optimistic about any near-term prospects for price increase without losing a significant amount of business from this customer. Additionally, opportunities for new products did not materialize at a rate necessary to offset the declining volume of airbag components. Consequently, in the fourth quarter of fiscal 2000, it became necessary to once again assess Piper Impact for asset impairment as required under SFAS No. 121.

Management again performed an evaluation of the recoverability of all of the assets of Piper Impact, this time including the steel plant, as described in SFAS No. 121. Management concluded from the results of this evaluation that a significant impairment of long-lived assets had occurred. An impairment charge was required because the estimated fair value was less than the carrying value of the assets. Fair value of Piper Impact's net assets was determined by discounting estimated future cashflows using a discount rate commensurate with the risks involved. Considerable management judgment is necessary to estimate fair value. Accordingly, actual results may vary significantly from management's estimates.

5. EXTRAORDINARY ITEM

During fiscal 2000, the Company accepted unsolicited block offers to buy back \$10.4 million principal amount of the 6.88% Convertible Subordinated Debentures for \$9.6 million in cash. An after-tax extraordinary gain of \$358 thousand was recorded on these transactions.

During fiscal 1999, the Company accepted unsolicited block offers to buy back \$9.7 million principal amount of the 6.88% Convertible Subordinated Debentures for \$8.8 million in cash. An after-tax extraordinary gain of \$415 thousand was recorded on these transactions in the second fiscal quarter of 1999.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. EARNINGS PER SHARE

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

	For the Year Ended October 31, 2000		
	Numerator (Loss)	Denominator (Shares)	Per Share Amount
BASIC AND DILUTED(1) EPS			
Loss from continuing operations	\$ (10,023)	13,727	\$ (0.73)
Extraordinary gain on early extinguishment of debt	358		0.03
Total basic net loss	\$ (9,665)		\$ (0.70)
For the Year Ended October 31, 1999			
	Numerator (Loss)	Denominator (Shares)	Per Share Amount
BASIC EPS			
Income from continuing operations	\$ 39,301	14,234	\$ 2.76
Extraordinary gain on early extinguishment of debt	415		0.03
Total basic net income	\$ 39,716		\$ 2.79
EFFECT OF DILUTIVE SECURITIES			
Effect of common stock equivalents arising from stock options	--	56	
Effect of common stock held by rabbi trust	--	16	
Effect of conversion of subordinated debentures	3,663	2,470	
DILUTED EPS			
Income from continuing operations	42,964	16,776	\$ 2.56
Extraordinary gain on early extinguishment of debt	415		0.03
Total diluted net income	\$ 43,379		\$ 2.59
For the Year Ended October 31, 1998			
	Numerator (Income/ Loss)	Denominator (Shares)	Per Share Amount
BASIC AND DILUTED(1) EPS			
Loss from continuing operations	\$ (3,877)	14,149	\$ (0.27)
Gain on sale of discontinued operations	13,046		\$ 0.92
Total basic net income	\$ 9,169		\$ 0.65

(1) The effect of certain securities or debentures are anti-dilutive and, therefore, not included in the diluted earnings per share calculation. As a result, diluted EPS is the same as basic EPS.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAXES

Income taxes are provided on taxable income at the statutory rates applicable to such income.

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	2000	1999	1998
	(In thousands)		
Current:			
Federal	\$ 10,890	\$ 17,819	\$ 9,312
State	847	1,066	4,190
Foreign	(1,067)	(372)	507
	10,670	18,513	14,009
Deferred	(16,053)	2,535	(16,096)
Income taxes from continuing operations	(5,383)	21,048	(2,087)
Income taxes from sale of discontinued operations	--	--	3,441
Income taxes from extinguishment of debt	192	223	--
Total	\$ (5,191)	\$ 21,271	\$ 1,354

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's net deferred tax liability are as follows:

	October 31,	
	2000	1999
	(In thousands)	
Deferred tax liability:		
Property, plant and equipment	\$ 34,555	\$ 50,502
Other	24,002	16,085
	58,557	66,587
Deferred tax assets:		
Intangibles	15,221	14,411
Postretirement benefit obligation	3,381	3,345
Other employee benefit obligations	10,281	9,448
Environmental accruals	7,662	7,234
Other	7,163	7,385
	43,708	41,823
Net deferred tax liability	\$ 14,849	\$ 24,764
Deferred income tax non-current liability	\$ 27,620	\$ 43,910
Deferred tax current assets	(12,771)	(19,146)
Net deferred tax liability	\$ 14,849	\$ 24,764

No U.S. deferred taxes were provided on the Company's foreign subsidiary's cumulative undistributed losses of \$(1,782,000). The foreign subsidiary was sold in July 2000.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAXES - (CONTINUED)

Income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for the following reasons:

	Years Ended October 31,		
	2000	1999	1998
	(In thousands)		
Income tax expense (benefit) at statutory tax rate	\$ (5,392)	\$ 21,123	\$ (2,087)
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal effect	(148)	1,118	(250)
Goodwill	420	334	345
Other items, net	(263)	(1,527)	(95)
	<u>\$ (5,383)</u>	<u>\$ 21,048</u>	<u>\$ (2,087)</u>

The Company reached a settlement with the Internal Revenue Service with respect to the tax audit of fiscal year 1996. During November 2000, the Company made a tax payment of \$493,000. Adequate provision had been made in prior years and the settlement did not have a material effect on earnings.

8. INVENTORIES

Inventories consist of the following:

	October 31,	
	2000	1999
	(In thousands)	
Raw materials	\$ 26,473	\$ 24,617
Finished goods and work in process	67,981	46,958
	94,454	71,575
Other	6,820	6,888
Total	<u>\$ 101,274</u>	<u>\$ 78,463</u>

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

LIFO	\$ 69,028	\$ 58,968
FIFO	32,246	19,495
Total	<u>\$ 101,274</u>	<u>\$ 78,463</u>

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$10,000,000 and \$11,300,000 at October 31, 2000 and 1999, respectively.

At the beginning of fiscal 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. The change has no impact on consolidated results, which remain LIFO based. See Note 13 regarding industry segment information.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31,	
	2000	1999
	(In thousands)	
Land and land improvements	\$ 19,435	\$ 18,502
Buildings	98,031	101,166
Machinery and equipment	535,841	591,942
Construction in progress	28,685	42,201
	-----	-----
	681,992	753,811
Less accumulated depreciation and amortization	(343,744)	(346,970)
	-----	-----
	\$ 338,248	\$ 406,841
	=====	=====

The Company had commitments for the purchase or construction of capital assets amounting to approximately \$15 million at October 31, 2000.

10. ACCRUED EXPENSES

Accrued expenses consist of the following:

	October 31,	
	2000	1999
	(In thousands)	
Accrued contribution to pension funds	\$ 1,492	\$ 1,783
Interest	2,314	2,364
Payroll, payroll taxes and employee benefits	28,298	28,745
State and local taxes	2,910	2,288
Other	15,175	19,125
	-----	-----
	\$ 50,189	\$ 54,305
	=====	=====

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

	October 31,	
	2000	1999
	(In thousands)	
"Bank Agreement" Revolver	\$ 110,000	\$ 75,000
Convertible subordinated debentures	63,337	73,720
Piper Impact Europe "Credit Facility"	--	22,703
Industrial Revenue and Economic Development Bonds, unsecured, principle due in the years 2005 and 2010, bearing interest ranging from 6.50% to 8.375%	3,275	3,275
State of Alabama Industrial Development Bonds	4,755	4,755
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,800	3,000
Other	7,746	7,213
	\$ 191,913	\$ 189,666
Less maturities due within one year included in current liabilities	256	10,545
	\$ 191,657	\$ 179,121

In July 1996, the Company entered into an unsecured \$250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2003, and provides for up to \$25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either (a) the prime rate or the federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. At October 31, 2000 and 1999, the Company had \$110 and \$75 million, respectively, outstanding under the Revolver. The weighted average interest rates on borrowings under the Revolver were 7.0%, 5.7%, and 6.2%, in 2000, 1999 and 1998, respectively. As of October 31, 2000, the Company was in compliance with all Bank Agreement covenants. Under the Company's most restrictive loan covenants, retained earnings of approximately \$25 million at October 31, 2000 were available for dividends and other restricted payments.

