

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 1995

OR

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

For the transition period from _____ to _____.

Commission File Number 1-5725

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

38-1872178

 (State or other jurisdiction of
 incorporation or organization)

 (I.R.S. Employer
 Identification No.)

1900 West Loop South, Suite 1500, Houston, Texas 77027
 (Address of principal executive offices and zip code)

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

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

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

Class	Outstanding at January 31, 1995
-----	-----
Common Stock, par value \$0.50 per share	13,429,533

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	January 31, 1995	October 31, 1994
	----- (Unaudited)	----- (Audited)
ASSETS		
Current assets:		
Cash and equivalents.....	\$ 22,737	\$ 34,041
Short-term investments.....	-	54,070
Accounts and notes receivable, net.....	97,573	83,082
Inventories.....	93,791	81,800
Deferred income taxes.....	6,165	6,114
Prepaid expenses.....	1,513	289
	-----	-----
Total current assets.....	221,779	259,396
Property, plant and equipment.....	509,006	499,798
Less accumulated depreciation and amortization....	(245,226)	(237,537)
	-----	-----
Net property, plant and equipment.....	263,780	262,261
Goodwill, net.....	32,780	33,017
Other assets.....	8,584	9,334
	-----	-----
	\$ 526,923	\$ 564,008
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable.....	\$ 10,000	\$ -
Accounts payable.....	87,851	75,515
Income taxes payable.....	2,445	1,160
Accrued expenses.....	35,740	37,118
Current maturities of long-term debt.....	20,958	20,958
	-----	-----
Total current liabilities.....	156,994	134,751
Long-term debt.....	47,942	107,442
Deferred pension credits.....	15,474	15,810
Deferred postretirement welfare benefits.....	51,418	50,742
Deferred income taxes.....	22,482	23,014
	-----	-----
Total liabilities.....	294,310	331,759
Stockholders' equity:		
Preferred stock, no par value.....	86,250	86,250
Common stock, \$.50 par value.....	6,715	6,688
Additional paid-in capital.....	87,382	86,323
Retained earnings.....	54,350	55,081
Unearned compensation.....	(361)	(370)
Adjustment for minimum pension liability.....	(1,723)	(1,723)
	-----	-----
Total stockholders' equity.....	232,613	232,249
	-----	-----
	\$ 526,923	\$ 564,008
	=====	=====

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

	Three Months Ended January 31,	
	1995	1994
	----- (Unaudited) -----	
Net sales.....	\$ 199,886	\$ 149,522
Cost and expenses:		
Cost of sales.....	177,189	135,192
Selling, general and administrative expense.....	12,286	10,285
	-----	-----
Operating income.....	10,411	4,045
Other income (expense):		
Interest expense.....	(3,116)	(3,489)
Capitalized interest.....	1,030	756
Other, net.....	(303)	1,736
	-----	-----
Income before income taxes and extraordinary charge....	8,022	3,048
Income tax expense.....	(3,369)	(1,280)
	-----	-----
Income before extraordinary charge.....	4,653	1,768
Extraordinary charge - early extinguishment of debt....	(2,021)	-
	-----	-----
Net income.....	2,632	1,768
Preferred dividends.....	(1,484)	(1,484)
	-----	-----
Net income attributable to common stockholders.....	\$ 1,148	\$ 284
	=====	=====
Earnings per common share:		
Earnings before extraordinary charge.....	\$ 0.23	\$ 0.02
Extraordinary charge.....	(0.15)	-
	-----	-----
Earnings per common share.....	\$ 0.08	\$ 0.02
	=====	=====
Weighted average shares outstanding.....	13,566	13,407
	=====	=====

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Three Months Ended January 31,	
	1995	1994
	----- (Unaudited) -----	
Operating activities:		
Net income.....	\$ 2,632	\$ 1,768
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.....	8,494	7,201
Facilities realignment accrual.....	-	(597)
Deferred income taxes.....	(532)	(424)
Deferred pension costs.....	(336)	1,008
Deferred postretirement welfare benefits.....	676	815
	-----	-----
	10,934	9,771
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable....	(14,491)	6,601
Decrease (increase) in inventory.....	(11,991)	(4,410)
Increase (decrease) in accounts payable.....	12,336	(5,505)
Increase (decrease) in accrued expenses.....	(1,378)	660
Other, net.....	10	566
	-----	-----
Cash provided (used) by operating activities.....	(4,580)	7,683
Investment activities:		
Capital expenditures, net of retirements.....	(9,242)	(8,058)
Decrease (increase) in short-term investments.....	54,070	(283)
Other, net.....	216	(1,035)
	-----	-----
Cash provided (used) by investment activities.....	45,044	(9,376)
	-----	-----
Cash provided (used) by operating and investment activities.....	40,464	(1,693)
Financing activities:		
Notes payable borrowings.....	10,000	-
Purchase of Senior Notes.....	(59,500)	-
Repayments of long-term debt.....	-	(26)
Common dividends paid.....	(1,879)	(1,865)
Preferred dividends paid.....	(1,484)	(1,484)
Other, net.....	1,095	75
	-----	-----
Cash used by financing activities.....	(51,768)	(3,300)
Increase (decrease) in cash and equivalents.....	(11,304)	(4,993)
Cash and equivalents at beginning of period.....	34,041	42,247
	-----	-----
Cash and equivalents at end of period.....	\$ 22,737	\$ 37,254
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest.....	\$ 2,475	\$ 163
Income taxes.....	\$ 1,147	\$ 101

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1994 Annual Report on Form 10-K, which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1995 classifications.