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

During fiscal 2000, 1999 and 1998, respectively, the Company accepted unsolicited block offers to buy back \$10.4, \$9.7 and \$1.5 million, respectively, principal amount of its Convertible Subordinated Debentures. The outstanding balance as of October 31, 2000 is \$63,337,000.

Prior to its sale in fiscal 2000 (see Note 3), Piper Impact Europe had a stand-alone secured credit facility ("Credit Facility") which was executed in October 1997 which provided an initial available credit line of 50 million Dutch Guilders ("NLG"). The available credit line was reduced each quarter by the principal payments on the Medium Term Loan described below. At October 31, 1999 1 NLG was equal to .477 U.S. dollars. The Credit Facility consisted of a Roll-Over Term Loan, a Medium Term Loan and an Overdraft Facility. The Roll-Over Term Loan provided NLG 15 million for loan periods of 1, 2, 3, 6, or 12 months with repayment of outstanding borrowings on October 27, 2002. Interest was payable on the repayment date at the Amsterdam Interbank Offering Rate (AIBOR) plus 90 basis points. In the case of a loan period of twelve months, interest was payable six months after the beginning of the loan period and on the repayment date. The Medium Term Loan provided NLG 15 million at 6.375% payable quarterly in arrears from March 1, 1998, with quarterly

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11. LONG-TERM DEBT AND FINANCING ARRANGEMENTS - (CONTINUED)

repayments of principal in equal amounts of NLG 500 thousand commencing January 1, 1999 through April 1, 2006. The Overdraft Facility provided an aggregate amount of NLG 20 million to cover overdrafts or up to NLG 15 million of loans for a period of one year, subject to annual renewal. Overdrafts bore interest at the Bank's published rate for overdraft facilities plus 1% per annum. Loans under the Overdraft Facility bore interest at AIBOR plus 45 to 55 basis points. The terms of Overdraft Facility loans were selected by Piper Impact Europe to be a period of 1, 2, 3, 6, or 12 months. Interest on overdrafts was paid quarterly in arrears.

Interest on loans under the Overdraft Facility was payable on the repayment date; however, in the case of a loan period of twelve months, interest was payable six months after the beginning of the loan period and on the repayment date. At October 31, 1999, Piper Impact Europe had NLG 47.6 outstanding under the Credit Facility. As of October 31, 2000, these debt instruments were no longer part of the Company as Piper Impact Europe was sold in July of 2000.

The State of Alabama Industrial Development bonds were assumed as part of the Nichols Aluminum Alabama acquisition (see Note 2). These bonds mature August 1, 2004 with interest payable monthly. The bonds bear interest at the weekly interest rate as determined by the remarketing agent under then prevailing market conditions to be the minimum interest rate, which, if borne by the bonds on the effective date of such rate, would enable the remarketing agent to sell the bonds on such business day at a price (without regard to accrued interest) equal to the principal amount of the bonds. The interest rate, however, may not exceed 13% per annum. The weekly interest rate during the year ended October 31, 2000 ranged from 3.10% to 6.25%. These bonds are secured by a Letter of Credit.

On June 1, 1999, the Company borrowed \$3 million through unsecured Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of \$200 thousand beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest that would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month. Interest rates on these bonds during the five months that they have been outstanding in fiscal 2000 have ranged from 3.2% to 6.1%.

Aggregate maturities of long-term debt at October 31, 2000, are as follows (in thousands):

2001	\$ 256
2002	252
2003	110,257
2004	12,354
2005	221
Thereafter	68,573

	\$191,913
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12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

The Company has a number of retirement plans covering substantially all employees. The Company provides both defined benefit and defined contribution plans. In general, the plant or location of his/her employment determines an employee's coverage for retirement benefits. The single employer defined benefit pension plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations. The plans invest primarily in marketable equity and debt securities.

The Company also provides certain healthcare and life insurance benefits for certain eligible retired employees employed prior to January 1, 1993. Certain employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis. For fiscal year 2000, the Company made benefit payments totaling \$422,000, compared to \$348,000 and \$410,000 in fiscal 1999 and 1998, respectively.

A reconciliation of the beginning benefit obligation to the ending benefit obligation follows:

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2000	1999	2000	1999
	(In thousands)			
Benefit obligation at beginning of year	\$ 30,564	\$ 27,665	\$ 7,731	\$ 7,984
Service cost	2,000	2,092	108	187
Interest cost	2,215	1,978	516	541
Amendments	323	818	(735)	--
Actuarial loss (gain)	(1,432)	(2,111)	(100)	(633)
Benefits paid from plan assets	(442)	(556)	(422)	(348)
Administrative expenses	(279)	(298)	--	--
Foreign currency translation effect	--	(122)	--	--
Piper Impact Europe benefit obligation	(1,049)	1,098	--	--
Benefit obligation at end of year	\$ 31,900	\$ 30,564	\$ 7,098	\$ 7,731

A reconciliation of the beginning fair value of plan assets to the ending fair value of plan assets follows:

	Pension Benefits	
	October 31,	
	2000	1999
	(In thousands)	
Fair value of plan assets at beginning of year	\$ 22,205	\$ 17,692
Actual return on plan assets	1,343	2,491
Employer contributions	1,865	2,240
Employee contributions	--	47
Ins. premiums paid for surviving spouse coverage	--	(15)
Benefits paid	(442)	(556)
Administrative expenses	(279)	(298)
Foreign currency translation effect	--	(77)
Piper Impact Europe fair value of plan assets	(696)	681
Fair value of plan assets at end of year	\$ 23,996	\$ 22,205

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS - (CONTINUED)

A reconciliation of the funded status of the plans with the amounts recognized in the accompanying balance sheets is set forth below:

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2000	1999	2000	1999
	(In thousands)			
Funded status	\$ (7,904)	\$ (8,359)	\$ (7,098)	\$ (7,731)
Unrecognized transition asset	(490)	(602)	--	--
Unrecognized prior service cost	1,559	1,344	(680)	--
Unrecognized net loss	440	1,363	142	238
Foreign currency translation effect	--	(12)	--	--
Other	--	22	2	3
Accrued benefit cost	\$ (6,395)	\$ (6,244)	\$ (7,634)	\$ (7,490)
Amounts recognized in the Balance Sheet:				
Deferred benefit credit	\$ (7,026)	\$ (6,691)	\$ (7,634)	\$ (7,490)
Accrued contribution to pension	(1,492)	(1,783)	--	--
Intangible asset	1,631	1,473	--	--
Accumulated other comprehensive income	492	757	--	--
Accrued benefit cost	\$ (6,395)	\$ (6,244)	\$ (7,634)	\$ (7,490)

Below is data related to pension plans in which the accumulated benefit obligation exceeds plan assets.

	Pension Benefits		Postretirement Benefits	
	October 31,			
	2000	1999	2000	1999
	(In thousands)			
Accumulated benefit obligation	\$7,392	\$7,319	\$7,098	\$7,731
Fair value of plan assets	6,194	5,576	--	--

Below are the assumptions used.

	Pension Benefits			Postretirement Benefits		
	October 31,					
	2000	1999	1998	2000	1999	1998
	(In thousands)					
Discount rate	7.75%	7.50%	6.75%	7.75%	7.50%	6.75%
Expected return on plan assets	10.00%	10.00%	10.00%	--	--	--
Rate of compensation increase	4.50%	4.50%	4.00%	--	--	--

The assumed health care cost trend rate was 8.0% in 2000, decreasing uniformly to 5.75% in the year 2008 and remaining level thereafter. If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 2000 would be increased by 1.96%. The effect of this change on the sum of the service cost and interest cost would be an increase of 1.55%. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of October 31, 2000 would be decreased by 1.76%. The effect of this change on the sum of the service cost and interest cost would be a decrease of 1.38%.

Quanex Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS - (CONTINUED)

Net pension costs for the single employer defined benefit pension plans were as follows:

	Years Ended October 31,		
	2000	1999	1998
	(In thousands)		
Service Cost	\$ 2,000	\$ 2,092	\$ 1,832
Interest cost	2,215	1,978	1,685
Expected return on plan assets	(2,228)	(1,978)	(1,670)
Amortization of unrecognized transition asset	(111)	(111)	(111)
Amortization of unrecognized prior service cost	109	63	25
Amortization of unrecognized net loss	--	119	7
Other	104	(63)	--
Net periodic pension cost	\$ 2,089	\$ 2,100	\$ 1,768

Net periodic costs for the postretirement benefit plans other than pensions were as follows:

	Years Ended October 31,		
	2000	1999	1998
	(In thousands)		
Net periodic postretirement benefit cost:			
Service cost	\$ 109	\$ 187	\$ 163
Interest cost	516	541	523
Net amortization and deferral	(60)	17	(10)
Other	--	2	--
Net periodic postretirement benefit cost	\$ 565	\$ 747	\$ 676

One of the Company's subsidiaries, Piper Impact Europe, which was sold in July of 2000, participated in two multi-employer plans. The plans provided defined benefits to substantially all of Piper Impact Europe's employees. Amounts charged to pension cost and contributed to the plans as of October 31, 2000, and 1999, totaled approximately NLG 1,302,000 and NLG 2,021,000 or approximately \$575,000 and \$1,000,000, respectively.

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately \$3,978,000, \$3,366,000, and \$2,978,000, during fiscal 2000, 1999, and 1998, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately \$5,923,000, \$4,829,000, \$4,147,000, at October 31, 2000, 1999 and 1998, respectively. These benefits are funded with life insurance policies purchased by the Company.

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13. INDUSTRY SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", for fiscal year ended 1998. SFAS No. 131 requires that the Company disclose certain information about its operating segments where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

During the fiscal year ended October 31, 2000, internal management structure changes were made to increase the needed emphasis and focus on two separate lines of business. These changes affected the way in which operating decisions are made and performance is assessed. In accordance with SFAS No. 131, the industry segment disclosure has been revised to reflect these changes and the previously reported "engineered products" segment has been split. Piper Impact, which includes the two New Albany, Mississippi based facilities, as well as Piper Impact Europe, has been segregated from the "Engineered Products" segment into a separate reporting segment named "Piper Impact". The "Engineered Products" segment now reflects the results of AMSCO, Homeshield Fabricated Products and Imperial Fabricated Products. Previous year's information has been restated to reflect this change.

As such, the Company has four reportable segments: engineered steel bars, aluminum mill sheet products, engineered products and Piper Impact. The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services as well as steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures aluminum window and patio door screens, window frames, exterior door components and other roll-formed products and stamped shapes. The Piper Impact segment manufactures impact-extruded aluminum and steel parts.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, with the exception of the inventory valuation method. At the beginning of fiscal year 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. This change has no impact on consolidated results, which remain LIFO based. Prior years' data have not been restated; however, information is provided below to allow comparability.

The Company accounts for intersegment sales and transfers as though the sales or transfers were to third parties, that is, at current market prices.

The Company's reportable segments are strategic business divisions that offer different products and services. These groups are managed separately because each business requires different expertise and marketing strategies. The Company evaluates performance based on operating income.

Quanex Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INDUSTRY SEGMENT INFORMATION - (CONTINUED)

For the year-ended October 31, 2000, no one customer represented 10% or more of the consolidated net sales of the Company.

YEAR ENDED OCTOBER 31, 2000	Engineered Steel Bars	Aluminum Mill Sheet Products(4)	Engineered Products(5)	Piper Impact(6)	Corporate & Other(1)	Consolidated
(In thousands)						
Net Sales:						
To unaffiliated companies	\$ 339,348	\$ 384,275	\$ 104,948	\$ 105,632	\$ --	\$ 934,203
Intersegment(2)	4,897	20,080	--	--	(24,977)	--
Total	\$ 344,245	\$ 404,355	\$ 104,948	\$ 105,632	\$ (24,977)	\$ 934,203
Operating Income (Loss)	\$ 57,702	\$ 21,529	\$ 14,301	\$ (82,470)	\$ (15,024)	\$ (3,962)
Depreciation and amortization:						
Operating	\$ 18,775	\$ 12,943	\$ 3,443	\$ 12,362	\$ 398	\$ 47,921
Other	--	22	--	--	502	524
Total	\$ 18,775	\$ 12,965	\$ 3,443	\$ 12,362	\$ 900	\$ 48,445
Capital expenditures(3)	\$ 27,374	\$ 4,709	\$ 3,586	\$ 5,290	\$ 1,396	\$ 42,355
Identifiable assets	\$ 267,476	\$ 227,365	\$ 65,527	\$ 54,518	\$ 30,973	\$ 645,859

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

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

(3) Includes capitalized interest.

(4) Fiscal 2000 results include Nichols Aluminum-Golden operations since the acquisition date of January 25, 2000. See Note 2 to the financial statements.

(5) Fiscal 2000 results include Imperial Fabricated Products operations since the acquisition date of April 3, 2000. See Note 2 to the financial statements.

(6) Fiscal 2000 results include the \$14.3 million pretax loss on the sale of Piper Impact Europe and the \$56.3 million pretax asset impairment charge on Piper Impact. See Notes 3 and 4 to the financial statements.

For the year-ended October 31, 1999, 12% of the Company's consolidated net sales were made to one customer. These sales are included in the Piper Impact segment.

YEAR ENDED OCTOBER 31, 1999	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Piper Impact	Corporate & Other(1)	Consolidated
(In thousands)						
Net Sales:						
To unaffiliated companies	\$ 292,085	\$ 290,648	\$ 92,667	\$ 134,694	\$ --	\$ 810,094
Intersegment(2)	5,284	21,115	1	--	(26,400)	--
Total	\$ 297,369	\$ 311,763	\$ 92,668	\$ 134,694	\$ (26,400)	\$ 810,094
Operating Income (Loss)	\$ 60,446	\$ 15,306	\$ 13,006	\$ (853)	\$ (16,148)	\$ 71,757
Depreciation and amortization:						
Operating	\$ 16,293	\$ 12,313	\$ 3,349	\$ 12,836	\$ 531	\$ 45,322
Other	--	21	--	--	540	561
Total	\$ 16,293	\$ 12,334	\$ 3,349	\$ 12,836	\$ 1,071	\$ 45,883
Capital expenditures(3)	\$ 37,750	\$ 9,873	\$ 1,680	\$ 10,948	\$ 683	\$ 60,934
Identifiable assets	\$ 241,783	\$ 200,733	\$ 46,977	\$ 162,176	\$ 38,777	\$ 690,446

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

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

(3) Includes capitalized interest.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INDUSTRY SEGMENT INFORMATION - (CONTINUED)

For the year-ended October 31, 1998, 13% of the Company's consolidated net sales were made to one customer. These sales are included in the Piper Impact segment.

YEAR ENDED OCTOBER 31, 1998 -----	Engineered Steel Bars -----	Aluminum Mill Sheet Products(1) -----	Engineered Products -----	Piper Impact(4) -----	Corporate & Other(2) -----	Consolidated(4) -----
(In thousands)						
Net Sales:						
To unaffiliated companies	\$ 324,312	\$ 243,168	\$ 92,043	\$ 137,967	\$ --	\$ 797,490
Intersegment(3)	2,984	23,187	2	--	(26,173)	--
Total	<u>\$ 327,296</u>	<u>\$ 266,355</u>	<u>\$ 92,045</u>	<u>\$ 137,967</u>	<u>\$ (26,173)</u>	<u>\$ 797,490</u>
Operating Income (loss)(6)	\$ 58,908	\$ 7,788	\$ 10,825	\$ (63,431)	\$ (11,826)	\$ 2,264
Depreciation and amortization:						
Operating	\$ 13,097	\$ 10,670	\$ 3,761	\$ 14,167	\$ 139	\$ 41,834
Other	--	--	--	--	566	566
Total	<u>\$ 13,097</u>	<u>\$ 10,670</u>	<u>\$ 3,761</u>	<u>\$ 14,167</u>	<u>\$ 705</u>	<u>\$ 42,400</u>
Capital expenditures(5)	\$ 31,116	\$ 13,109	\$ 1,973	\$ 14,469	\$ 269	\$ 60,936
Identifiable assets(6)	\$ 219,727	\$ 198,596	\$ 48,025	\$ 172,136	\$ 35,804	\$ 674,288