2. Inventories

Inventories consist of the following:	January 31, 1995	October 31, 1994
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials	\$34,034	\$25,946
Finished goods and work in process	50,236	47,684
	84,270	73,630
Other	9,521	8,170
	\$93,791	\$81,800

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$18 million at January 31, 1995, and \$15 million at October 31, 1994.

3. Long-Term Debt and Financing Arrangements

In December 1994, the Company acquired \$59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The Company recorded an extraordinary charge of \$2.0 million (\$3.5 million before tax) in the first quarter of 1995 related to the call premium and write-off of deferred debt issuance costs for the Senior Notes that were repurchased. At January 31, 1995, the Company had \$65.5 million outstanding under its unsecured Long-Term Note Agreement ("Senior Notes Agreement"). The debt bears interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes Agreement requires annual repayments of \$20.8 million beginning on August 23, 1995, with a final payment of \$3.0 million on August 23, 1998.

At January 31, 1995, the Company had \$10.0 million outstanding under its unsecured \$48 million Revolving Credit and Letter of Credit Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver"), renewable annually, which expires March 31, 1999, and up to \$20 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate.

All of the above agreements contain customary affirmative and negative covenants which the Company must meet. As of January 31, 1995, the Company was in compliance with all of the covenants.

4. Postemployment Benefits

Effective November 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" which establishes standards of financial accounting and reporting for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. Adoption of this statement did not have a material effect on the Company's financial position or results of operations.

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Industry Segment Information

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

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

Three Months Ended January 31, 1994	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consoli- dated
----- (in thousands) -----						
Units shipped:						
To unaffiliated companies...	109.5 Tons	43.6 Tons	19.2 Tons	24,582 Lbs.		
Intersegment.....	6.7	-	-	-		
	-----	-----	-----	-----		
Total.....	116.2 Tons	43.6 Tons	19.2 Tons	24,582 Lbs.		
	=====	=====	=====	=====		
Net Sales:						
To unaffiliated companies...\$	53,904	\$ 37,167	\$26,155	\$ 32,296	\$ -	\$149,522
Intersegment(2).....	3,743	-	-	-	(3,743)	-
	-----	-----	-----	-----	-----	-----
Total.....\$	57,647	37,167	26,155	32,296	(3,743)	149,522
	=====	=====	=====	=====	=====	=====
Operating income (loss).....\$	5,961	\$ 1,570	\$ 1,733	\$ (2,129)	\$ (3,090)	\$ 4,045
	=====	=====	=====	=====	=====	=====

- (1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses
(2) Intersegment sales are conducted on an arm's-length basis.

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

RESULTS OF OPERATIONS

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

All of the Company's businesses reflected improvement in the first quarter of fiscal 1995 over the first quarter of fiscal 1994 in both revenues and income, with the most significant improvement being recognized in the Company's aluminum products business where revenues more than doubled and results shifted from an operating loss of \$2.1 million for the first quarter of 1994 to operating income of \$4.2 million in the first quarter of 1995. The Company's businesses benefited from more favorable market conditions in all segments relating primarily to a stronger domestic economy, improved margins resulting from favorable pricing trends, greater market penetration for certain of the Company's manufactured products and the cost reduction programs initiated in earlier years and continuing to the present. The improved results also reflected the benefits realized from the Company's capital improvement programs, which have allowed the Company to increase capacity, improve quality and manage manufacturing costs.

The improvements in each of the Company's businesses resulted in the Company reporting operating income for the first quarter of 1995 of \$10.4 million compared to \$4.0 million in the first quarter of 1994 and income before extraordinary charge of \$4.7 million for the first quarter of 1995 compared to \$1.8 million in the first quarter of 1994. Net income for the first quarter of 1995 was \$2.6 million and included a \$2.0 million (\$3.5 million before tax) extraordinary charge for early extinguishment of debt relating to the acquisition by the Company of \$59.5 million principal amount of its 10.77% Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest.