- (1) Identifiable assets include Nichols Aluminum Alabama, acquired on October 9, 1998.
- (2) Included in "Corporate and Other" are intersegment eliminations, and corporate expenses.
- (3) Intersegment sales are conducted on an arm's-length basis.
- (4) Operating income includes an asset impairment/restructuring charge of \$58,500. See Note 4 to the financial statements.
- (5) Includes capitalized interest.
- (6) As noted above, at the start of fiscal year 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. This change has no impact on consolidated results, which remain LIFO based. Prior year's data have not been restated above, however, the following information is provided to allow comparability. The effect of switching to FIFO method of inventory valuation for segment reporting during 1998 would have been as follows:

	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Piper Impact	Corporate and Other	Consolidated
Operating Income - increase/(decrease)	(1,100)	(5,011)	(165)	0	6,276	0
Identifiable Assets - increase/(decrease)	3,492	0	308	0	(3,800)	0

GEOGRAPHIC INFORMATION

	YEAR ENDED OCTOBER 31,		
	2000 -----	1999 -----	1998 -----
NET SALES(1)			
United States	\$867,550	\$745,265	\$741,067
Mexico	23,571	17,183	15,680
Canada	18,124	17,825	10,374
European countries	19,781	24,481	28,501
Other foreign countries	5,177	5,340	1,868
Total	<u>\$934,203</u>	<u>\$810,094</u>	<u>\$797,490</u>

- (1) Net Sales are attributed to countries based on location of customer.

Quanex Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INDUSTRY SEGMENT INFORMATION - (CONTINUED)

NET SALES(2)	YEAR ENDED OCTOBER 31,		
	2000	1999	1998
United States	\$916,623	\$777,441	\$763,775
The Netherlands	17,580	32,653	33,715
	<u>\$934,203</u>	<u>\$810,094</u>	<u>\$797,490</u>

(2) Net sales are attributed to countries based on location of operations.

OPERATING INCOME (LOSS)(4)	YEAR ENDED OCTOBER 31,		
	2000	1999	1998
United States	\$ 12,754 (3)	\$ 71,774	\$ (144)(3)
The Netherlands	(16,716)(5)	(17)	2,408
	<u>\$ (3,962)</u>	<u>\$ 71,757</u>	<u>\$ 2,264</u>

(3) Including the asset impairment charge of \$56.3 million in FY 2000 and \$58.5 million in FY 1998. See Note 4.

(4) Operating income (loss) is attributed to countries based on location of operations.

(5) Including the loss on sale of Piper Impact Europe. See Note 3.

IDENTIFIABLE ASSETS(6)	YEAR ENDED OCTOBER 31,	
	2000	1999
United States	\$645,859	\$648,145
The Netherlands	--	42,301
Total	<u>\$645,859</u>	<u>\$690,446</u>

(6) Identifiable assets are attributed to countries based on location of operations.

14. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. On April 15, 1999, the Second Amended and Restated Rights Agreement went into effect. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of \$90. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of \$.01 or the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will entitle the holder to purchase \$120 worth of the surviving company's common stock for \$90. Additionally, if someone acquires 20% or more of the Company's common stock, each Right, not owned by the 20% or greater shareholder, would permit the holder to purchase \$120 worth of the Company's common stock for \$90. The Rights are redeemable, at the option of the Company, at \$.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire April 15, 2009.

As a result of the Rights distribution, 150,000 of the 1,000,000 shares of authorized Preferred Stock were reserved for issuance as Series A Junior Participating Preferred Stock.

15. STOCK REPURCHASE PROGRAM

In December 1999, Quanex announced that its Board of Directors approved a program to repurchase up to 2 million shares of the Company's common stock in the open market or in privately negotiated transactions. During the fiscal year ended October 31, 2000, the Company repurchased 834,300 shares at a cost of \$17.2 million. The Company retired 156,700 of these shares purchased at a cost of approximately \$3.8 million.

For shares purchased by the Company and retired: 1) Common stock is charged for the par value of the shares, 2) additional paid in capital is charged for the pro-rata portion associated with those shares and 3) retained earnings is charged for the remainder of the cost of the retired shares. For the shares purchased and retired in the nine months ended July 31, 2000, the equity was reduced as shown below:

Repurchase Cost -----	Common Stock -----	Additional Paid in Capital -----	Retained Earnings -----
(In thousands)			
\$3,785	\$78	\$1,222	\$2,485

The Company accounted for the remaining shares purchased as treasury stock. The cost of such shares of \$13.4 million at October 31, 2000 is reflected as a reduction of stockholders' equity in the balance sheet.

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16. RESTRICTED STOCK AND STOCK OPTION PLANS

Key Employee Plans:

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The awards vest over a specified time period. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. There were 22,750 and 6,000 restricted shares granted in 2000 and 1999, respectively. There were no restricted shares granted in 1998. The amount charged to compensation expense in 2000 was \$57,000, relating to restricted stocks granted in 1999. No compensation expense was charged in 1999 or 1998 related to the restricted stock.

Under the Company's option plans, options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. There were 650,194, 276,776, and 493,176 shares available for granting of options at October 31, 2000, 1999, and 1998, respectively. Stock option transactions for the three years ended October 31, 2000, were as follows:

	Shares Exercisable -----	Shares Under Option -----	Average Price Per Share -----
Balance at October 31, 1997	650,053 =====	1,086,141	\$ 24
Granted		264,550	21
Exercised		(95,416)	21
Cancelled		(35,404)	26
Balance at October 31, 1998	770,075 =====	1,219,871	23
Granted		240,700	21
Exercised		(9,000)	15
Cancelled		(30,300)	24
Balance at October 31, 1999	966,391 =====	1,421,271	23
Granted		244,250	18
Exercised		(3,000)	9
Cancelled		(40,418)	26
Balance at October 31, 2000	1,140,150 =====	1,622,103 =====	\$ 22

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16. RESTRICTED STOCK AND STOCK OPTION PLANS - (CONTINUED)

Non-Employee Director Plans:

The Company has various non-employee Director plans, which are described below:

1987 Non-Employee Directors Plan:

The Company's 1987 Non-employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director, as of the first anniversary of the date of his/her election as a Director of the Company, will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant. During 1998, the Board of Directors passed a resolution, which reduced the number of options to be granted from 10,000 to 6,000.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were no shares available for granting of options at October 31, 2000, 1999, or 1998. Stock option transactions for the three years ended October 31, 2000, were as follows:

	Shares Exercisable -----	Shares Under Option -----	Average Price Per Share -----
Balance at October 31, 1997	11,666 =====	25,000	\$ 18
Granted		--	--
Exercised		(5,000)	14
Cancelled		--	--
Balance at October 31, 1998	13,332 =====	20,000	20
Granted		--	--
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1999	20,000 =====	20,000	20
Granted		--	--
Exercised		--	--
Cancelled		--	--
Balance at October 31, 2000	20,000 =====	20,000 =====	\$ 20

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16. RESTRICTED STOCK AND STOCK OPTION PLANS - (CONTINUED)

1989 Non-Employee Directors Plan:

The Company's 1989 Non-employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 210,000 shares of common stock. Each non-employee Director as of December 6, 1989 was granted an option to purchase 3,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of grant. Also, each non-employee Director who is a director of the Company on any subsequent October 31, while the plan is in effect and shares are available for the granting of options hereunder, shall be granted on such October 31, an option to purchase 3,000 shares of common stock at a price equal to the fair market value of the common stock as of such October 31. During 1998, the Board of Directors passed a resolution, which decreased the number of options to be granted annually as prescribed above from 3,000 to 2,000. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were no shares available for granting of options at October 31, 2000 and 1999, respectively and 12,000 shares available for granting of options at October 31, 1998. Stock option transactions for the three years ended October 31, 2000, were as follows:

	Shares Exercisable -----	Shares Under Option -----	Average Price Per Share -----
Balance at October 31, 1997	93,000	114,000	\$ 24
	=====		
Granted		18,000	17
Exercised		(3,000)	19
Cancelled		--	--

Balance at October 31, 1998	111,000	129,000	23
	=====		
Granted		12,000	22
Exercised		(5,000)	16
Cancelled		--	--

Balance at October 31, 1999	124,000	136,000	23
	=====		
Granted		--	--
Exercised		(1,000)	17
Cancelled		--	--

Balance at October 31, 2000	135,000	135,000	\$ 23
	=====	=====	

1997 Non-Employee Directors plan:

The Company's 1997 Non-Employee Directors stock option plan provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 400,000 shares of common stock. There are two types of grants under this plan which are described below:

Automatic Annual Grants

While this plan is in effect and shares are available for the granting of options hereunder, each non-employee Director who is a director of the Company on October 31 and who has not received options under the 1989 Non-Employee Director plan shall be granted on such October 31, an option to purchase such number of shares of common stock as is determined by the Board of Directors at a price equal to the fair market value of the common stock as of such October 31. These options are exercisable in full immediately upon the date of grant.

New Director Grants

While this plan is in effect and shares are available for the granting of options hereunder, there shall be granted to each non-employee Director who was not granted an option under the 1987 Non-Employee Director Stock Option Plan as of the date upon which such director shall have continuously served as a director of the Company for a period of one year an option to purchase such number of Quanex Corporation shares of stock as is determined by the Board of Directors. These Plan options

16. RESTRICTED STOCK AND STOCK OPTION PLANS - (CONTINUED)

become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant.

There were 364,000, 382,000 and 400,000 shares available for granting of options at October 31, 2000, 1999 and 1998, respectively. There were no transactions under this plan through October 31, 1998, however below is the activity for the periods ending October 31, 1999 and 2000:

	Shares Exercisable	Shares Under Option	Average Price Per Share
	-----	-----	-----
Balance at October 31, 1998	--	--	--
Granted		18,000	\$ 21
Exercised		--	--
Cancelled		--	--

Balance at October 31, 1999	2,000	18,000	21
	=====		
Granted		18,000	20
Exercised		--	--
Cancelled		--	--

Balance at October 31, 2000	25,333	36,000	\$ 21
	=====	=====	

STOCK BASED 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" and discloses the required 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.

The following pro forma summary of the Company's consolidated results of operations have been prepared as if the fair value based method of accounting for stock based compensation as required by SFAS No. 123 had been applied:

	Years Ended October 31,		
	2000	1999	1998
	-----	-----	-----
	(In thousands)		
Net income (loss) attributable to common stockholders	\$ (9,665)	\$ 39,716	\$ 9,169
SFAS No. 123 adjustment	(1,619)	(1,764)	(1,495)
	-----	-----	-----
Pro forma net attributable to common stockholders	\$ (11,284)	\$ 37,952	\$ 7,674
	=====	=====	=====
Earnings (loss) per Common share:			
Basic as reported	\$ (0.70)	\$ 2.79	\$ 0.65
Basic pro forma	\$ (0.82)	\$ 2.67	\$ 0.54
Diluted as reported	\$ (0.70)	\$ 2.59	\$ 0.65
Diluted pro forma	\$ (0.82)	\$ 2.48	\$ 0.54

Fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions.

	2000	1999	1998
	-----	-----	-----
Risk-free interest rate	5.75%	5.93%	4.49%
Dividend yield	3.33%	2.80%	3.00%
Volatility factor	42.89%	40.21%	31.57%
Weighted average expected life	5 years	5 years	5 years

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company routinely enters into metal exchange forward contracts to hedge price risk of forecasted aluminum raw material purchases. The Company's risk management policy as it relates to metal exchange forward contracts is to enter into such contracts to hedge its exposure to price fluctuations of aluminum raw material purchases that relate to the Company's backlog of aluminum sales orders with committed prices as well as a certain level of forecasted aluminum sales for which a sales price increase would lag a raw material cost increase. As of October 31, 2000, open forward contracts have maturity dates extending through October 2003. At October 31, 2000 and 1999, these contracts covered notional volumes of 25,738,940 and 7,716,170 pounds and had fair values of (\$372) thousand and \$117 thousand, respectively. Through October 31, 2000, the fair value of these contracts is not reflected on the balance sheet, and hedging gains and losses are included in "Cost of Sales" in the income statement concurrently with the related sales of inventory.

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted \$100 million of its variable rate debt under the Bank Agreement to fixed rate. The Company's risk management policy related to these swap agreements is 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 (6.76% at October 31, 2000). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The fair value of the swaps as of October 31, 2000 and 1999 is (\$918) thousand and (\$2.0) million, respectively.

In December 1997, the Company entered into a zero-cost range forward (foreign currency swap) agreement on a notional value of 30 million Guilders with a major financial institution to hedge its initial equity investment in its Netherlands subsidiary, Piper Impact Europe. This agreement limited the Company's exposure to large fluctuations in the US Dollar/Dutch Guilder exchange rate. Under the terms of the agreement, Quanex had the option to let the agreement expire at no cost if the exchange rate remained within an established range on the expiration date of October 25, 2000. At October 31, 1999, the Company booked a \$378 thousand gain to the stockholders' equity cumulative foreign currency translation adjustment. During the third quarter ended July 31, 2000, the Company sold the Piper Impact Europe subsidiary. As such, this range forward agreement was closed, realizing a gain of approximately \$1.7 million. This gain was offset against the loss on the sale of Piper Impact Europe as the investment in Piper Impact Europe was the underlying hedged item.

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value of long-term debt was \$184.3 million and \$186.0 million, as of October 31, 2000 and 1999, respectively, as compared to carrying values at October 31, 2000 and 1999 of \$191.9 million and \$189.7 million, respectively.

The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities. The fair value of interest rate swaps was estimated by discounting expected cash flows using quoted market interest rates. The fair value of the aluminum forward contracts was determined by obtaining the difference between the contract price per pound and the forward LME price per pound as of October 31, 2000 and multiplying by the outstanding notional volumes under the contract.

Effective November 1, 2000, the Company adopted SFAS No. 133, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

The Company has designated the metal exchange forward contracts as cash flow hedges of forecasted aluminum raw material purchases. On November 1, 2000, the Company recorded a derivative liability of \$372 thousand representing the fair value of these contracts as of that date. A corresponding amount, net of taxes of \$145 thousand, was recorded to other comprehensive income.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - (CONTINUED)

Gains and losses related to the forward contracts that are reported in other comprehensive income will be reclassified into earnings in the periods in which the related inventory is sold. As of November 1, 2000, approximately \$275 thousand is expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these contracts, including amounts recorded related to hedge ineffectiveness, will be reflected in "Cost of Sales" in the income statement.

The Company has designated the interest rate swap agreements as cash flow hedges of future interest payments on its variable rate long-term debt. On November 1, 2000, the Company recorded a derivative liability of \$918 thousand, representing the fair value of the swaps as of that date. A corresponding amount, net of income taxes of \$358 thousand, was recorded to other comprehensive income. Gains and losses related to the swap agreements will be reclassified into earnings in the periods in which the related hedged interest payments are made. As of November 1, 2000, approximately \$334 thousand is expected to be reclassified into earnings over the next twelve months. Gains and losses on these agreements, including amounts recorded related to hedge ineffectiveness, will be reflected in "Interest expense" in the income statement.

18. 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 October 31, 2000, were approximately \$18 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 a facility previously part of the 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. 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.

19. SUBSEQUENT EVENTS

On November 30, 2000, Quanex completed the purchase of all of the Capital stock of Temroc Metals, Inc., ("Temroc") a Minnesota corporation for approximately \$21 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Temroc is a leading aluminum extrusion and fabrication company based in Hamel, Minnesota.

Temroc has production facilities in Hamel, Minnesota, where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's Engineered Products Group and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products.

The purchase price will be allocated to the assets and liabilities of Temroc based on their estimated fair values. The Company anticipates that the purchase price and associated acquisition expenses will exceed the fair value of Temroc's net assets, with the excess to be recorded as goodwill.

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19. SUBSEQUENT EVENTS - (CONTINUED)

To finance the acquisition, the Company borrowed against its existing \$250 million unsecured revolving credit and term loan facility with a group of six banks.