Market conditions continue to be favorable in each of the Company's businesses. In addition, fiscal 1995 revenues in the Company's hot rolled steel bar business and aluminum products business are expected to continue to show improvement over 1994 results due to increased capacity levels. Domestic and global market factors, however, will continue to impact the Company and any slowdown in the U. S. economy could affect demand and pricing for many of the Company's products. In this regard, increased interest rates can be expected to impact the demand for products in many of the Company's markets, including the automotive and light truck market and the residential building market. The Company currently expects that business conditions will remain strong in fiscal 1995. Continued improved financial results, however, will be dependent upon, among other things, whether the strong economic conditions experienced in the first quarter of fiscal 1995 can be sustained.

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

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

	Three Months Ended January 31,	
	1995	1994
	(In thousands)	
Hot Rolled Steel Bars:		
Units shipped (Tons).....	117.1	116.2
Net Sales.....	\$ 62,480	\$ 57,647
Operating income.....	\$ 6,976	\$ 5,961
Depreciation and amortization.....	\$ 3,870	\$ 3,285
Identifiable assets.....	\$170,467	\$157,631
Cold Finished Steel Bars:		
Units shipped (Tons).....	48.0	43.6
Net Sales.....	\$ 43,327	\$ 37,167
Operating income.....	\$ 2,669	\$ 1,570
Depreciation and amortization.....	\$ 346	\$ 343
Identifiable assets.....	\$ 57,143	\$ 52,212
Steel Tubes:		
Units shipped (Tons).....	22.8	19.2
Net Sales.....	\$ 28,795	\$ 26,155
Operating income.....	\$ 1,879	\$ 1,733
Depreciation and amortization.....	\$ 525	\$ 524
Identifiable assets.....	\$ 39,452	\$ 40,242
Aluminum Products:		
Units shipped (Pounds).....	51,173	24,582
Net Sales.....	\$ 68,200	\$ 32,296
Operating income.....	\$ 4,185	\$ (2,129)
Depreciation and amortization.....	\$ 3,331	\$ 2,964
Identifiable assets.....	\$245,021	\$190,369

Consolidated net sales for the three months ended January 31, 1995, were \$199.9 million representing an increase of \$50.4 million or 34% when compared to the same period last year. The increase is due to significantly higher volume in the aluminum products business, improvements in the economy and increases in demand in all of the Company's businesses combined with higher average selling prices.

Net sales from the Company's hot rolled steel bar business for the three months ended January 31, 1995, were \$62.5 million as compared to \$57.6 million for the same 1994 period. This represents an increase of \$4.8 million or 8%. This increase is attributable to a 1% increase in volume combined with a 7% increase in average selling prices. The increase in volume was achieved even though during the first quarter, the Fort Smith, Arkansas operation was down about four weeks for equipment upgrades as part of the Phase II expansion project. The Phase II project is currently expected to be completed in the second fiscal quarter of 1995, with an anticipated increase in capacity at the Company's Fort Smith, Arkansas plant of approximately 10%.

Net sales from the Company's cold finished steel bar business for the three months ended January 31, 1995, were \$43.3 million as compared to \$37.2 million for the same 1994 period. This represents an increase of \$6.2 million or 17%. The improvement reflects a 10% increase in volume and a 6% increase in average selling prices. This business is currently operating at near capacity.

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

Net sales from the Company's steel tube business for the three months ended January 31, 1995, increased 10% from \$26.2 million in 1994 to \$28.8 million for the first fiscal quarter of 1995. This increase in sales resulted from a 19% improvement in volume, particularly in condenser tubing and heat treated tonnage, combined with a decrease in average selling prices of 7% due to product mix. The Company's steel tube business was adversely affected in fiscal 1994, and to a lesser degree in the first quarter of fiscal 1995, by downward pricing pressure from imports on certain products and a general weakness in this segment's primary markets, which include power generation and the petrochemical and refining industries. In June 1994, the Company filed petitions alleging that imports of carbon and alloy seamless pipe up to 4.5 inches in diameter from four countries were being dumped or subsidized. In August 1994, the International Trade Commission made an affirmative preliminary determination that imports of small-diameter pipe from these countries were causing injury to the U.S. industry and in January 1995, the U.S. Department of Commerce released preliminary determinations against importers from four countries, and dumping bonds were imposed against their imports until a final determination is made. Final injury and dumping determinations from both the International Trade Commission and the Department of Commerce are expected by late summer 1995.

Net sales from the Company's aluminum products business for the three months ended January 31, 1995, were \$68.2 million as compared to \$32.3 million for the same 1994 period. This represents an increase of \$35.9 million or 111%. This increase is attributable to a 108% increase in volume due to improved demand and market share combined with a 1% increase in average selling prices. Aluminum prices in general have increased by more than the Company's average selling price, which was affected by a change in product mix. Lower priced mill finished sheet is a higher percentage of total sales in the first quarter of fiscal 1995 as compared to the same period last year. First quarter results for 1994 were also adversely affected by the fire at the Company's Lincolnshire plant.

Consolidated operating income for the three months ended January 31, 1995, was \$10.4 million representing an increase of \$6.4 million or 157% when compared to the same period last year. This increase is principally due to higher net sales and significantly improved results at the Company's aluminum products business.

Operating income from the Company's hot rolled steel bar business for the three months ended January 31, 1995, was \$7.0 million as compared to \$6.0 million for the same 1994 period. This represents an increase of \$1.0 million or 17%. This increase is due to higher net sales.

Operating income from the Company's cold finished steel bar business for the three months ended January 31, 1995, was \$2.7 million as compared to \$1.6 million for the same 1994 period. This represents an increase of \$1.1 million or 70%. This increase is principally due to higher net sales and improved pricing.

Operating income from the Company's steel tube business for the three months ended January 31, 1995, was \$1.9 million as compared to \$1.7 million for the same 1994 period. This represents an increase of \$146 thousand or 8%.

Operating income from the Company's aluminum products business for the three months ended January 31, 1995, was \$4.2 million as compared to an operating loss of \$2.1 million for the same 1994 period. This represents an improvement of \$6.3 million. The improvement reflected significantly increased sales from the Company's aluminum plants in Davenport, Iowa and Lincolnshire, Illinois.

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

Selling, General and Administrative Expenses increased by \$2.0 million or 19% for the three months ended January 31, 1995, as compared to the same period of 1994 primarily due to increased levels of business activity. However, as a percentage of net sales, selling, general and administrative expenses decreased as compared to the same period last year.

Interest expense decreased by \$373 thousand for the three months ended January 31, 1995, as compared to the same period of 1994 primarily as a result of the early extinguishment of a portion of the Company's senior debt late in the first fiscal quarter of 1995.

Net income attributable to common shareholders for the three months ended January 31, 1995, was \$1.1 million as compared to \$284 thousand for the same 1994 period, after deducting preferred dividends of \$1.5 million from both periods. The improvement is primarily attributable to improved operating income partly offset by an extraordinary charge relating to early extinguishment of debt. Included in "Other, net", was an investment loss of \$293 thousand for the three months ended January 31, 1995, as compared to investment income of \$923 thousand for the same 1994 period. The decrease was due to losses on sales of short-term investments.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and, if needed, borrowings under a \$48 million unsecured revolving credit facility with a group of banks (the "Bank Agreement"). All borrowings under the Bank Agreement bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. The Bank Agreement was amended in December 1994 to extend the maturity of the facility to March 31, 1999. Under the Bank Agreement, at January 31, 1995, there were \$10.0 million of outstanding borrowings and \$92,800 of outstanding letters of credit.

At January 31, 1995, the Company had outstanding \$65.5 million in Senior Notes ("Senior Notes"). The Senior Notes are unsecured and bear interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes require annual repayments of \$20.8 million beginning on August 23, 1995, with a final payment of \$3.0 million on August 23, 1998. In December 1994, the Company acquired \$59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The acquisition was funded with the Company's available cash, proceeds from the sale of its short-term investments and \$10 million in borrowings under the Bank Agreement. The acquisition resulted in the Company's ratio of debt to capitalization declining to approximately 23% from approximately 36% as of October 31, 1994. The Senior Notes contain customary affirmative and negative covenants, as well as requirements to maintain a minimum capital base, as defined. In addition, the Senior Notes limit the payment of dividends and certain restricted investments.

The Company currently has outstanding 3,450,000 Depositary Convertible Exchangeable Preferred Shares, each representing 1/10th of a share of the Company's 6.88% Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock"). The Preferred Stock may be exchanged, at the option of the Company, beginning on June 30, 1995, for a new issue of the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007, having a principal amount equal to \$250 per share of Preferred Stock (\$25 per Depositary Convertible Exchangeable Preferred Share) exchanged.

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

At January 31, 1995, the Company had commitments of \$9 million for the purchase or construction of capital assets. During the quarter ended January 31, 1995, the Company's Board of Directors approved a \$5 million capital project for the purchase and installation of a fully integrated coil-to-bar drawing line at LaSalle Steel's Hammond, Indiana operation. The Company's \$52 million (not including approximately \$9 million in capitalized interest) Phase II MacSteel Ultra Clean Steel Program, which commenced in June 1992, is expected to be completed in early fiscal 1995. Capital expenditures remaining for this program are approximately \$4 million.

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

Operating Activities

Cash used by operating activities during the three months ended January 31, 1995, was \$4.6 million. This represents a decrease of \$12.3 million as compared to the same 1994 period. This decrease reflects increases in working capital requirements partly offset by improved net income.

Investment Activities

Net cash provided by investment activities during the three months ended January 31, 1995, was \$45.0 million as compared to net cash used by investment activities of \$9.4 million for the same 1994 period. The increase in cash provided by investment activities is principally due to decreases in short-term investments to fund the Company's acquisition of its Senior Notes. Capital expenditures for the three months ended January 31, 1995, were \$9.2 million as compared to \$8.1 million for the same 1994 period. The Company estimates that fiscal 1995 capital expenditures will approximate \$30 to \$40 million.