Quanex Corporation
SUPPLEMENTARY FINANCIAL DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth the selected quarterly information for the years ended October 31, 2000 and 1999.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
2000:				
Net sales	\$ 199,294	\$ 243,271	\$ 254,144	\$ 237,494
Gross profit	22,236	30,565	19,598	(19,508)
Income (loss) from continuing operations(1)	4,175	9,029	715	(23,942)
Extraordinary gain	--	358	--	--
Net income (loss)	4,175	9,387	715	(23,942)
Earnings per share:				
Basic:				
Income (loss) from continuing operations	0.29	0.66	0.05	(1.78)
Extraordinary gain	--	0.02	--	--
Net earnings (loss)	0.29	0.68	0.05	(1.78)
Diluted	\$ 0.29	\$ 0.63	\$ 0.05	\$ (1.78)
1999:				
Net sales	\$ 183,103	\$ 202,879	\$ 206,619	\$ 217,493
Gross profit	23,536	32,046	35,048	37,665
Income from continuing operations	3,869	9,777	12,331	13,324
Extraordinary gain	--	415	--	--
Net income	3,869	10,192	12,331	13,324
Earnings per share:				
Basic:				
Income from continuing operations	0.27	0.69	0.86	0.94
Extraordinary gain	--	0.03	--	--
Net earnings	0.27	0.72	0.86	0.94
Diluted	\$ 0.27	\$ 0.66	\$ 0.79	\$ 0.85

(1) Includes an after-tax asset impairment charge of \$36,595.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS & EXPENSES	WRITE-OFFS	OTHER	BALANCE AT END OF YEAR
	(In thousands)				
ALLOWANCE FOR DOUBTFUL ACCOUNTS:					
Year ended October 31, 2000	\$12,154	\$ 738	\$(1,284)	\$ (368)	\$11,240
Year ended October 31, 1999	\$11,752	\$ 921	\$ (188)	\$ (331)	\$12,154
Year ended October 31, 1998	\$10,338	\$ 1,088	\$ (202)	\$ 528	\$11,752

QUARTERLY FINANCIAL RESULTS
(from continuing operations)

NET SALES (millions)	2000	1999	1998
	-----	-----	-----
January	199.29	183.10	180.98
April	243.27	202.87	203.43
July	254.14	206.62	204.85
October	237.50	217.50	208.23
	-----	-----	-----
Total	934.20	810.09	797.49
GROSS PROFIT (LOSS) (millions)			
January	22.24	23.54	17.22
April	30.57	32.05	27.39
July	19.60	35.05	30.88
October	(19.51)	37.66	38.05
	-----	-----	-----
Total	52.90	128.30	113.54
INCOME (LOSS) FROM CONTINUING OPERATIONS (millions)			
January	4.18	3.87	2.29
April	9.03	9.78	7.76
July(1)	0.71	12.33	10.28
October(2)	(23.94)	13.32	(24.21)
	-----	-----	-----
Total	(10.02)	39.30	(3.88)
INCOME (LOSS) FROM CONTINUING OPERATIONS PER BASIC COMMON SHARE			
January .....	.29	.27	.16
April .....	.66	.69	.55
July(1) .....	.05	.86	.73
October(2)	(1.78)	.94	(1.71)
	-----	-----	-----
Year	(0.73)	2.76	(.27)
QUARTERLY COMMON STOCK DIVIDENDS			
January .....	.16	.16	.16
April .....	.16	.16	.16
July .....	.16	.16	.16
October .....	.16	.16	.16
	-----	-----	-----
Total .....	.64	.64	.64
COMMON STOCK SALES PRICE (High & Low)			
January	26 9/16	23 7/8	30 7/16
	19 1/16	16 13/16	27 1/16
April	23 11/16	26 1/4	33 13/16
	16 1/8	15 3/8	28 1/2
July	18 5/8	29	32 3/16
	14 3/8	25 1/8	27 1/4
October	20 11/16	27 3/8	27 7/8
	17 1/16	20 1/8	15 5/8

- (1) Fiscal 2000 third quarter income (loss) from continuing operations includes an after-tax loss of \$9.3 million on the sale of Piper Impact Europe.
- (2) Fiscal 2000 fourth quarter income (loss) from continuing operations includes an after-tax asset impairment charge of \$36.6 or \$2.67 per share.
- (3) Fiscal 1998 fourth quarter income (loss) from continuing operations includes an after-tax asset impairment/restructuring charge of \$38 million or \$2.68 per share.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) to Form 10-K, information on directors and executive officers of the Registrant is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2000.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) to Form 10-K, information on executive compensation is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to General Instruction G(3) to Form 10-K, information on security ownership of certain beneficial owners and management is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to General Instruction G(3) to Form 10-K, information on certain relationships and related transactions is incorporated herein by reference from the Registrant's Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2000.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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Schedules not listed or discussed above have been omitted as they are either inapplicable or the required information has been given in the consolidated financial statements or the notes thereto.	
3. Exhibits.....	59

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	Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.
4.4	\$250,000,000 Revolving Credit and Term Loan Agreement dated as of July 23, 1996, among the Company, Comerica Bank, as Agent, and Harris Trust and Savings Bank and Wells Fargo Bank (Texas), NA as Co-Agents, filed as Exhibit 4.1 of the Company's Report on Form 8-K, (Reg. No. 001-05725) dated August 9, 1996, and incorporated herein by reference.
+10.1	Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option year Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
+10.2	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 1997, filed as Exhibit 10.2 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.
+10.3	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated as of December 9, 1999, filed as Exhibit 10.3 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.

- +10.4 Quanex Corporation Deferred Compensation Plan, as amended and restated, dated September 29, 1999, filed as Exhibit 10.4 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.
- +10.5 First Amendment to Quanex Corporation Deferred Compensation Plan, dated December 7, 1999, filed as Exhibit 10.5 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.
- +10.6 Quanex Corporation Executive Incentive Compensation Plan, as amended and restated, dated October 12, 1995, filed as Exhibit 10.8 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.
- +10.7 Quanex Corporation Supplemental Benefit Plan, as amended and restated effective June 1, 1999, filed as Exhibit 10.9 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.
- +10.8 Form of Change in Control Agreement, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.10 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.
- +10.9 Quanex Corporation 1987 Non-Employee Director Stock Option Plan, as amended, and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.10 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.13 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.
- +10.11 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.14 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.
- +10.12 Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.13 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.16 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.
- +10.14 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.17 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.
- +10.15 Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.
- +10.16 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.19 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.

- +10.17 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.20 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.
- *+10.18 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, effective July 1, 2000.
- +10.19 Retirement Agreement dated as of September 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.20 Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.21 Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.
- +10.23 Amendment to Quanex Corporation Non-Employee Director Retirement Plan dated May 25, 1995, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- +10.24 Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1996, and incorporated herein by reference.
- +10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 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.
- +10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.27 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.
- +10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- *+10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000.
- +10.29 Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated herein by reference.
- +10.30 Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 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.
- +10.31 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.

- +10.32 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 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.
- *10.33 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, effective July 1, 2000.
- 10.34 Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., a Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.
- 10.35 Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.
- 10.36 Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.
- 10.37 Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated herein by reference.
- 10.38 First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.
- 10.39 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.40 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.41 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.42 Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.43 Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.44 Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- *21 Subsidiaries of the Registrant.

*23 Consent of Deloitte & Touche LLP.

*27 Financial Data Schedule

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+ Management Compensation or Incentive Plan

* Filed herewith

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

No Reports on Form 8-K were filed by the Company during the quarter ended October 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ VERNON E. OECHSLE January 5, 2001

VERNON E. OECHSLE
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ VERNON E. OECHSLE January 5, 2001

VERNON E. OECHSLE
Chairman of the Board and
Chief Executive Officer

By: /s/ CARL E. PFEIFFER January 5, 2001

CARL E. PFEIFFER
Director

By: /s/ DONALD G. BARGER, JR. January 5, 2001

DONALD G. BARGER, JR.
Director

By: /s/ VINCENT R. SCORSONE January 5, 2001

VINCENT R. SCORSONE
Director

By: /s/ MICHAEL J. SEBASTIAN January 5, 2001

MICHAEL J. SEBASTIAN
Director

By: /s/ RUSSELL M. FLAUM January 5, 2001

RUSSELL M. FLAUM
Director

By: /s/ SUSAN F. DAVIS January 5, 2001

SUSAN F. DAVIS
Director

By: /s/ TERRY M. MURPHY January 5, 2001

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

By: /s/ VIREN M. PARIKH January 5, 2001

VIREN M. PARIKH
Controller
(Principal Accounting Officer)

INDEX TO 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	Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Exhibit Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.
4.4	\$250,000,000 Revolving Credit and Term Loan Agreement dated as of July 23, 1996, among the Company, Comerica Bank, as Agent, and Harris Trust and Savings Bank and Wells Fargo Bank (Texas), NA as Co-Agents, filed as Exhibit 4.1 of the Company's Report on Form 8-K, (Reg. No. 001-05725) dated August 9, 1996, and incorporated herein by reference.
+10.1	Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option year Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
+10.2	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated of December 1997, filed as Exhibit 10.2 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.
+10.3	Amendment to the Quanex Corporation 1988 Stock Option Plan, dated of December 9, 1999, filed as Exhibit 10.3 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.

- +10.4 Quanex Corporation Deferred Compensation Plan, as amended and restated, dated September 29, 1999, filed as Exhibit 10.4 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.
- +10.5 First Amendment to Quanex Corporation Deferred Compensation Plan, dated December 7, 1999, filed as Exhibit 10.5 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.
- +10.6 Quanex Corporation Executive Incentive Compensation Plan, as amended and restated, dated October 12, 1995, filed as Exhibit 10.8 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.
- +10.7 Quanex Corporation Supplemental Benefit Plan, as amended and restated effective June 1, 1999, filed as Exhibit 10.9 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.
- +10.8 Form of Change in Control Agreement, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.10 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.
- +10.9 Quanex Corporation 1987 Non-Employee Director Stock Option Plan, as amended, and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.10 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.13 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.
- +10.11 Amendment to the Quanex Corporation 1987 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.14 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.
- +10.12 Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended January 31, 1995, and incorporated herein by reference.
- +10.13 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 1997, filed as Exhibit 10.16 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.
- +10.14 Amendment to the Quanex Corporation 1989 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.17 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.
- +10.15 Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.
- +10.16 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.19 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.

- +10.17 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.20 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.
- *+10.18 Amendment to the Quanex Corporation Employee Stock Option and Restricted Stock Plan, effective July 1, 2000.
- +10.19 Retirement Agreement dated as of September 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.20 Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.21 Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1992, and incorporated herein by reference.
- +10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1994, and incorporated herein by reference.
- +10.23 Amendment to Quanex Corporation Non-Employee Director Retirement Plan dated May 25, 1995, filed as Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- +10.24 Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, filed as Exhibit 10.19 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1996, and incorporated herein by reference.
- +10.25 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 1997, filed as Exhibit 10.26 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.
- +10.26 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, dated December 9, 1999, filed as Exhibit 10.27 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.
- +10.27 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective February 23, 2000, filed as Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended January 31, 2000 and incorporated herein by reference.
- *+10.28 Amendment to Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective July 1, 2000.
- +10.29 Quanex Corporation Deferred Compensation Trust filed as Exhibit 4.8 of the Registrant's Registration Statement on Form S-3, Registration No. 333-36635, and incorporated herein by reference.
- +10.30 Amendment to Quanex Corporation Deferred Compensation Trust, dated December 9, 1999, filed as Exhibit 10.29 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.
- +10.31 Quanex Corporation 1997 Non-Employee Director Stock Option Plan filed as Exhibit 10.21 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1997 and incorporated herein by reference.

- +10.32 Amendment to Quanex Corporation 1997 Non-Employee Director Stock Option Plan, dated December 9, 1999, filed as Exhibit 10.31 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.
- *10.33 Amendment to Quanex Corporation 1997 Key Employee Stock Plan, effective July 1, 2000.
- 10.34 Asset Purchase Agreement dated July 31, 1996, among the Company, Piper Impact, Inc., a Delaware corporation, Piper Impact, Inc., a Tennessee corporation, B. F. Sammons and M. W. Robbins, filed as Exhibit 2.1 of the Company's Report on Form 8-K (Reg. No. 001-05725), dated August 9, 1996, and incorporated herein by reference.
- 10.35 Stock Purchase Agreement dated April 18, 1997, by and among Niagara Corporation, Niagara Cold Drawn Corp., and Quanex Corporation filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated May 5, 1997, and incorporated herein by reference.
- 10.36 Purchase Agreement dated December 3, 1997, among Quanex Corporation, Vision Metals Holdings, Inc., and Vision Metals, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (Reg. No. 001-05725), dated December 3, 1997, and incorporated herein by reference.
- 10.37 Acquisition Agreement and Plan of Merger, dated October 23, 2000, between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 2.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000, and incorporated herein by reference.
- 10.38 First Amendment to Agreement and Plan of Merger dated November 15, 2000 between Quanex Corporation ("Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Temroc Metals, Inc., a Minnesota corporation, filed as Exhibit 3.1 to the Company's Report on Form 8-K (Reg. No. 001-05725), dated November 30, 2000 and incorporated herein by reference.
- 10.39 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Trailer Company dated May 1, 1963, filed as Exhibit 10.22 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.40 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated May 1, 1964, filed as Exhibit 10.23 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.41 Lease Agreement between The Industrial Development Board of the City of Decatur and Fruehauf Corporation dated October 1, 1965, filed as Exhibit 10.24 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.42 Lease Agreement between The Industrial Development Board of the City of Decatur (Alabama) and Fruehauf Corporation dated December 1, 1978, filed as Exhibit 10.25 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.43 Assignment and Assumption Agreement between Fruehauf Trailer Corporation and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated October 9, 1998, filed as Exhibit 10.26 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- 10.44 Agreement between The Industrial Development Board of the City of Decatur and Decatur Aluminum Corp. (subsequently renamed Nichols Aluminum-Alabama, Inc.) dated September 23, 1998, filed as Exhibit 10.27 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the year ended October 31, 1998 and incorporated herein by reference.
- *21 Subsidiaries of the Registrant.

*23 Consent of Deloitte & Touche LLP.

*27 Financial Data Schedule

- -----

+ Management Compensation or Incentive Plan

* Filed herewith

AMENDMENT TO
THE QUANEX CORPORATION
EMPLOYEE STOCK OPTION AND RESTRICTED STOCK PLAN

THIS AGREEMENT by Quanex Corporation (the "Company"),

WITNESSETH:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation Employee Stock Option and Restricted Stock Plan" (the "Plan");

WHEREAS, the Board of Directors of the Company retained the right in Section 12 of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, effective July 1, 2000, the Plan is hereby amended, effective with respect to both awards of restricted stock outstanding on the date of the adoption of this amendment and all restricted stock granted under the Plan in the future, as follows:

(1) Section 8.D is hereby amended and restated in its entirety as follows:

D. CONSEQUENCE OF VESTING. Subject to Section 9, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and, upon satisfaction of the Company's required tax withholding obligation in the manner specified in Section 8.E, the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares.

(2) Section 8.E is hereby amended and restated in its entirety as follows:

E. WITHHOLDING OF TAXES. When shares of Restricted Stock become vested, the Restricted Stock Award recipient shall (i) pay the Company an amount of money necessary to satisfy the Company's tax withholding obligations under the Code and applicable state or local law arising from the vesting of such Restricted Stock or, (ii) elect to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations.

At the time a Restricted Stock Award recipient's shares of Restricted Stock become vested, the Company shall calculate the amount of the Company's tax withholding obligations on the assumption that all such vested shares of Restricted Stock are made available for delivery. The Restricted Stock Award recipient may pay the Company the amount of the Company's tax withholding obligations by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars. Such payment, if any, shall be delivered to the Company within three days after the date of the lapse of restrictions. If the Restricted Stock Award recipient does not timely pay the Company an amount necessary to satisfy the Company's withholding obligation, he shall be deemed to have elected to have the Company withhold shares of the Restricted stock to satisfy the Company's withholding obligation. In the event that a Restricted Stock Recipient is deemed to have made such an election, the Company shall (i) reduce the number of vested shares of Restricted Stock made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (ii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the Restricted Stock Award recipient, in the amount of the withholding tax due.