Financing Activities

Net cash used by financing activities for the three months ended January 31, 1995, was \$51.8 million, principally consisting of \$59.5 million for the early extinguishment of long-term debt, \$1.9 million in common dividends and \$1.5 million in preferred dividends. This was partly offset by notes payable borrowings of \$10.0 million.

CHANGE IN ACCOUNTING

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 109, "Accounting for Income Taxes" ("FAS 109"), which modifies and replaces FAS No. 96, "Accounting for Income Taxes". The Company adopted FAS 109 effective November 1, 1993. It was not necessary for the company to record any adjustments for the cumulative effect of adopting FAS 109.

Effective November 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" which establishes standards of financial accounting and reporting for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. Adoption of this statement did not have a material effect on the Company's financial position or results of operations.

PART II. OTHER INFORMATION

Item 5 - Other Information.

None

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

Exhibit
Number

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- 3.1 Certificate of Incorporation of the Registrant, as amended, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1987, and incorporated herein by reference.
 - 3.2 Amended and Restated Bylaws of the Registrant, as amended through October 21, 1992, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, 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 for the quarter ended April 30, 1987, and incorporated herein by reference.
 - 4.2 Amended and Restated Rights Agreement between the Registrant and Manufacturers Hanover Trust Company, as Rights Agent, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
 - 4.3 Amended and Restated Certificate of Designation, Preferences and Rights of the Registrant's Series A Junior Participating Preferred Stock, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
 - 4.4 Certificate of Designations of the Registrant's 6.88% Cumulative Convertible Exchangeable Preferred Stock, Liquidation preference \$250 per share, filed as Exhibit 19.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
 - 4.5 Form of Indenture relating to the Registrant's 6.88% Cumulative Subordinated Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
 - 4.6 Form of Certificate of 6.88% Cumulative Convertible Exchangeable Preferred Stock, Liquidation preference \$250 per share, filed as Exhibit 19.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.

- 4.7 Deposit Agreement, relating to Depositary Convertible Exchangeable Preferred Shares between the Registrant and Chemical Bank, filed as Exhibit 19.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
- 4.8 Form of Depositary Receipt for Depositary Convertible Exchangeable Preferred Shares, filed as Exhibit 19.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
- 4.9 Note Agreement dated July 25, 1990 among the Registrant and the Purchasers listed therein, regarding the sale of \$125,000,000 of 10.77% Senior Notes due August 23, 2000, filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1990, and incorporated herein by reference.
- 4.10 Revolving Credit and Letter of Credit Agreement dated as of December 4, 1990 among the Registrant and the Banks listed therein relating to a \$40,000,000 revolving credit, filed as Exhibit 4.7 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.
- 4.11 Second Amendment to the Revolving Credit and Letter of Credit Agreement dated as of April 15, 1992, filed as Exhibit 4.13 to the Registrant's Registration Statement on Form S-3 (Registration No. 33-47282), and incorporated herein by reference.
- 4.12 Third and Fourth Amendments to the Revolving Credit and Letter of Credit Agreement dated as of February 12, 1993 and April 1, 1993, respectively, filed as Exhibit 19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1993, and incorporated herein by reference.
- 4.13 Fifth Amendment to the Revolving Credit and Letter of Credit Agreement dated as of December 8, 1994, filed as Exhibit 4.15 to the Registrant's Form S-8 Registration No. 33-57235, and incorporated herein by reference.
- 10.1 Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated March 5, 1970, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.3 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
- 10.2 Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated January 24, 1973, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.4 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
- 10.3 Lease Agreement between the Registrant and William M. Paul and Associates, dated August 27, 1980, and filed as Exhibit 10.5 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.

- 10.4 Agreement of Lease between the Registrant and 3D Tower Limited, dated March 5, 1985, filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference, as amended by the First Amendment to Lease Agreement between the Registrant and VPM 1989-1, effective December 8, 1989, filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1989, and incorporated herein by reference.
- 10.5 Quanex Corporation 1988 Stock Option Plan and form of Stock Option Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, and incorporated herein by reference.
- 10.6 Quanex Corporation Deferred Compensation Plan, as amended, filed as Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1981, and incorporated herein by reference.
- 10.7 Quanex Corporation 1978 Stock Option Plan, as amended, filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
- 10.8 Quanex Corporation Executive Incentive Compensation Plan, as amended, filed as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1993, and incorporated herein by reference.
- 10.9 Quanex Corporation Supplemental Benefit Plan, effective February 28, 1980, as restated November 1, 1988 and amended on June 28, 1991, filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.
- 10.10 Form of Severance Compensation Agreement and Escrow Agreement, adopted on February 28, 1985, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference.
- 10.11 Quanex Corporation Stock Option Loan Plan for Key Officers, filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
- 10.12 Quanex Corporation 1987 Non-Employee Director Stock Option Plan and the related form of Stock Option Agreement, filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.
- 10.13 Quanex Corporation 1989 Non-Employee Director Stock Option Plan, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, and incorporated herein by reference.
- 10.14 Amendment to Quanex Corporation 1987 Non-Employee Director Stock Option Plan.

- 10.15 Amendment to Quanex Corporation 1989 Non-Employee Director Stock Option Plan.
- 10.16 Amendment to Quanex Corporation 1978 Stock Option Plan.
- 10.17 Amendment to Quanex Corporation 1988 Stock Option Plan.
- 10.18 Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994, and incorporated herein by reference.
- 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 for the fiscal 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 for the fiscal 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 for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- 10.22 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994, and incorporated herein by reference.
- 10.23 Third Amendment to Lease Agreement between the Registrant and VPM 1989-1, Ltd. effective October 1, 1994.
- 11 Statement re computation of per share earnings.
- 27 Financial Data Schedule.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUANEX CORPORATION

Viren M. Parikh
Controller (Chief Accounting Officer)

Date March 10, 1995

AMENDMENT TO
THE QUANEX CORPORATION
1987 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

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

W I T N E S S E T H:

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"); and

WHEREAS, the Board of Directors of the Company retained the right in Section 13 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, subject to the requirement set forth below, the Board of Directors of the Company agrees that Paragraph 9 of the Plan is hereby amended, effective with respect to both Options outstanding on the date of the adoption of this Amendment and all Options issued in the future under this Plan, as follows:

9. TERMINATION OR DEATH OF OPTIONEE. Except as may be otherwise expressly provided herein all Options shall terminate on the earlier of the date of the expiration of the Option or the date that is three months after the optionee ceases to be a member of the Company's Board of Directors, for any reason other than the death, permanent disability or, retirement of the optionee, during which period the optionee shall be entitled to exercise the Option in respect of the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Option on the date the optionee ceased to be a member of the Company's Board of Directors.

In the event the optionee ceases to be a member of the Company's Board of Directors because of his death, permanent disability or retirement from the Board of Directors of the Company, before the date of expiration

of his Option, such Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, and shall terminate on the date of expiration of the Option notwithstanding any provision to the contrary in the optionee's Option Agreement. After the death of the optionee, his executors, administrators or any person or persons to whom his Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive.

In any event, an Option shall terminate on the tenth anniversary of the date of grant of such Option.

For purposes of this Paragraph 9, an Optionee will be treated as having retired from the Company's Board of Directors if the Optionee shall, at the time the Optionee ceases to be a member of the Board of Directors of the Company, have served at least two full three-year terms of office as a director of the Company or six years of service as a director of the Company.

This Amendment shall be effective as of December 8, 1994, but shall be subject to the approval of the holders of a majority of the outstanding shares of Common Stock of the Company. If such approval is not obtained by December 31, 1995, this Amendment shall be null and void and of no force or effect.

Dated: October 20, 1994

AMENDMENT TO
THE QUANEX CORPORATION
1989 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

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

W I T N E S S E T H:

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"); and

WHEREAS, the Board of Directors of the Company retained the right in Section 13 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, subject to the requirement set forth below, the Board of Directors of the Company agrees that Paragraph 9 of the Plan is hereby amended, effective with respect to both Options outstanding on the date of the adoption of this Amendment and all Options issued in the future under this Plan, as follows:

9. TERMINATION OR DEATH OF OPTIONEE. Except as may be otherwise expressly provided herein all Options shall terminate on the earlier of the date of the expiration of the Option or the date that is three months after the optionee ceases to be a member of the Company's Board of Directors, for any reason other than the death, permanent disability or, retirement of the optionee, during which period the optionee shall be entitled to exercise the Option in respect of the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Option on the date the optionee ceased to be a member of the Company's Board of Directors.

In the event the optionee ceases to be a member of the Company's Board of Directors because of his death, permanent disability or retirement from the Board of Directors of the Company, before the date of expiration

of his Option, such Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, and shall terminate on the date of expiration of the Option notwithstanding any provision to the contrary in the optionee's Option Agreement. After the death of the optionee, his executors, administrators or any person or persons to whom his Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive.

In any event, an Option shall terminate on the tenth anniversary of the date of grant of such Option.

For purposes of this Paragraph 9, an Optionee will be treated as having retired from the Company's Board of Directors if the Optionee shall, at the time the Optionee ceases to be a member of the Board of Directors of the Company, have served at least two full three-year terms of office as a director of the Company or six years of service as a director of the Company.

This Amendment shall be effective as of December 8, 1994, but shall be subject to the approval of the holders of a majority of the outstanding shares of Common Stock of the Company. If such approval is not obtained by December 31, 1995, this Amendment shall be null and void and of no force or effect.