If the Restricted Stock Award recipient is deemed to have elected to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations, the Company shall withhold only the number of whole shares of Common Stock necessary to satisfy its minimum statutory withholding obligation, which shall be based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to the Restricted Stock Award recipient's taxable income arising from the vesting of his Restricted Stock. If the Fair Market Value of the withheld shares does not equal Company's minimum statutory withholding amount due, the Company shall withhold whole shares with a Fair Market Value slightly less than the minimum statutory withholding amount due. The Restricted Stock Award recipient shall pay to the Company the remaining balance of the minimum statutory withholding amount due by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be canceled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

All references to the Restricted Stock recipient in this Section 8.E shall be deemed to be references to the estate of the Restricted Stock recipient, if applicable.

AMENDMENT
TO THE QUANEX CORPORATION
1996 EMPLOYEE STOCK OPTION AND RESTRICTED STOCK PLAN

THIS AGREEMENT by Quanex Corporation (the "Company"),

WITNESSETH:

WHEREAS, the Company maintains the Plan known as the "Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan" (the "Plan");

WHEREAS, the Company retained the right in Section 12 of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, effective July 1, 2000, the Plan is hereby amended, effective with respect to both awards of restricted stock outstanding on the date of the adoption of this amendment and all restricted stock granted under the Plan in the future, as follows:

- (1) Section 8.D is hereby amended and restated in its entirety as follows:

D. CONSEQUENCE OF VESTING. Subject to Section 9, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and, upon satisfaction of the Company's required tax withholding obligation in the manner specified in Section 8.E, the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares.

- (2) Section 8.E is hereby amended and restated in its entirety as follows:

E. WITHHOLDING OF TAXES. When shares of Restricted Stock become vested, the Restricted Stock Award recipient shall (i) pay the Company an amount of money necessary to satisfy the Company's tax withholding obligations under the Code and applicable state or local law arising from the vesting of such Restricted Stock or, (ii) elect to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations.

At the time a Restricted Stock Award recipient's shares of Restricted Stock become vested, the Company shall calculate the amount of the Company's tax

withholding obligations on the assumption that all such vested shares of Restricted Stock are made available for delivery. The Restricted Stock Award recipient may pay the Company the amount of the Company's tax withholding obligations by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars. Such payment, if any, shall be delivered to the Company within three days after the date of the lapse of restrictions. If the Restricted Stock Award recipient does not timely pay the Company an amount necessary to satisfy the Company's withholding obligation, he shall be deemed to have elected to have the Company withhold shares of the Restricted stock to satisfy the Company's withholding obligation. In the event that a Restricted Stock Recipient is deemed to have made such an election, the Company shall (i) reduce the number of vested shares of Restricted Stock made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (ii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the Restricted Stock Award recipient, in the amount of the withholding tax due.

If the Restricted Stock Award recipient is deemed to have elected to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations, the Company shall withhold only the number of whole shares of Common Stock necessary to satisfy its minimum statutory withholding obligation, which shall be based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to the Restricted Stock Award recipient's taxable income arising from the vesting of his Restricted Stock. If the Fair Market Value of the withheld shares does not equal Company's minimum statutory withholding amount due, the Company shall withhold whole shares with a Fair Market Value slightly less than the minimum statutory withholding amount due. The Restricted Stock Award recipient shall pay to the Company the remaining balance of the minimum statutory withholding amount due by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be canceled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

All references to the Restricted Stock recipient in this Section 8.E shall be deemed to be references to the estate of the Restricted Stock recipient, if applicable.

AMENDMENT TO
THE QUANEX CORPORATION
1997 KEY EMPLOYEE STOCK PLAN

THIS AGREEMENT by Quanex Corporation (the "Company"),

WITNESSETH:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1997 Key Employee Stock Plan" (the "Plan");

WHEREAS, the Board of Directors of the Company retained the right in Article XI of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, effective July 1, 2000, the Plan is hereby amended, effective with respect to both awards of restricted stock outstanding on the date of the adoption of this amendment and all restricted stock granted under the Plan in the future, as follows:

- (1) Section 7.3 is hereby amended and restated in its entirety as follows:

7.3 WITHHOLDING OF TAXES. When shares of Restricted Stock become vested, the Restricted Stock Award recipient shall (i) pay the Company an amount of money necessary to satisfy the Company's tax withholding obligations under the Code and applicable state or local law arising from the vesting of such Restricted Stock or, (ii) elect to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations.

At the time a Restricted Stock Award recipient's shares of Restricted Stock become vested, the Company shall calculate the amount of the Company's tax withholding obligations on the assumption that all such vested shares of Restricted Stock are made available for delivery. The Restricted Stock Award recipient may pay the Company the amount of the Company's tax withholding obligations by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars. Such payment, if any, shall be delivered to the Company within three days after the date of the lapse of restrictions. If the Restricted Stock Award recipient does not timely pay the Company an amount necessary to satisfy the

Company's withholding obligation, he shall be deemed to have elected to have the Company withhold shares of the Restricted stock to satisfy the Company's withholding obligation. In the event that a Restricted Stock Recipient is deemed to have made such an election, the Company shall (i) reduce the number of vested shares of Restricted Stock made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (ii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the Restricted Stock Award recipient, in the amount of the withholding tax due.

If the Restricted Stock Award recipient is deemed to have elected to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations, the Company shall withhold only the number of whole shares of Common Stock necessary to satisfy its minimum statutory withholding obligation, which shall be based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to the Restricted Stock Award recipient's taxable income arising from the vesting of his Restricted Stock. If the Fair Market Value of the withheld shares does not equal Company's minimum statutory withholding amount due, the Company shall withhold whole shares with a Fair Market Value slightly less than the minimum statutory withholding amount due. The Restricted Stock Award recipient shall pay to the Company the remaining balance of the minimum statutory withholding amount due by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be canceled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

All references to the Restricted Stock recipient in this Section 7.3 shall be deemed to be references to the estate of the Restricted Stock recipient, if applicable.

(2) Section 8.2 is hereby amended and restated in its entirety as follows:

8.2 CONSEQUENCE OF VESTING. Subject to Article IX, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and, upon satisfaction of the Company's required tax withholding obligation in the manner specified in Section 7.3, the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares.

SUBSIDIARIES OF QUANEX CORPORATION

JURISDICTION OF INCORPORATION

Piper Impact, Inc.	Delaware
Quanex Bar, Inc.	Delaware
Quanex Steel, Inc.	Delaware
Quanex Health Management Company, Inc.	Delaware
Quanex Manufacturing, Inc.	Delaware
Quanex Solutions, Inc.	Delaware
Quanex Technologies, Inc.	Delaware
Quanex Foreign Sales Corporation	U.S. Virgin Islands
Nichols Aluminum-Alabama, Inc.	Delaware
Quanex Windows, Inc.	Delaware
Quanex Two, Inc.	Delaware
Nichols Aluminum-Golden, Inc.	Delaware
Quanex Four, Inc.	Delaware
Quanex Six, Inc.	Delaware
Imperial Products, Inc.	Delaware
Temroc Metals, Inc.	Minnesota

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-23474, No. 33-29585, No. 33-22550, No. 33-35128, No. 33-38702, No. 33-46824, No. 33-57235, No. 33-54081, No. 33-54085, No. 33-54087, No. 333-18267, No. 333-22977, No. 333-36635, No. 333-89853, No. 333-66777 and No. 333-45624 of Quanex Corporation of our report dated November 30, 2000 appearing in this Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 2000.

/s/ Deloitte & Touche LLP

Houston, Texas
January 5, 2001

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AS OF OCTOBER 31, 2000 AND THE INCOME STATEMENT FOR THE YEAR ENDED OCTOBER 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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YEAR		
	OCT-31-2000	
	NOV-01-1999	
	OCT-31-2000	22,409
		0
		109,705
		11,240
		101,274
	235,946	681,992
		343,744
		645,859
	131,002	191,657
	0	0
		7,110
		259,387
645,859		934,203
	934,203	766,119
		867,585
		70,580
		738
	15,255	
	(15,406)	
	(5,383)	
(10,023)	0	
	358	0
	(9,665)	
	(0.70)	
	(0.70)	