Dated: October 20, 1994

AMENDMENT TO
THE QUANEX CORPORATION
1978 STOCK OPTION PLAN

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

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1978 Stock Option Plan" (the "Plan"); and

WHEREAS, the Board of Directors of the Company retained the right in Section 13 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, the Board of Directors of the Company agrees that Section 10 of the Plan is hereby amended, effective with respect to both Options outstanding on the date of the adoption of this Amendment and all Options issued in the future under this Plan, as follows:

10. EFFECT OF TERMINATION OF EMPLOYMENT OR DEATH. If, prior to the date that any portion of an option shall first become exercisable, the participant's employment with the Company and its subsidiaries shall be terminated, with or without cause, for any reason other than the death, permanent disability, or retirement of the participant, the participant's right to exercise any portion of that option shall terminate and all rights thereunder shall cease.

On or after the date that any portion of an option shall first become exercisable, to the extent such rights shall not previously have been exercised, the option shall terminate and become null and void on the last day of the three month period commencing on the date of termination of the participant's employment, whether voluntary or involuntary, whether with or without cause, for any reason other than the death, permanent disability, or retirement of the participant, during which period the participant shall be entitled to exercise the option in respect of the number of shares that the participant would have been entitled to exercise such option had the participant exercised the option right on the date of such termination of employment.

In the event of the death, permanent disability, or retirement of a holder of an option, before the date of expiration of such option, such option shall continue fully in effect, including provisions providing for subsequent vesting of such option, and shall terminate on the date of expiration of the option notwithstanding any provision to the contrary in the optionee's option agreement. After the death of the optionee, his executors, administrators or any person or persons to whom his option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the option to exercise the option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive.

In any event, a participant's option will terminate on the last day of the ten year period commencing on the date of grant.

This Amendment shall be effective as of December 8, 1994; provided that it shall not be effective as to any Option held by a person that is subject to the reporting and liability provisions of Section 16(a) or Section 16(b) of the Securities Exchange Act of 1934 unless and until the Amendment is approved by the holders of a majority of the outstanding shares of Common Stock of the Company.

Dated: October 20, 1994

AMENDMENT TO
THE QUANEX CORPORATION
1988 STOCK OPTION PLAN

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

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1988 Stock Option Plan" (the "Plan"); and

WHEREAS, the Board of Directors of the Company retained the right in Section 18 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, the Board of Directors of the Company agrees that Paragraph 12 of the Plan is hereby amended, effective with respect to both Non-statutory Options outstanding on the date of the adoption of this Amendment and all Non-statutory Options issued in the future under this Plan, as follows:

12. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE. Except as may be otherwise expressly provided herein with respect to an Option that is a Non-statutory Stock Option, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of severance, upon severance of the employment relationship between the Company and the optionee, whether with or without cause, for any reason other than the death, disability or, in the case of Non-statutory Stock Options only, Retirement of the optionee, during which period the optionee shall be entitled to exercise the Option in respect of the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Option on the date of such severance of employment. Whether authorized leave of absence, or absence on military or government service, shall constitute severance of the employment relationship between the Company and the optionee shall be determined by the Committee at the time thereof. In the event of severance because of the disability of the holder of any Incentive Stock Option while in the employ of the Company and before the date of

expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of such severance because of disability, during which period the optionee shall be entitled to exercise the Incentive Stock Option in respect to the number of shares that the optionee would have been entitled to purchase had the optionee exercised the Incentive Stock Option on the date of such severance because of disability. In the event of the death of the holder of any Incentive Stock Option while in the employ of the Company and before the date of expiration of such Incentive Stock Option, such Incentive Stock Option shall terminate on the earlier of such date of expiration or one year following the date of death. After the death of the optionee, his executors, administrators or any person or persons to whom his Incentive Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of an Incentive Stock Option to exercise the Incentive Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he had exercised the Incentive Stock Option on the date of his death while in employment. For purposes of Incentive Stock Options issued under this Plan, an employment relationship between the Company and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company, a corporation issuing or assuming an option in a transaction to which Section 424(a) of the Code applies, or a parent or subsidiary corporation of such corporation issuing or assuming an option. For this purpose, the phrase "corporation issuing or assuming an option" shall be substituted for the word "Company" in the definitions of parent and subsidiary corporations in Section 4 and the parent-subsidiary relationship shall be determined at the time of the corporate action described in Section 424(a) of the Code.

In the event of the death, disability, or Retirement of a holder of a Non-statutory Stock Option, before the date of expiration of such Non-statutory Stock Option, such Non-statutory Stock Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, and shall terminate on the date of expiration of the Non-statutory Stock Option notwithstanding any provision to the contrary in the optionee's Option Agreement. After the death of the optionee, his executors, administrators or any person or persons to whom his Non-statutory Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Non-statutory Stock Option to exercise the Non-statutory Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive. Notwithstanding the foregoing provisions of this Section, in the case of a Non-statutory Stock Option granted on or after December 8, 1994, the Committee may establish any option termination date in the Option Agreement with respect to such Option that is not later than ten years from the date of grant and impose restrictions on the exercise of such Option.

This Amendment shall be effective as of December 8, 1994; provided that it shall not be effective as to any Option held by a person that is subject to the reporting and liability provisions

of Section 16(a) or Section 16(b) of the Securities Exchange Act of 1934 unless and until the Amendment is approved by the holders of a majority of the outstanding shares of Common Stock of the Company.

Dated: October 20, 1994

THIRD AMENDMENT TO LEASE AGREEMENT

THIS THIRD AMENDMENT TO LEASE AGREEMENT (this "Third Amendment") is made and entered into effective as of October 1, 1994, by and between VPM 1989-1, LTD., a Texas limited partnership ("Landlord"), and Quanex Corporation, a Delaware corporation ("Tenant").

RECITALS:

3D Tower Limited, as Landlord, and Tenant, as tenant, entered into a Lease Agreement dated February 7, 1985 (the "Lease"), pursuant to which 3D Tower Limited leased to Tenant, and Tenant leased from 3D Tower Limited, the Leased Premises described in said Lease.

3D Tower Limited and Tenant entered into a First Amendment to Lease Agreement dated April 25, 1989 (the "First Amendment"), amending said Lease. Subsequent thereto, Landlord purchased the Project described in said Lease, and in connection therewith Landlord acquired all right, title and interest of 3D Tower Limited in and to said Lease, as so amended, and under that certain letter agreement ("Letter Agreement") dated March 15, 1985, a copy of which was attached as Schedule I to the hereinafter described Second Amendment.

Landlord and Tenant entered into a First Amendment to Lease Agreement dated December 11, 1989 (the "Second Amendment"), further amending said Lease, Such Second Amendment having been entitled "First Amendment to Lease Agreement" even though it amended said lease for the second time. Said Lease, as heretofore amended, is hereinafter referred to as the "Original Lease". Capitalized terms used but not defined herein, which are defined in the Original Lease, shall have the respective meanings ascribed to them in the Original Lease.

The Tenant has requested a sixty (60) month extension of the term of the Original Lease beginning October 1, 1994. Landlord and Tenant now desire to amend the Original Lease by this Third Amendment to effectuate said extension of the term of the Original Lease, and to make certain other changes as set forth hereinafter.

AGREEMENTS:

Now, therefore, for and in consideration of the mutual covenants and conditions contained herein and those contained in the Original Lease, Landlord and Tenant hereby agree as follows:

1. NOTWITHSTANDING THE INITIAL PARAGRAPH OF THE ORIGINAL LEASE, THE ADDRESS OF LANDLORD FOR PURPOSES OF NOTICES PURSUANT TO THE ORIGINAL LEASE IS C/O VERIQUEST REAL ESTATE SERVICES, INC., 5333 WESTHEIMER, SUITE 800, HOUSTON, TEXAS 77056, ATTENTION: MR. LARRY A. STRICKLAND, UNTIL SUCH ADDRESS SHALL BE CHANGED BY NOTICE FROM LANDLORD TO TENANT PURSUANT TO SECTION 10.01 OF THE ORIGINAL LEASE.

2. SECTION 1.02 OF THE ORIGINAL LEASE IS HEREBY AMENDED BY DELETING THEREFROM "SEPTEMBER 30, 1994", AND BY SUBSTITUTING THEREFOR "SEPTEMBER 30, 1999".

3. THE FIRST FULL SENTENCE OF SECTION 2.01 OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"Tenant hereby agrees to pay a base annual rental (herein called 'Base Rental') for (x) the Office Space in the sum of (a) Sixteen and 50/100 Dollars (\$16.50) per square foot of Net Rentable Area of the Office Space per Lease Year, or any portion thereof, beginning with the Commencement Date through and including September 30, 1989, (b) Twelve and 36/100 Dollars (\$12.36) per square foot of Net Rentable Area of the Office Space per Lease Year, or any portion thereof, beginning with October 1, 1989 through and including September 30, 1994, and (c) for the remainder of the Initial Term, Thirteen and 75/100 Dollars (\$13.75) per square foot of Net Rentable Area of the Office Space per Lease Year, or any portion thereof, and (y) the Storage Space in the sum of (a) Six Dollars (\$6.00) per square foot of Net Rentable Area of the Storage Space per Lease Year, or any portion thereof, beginning with the Commencement Date through and including September 30, 1994, and (b) for the remainder of the Initial Term, Seven Dollars (\$7.00) per square foot of Net Rentable Area of the Storage Space per Lease Year, or any portion thereof."

4. THE FIRST TWO SENTENCES OF SECTION 2.02(A) OF THE ORIGINAL LEASE ARE HEREBY AMENDED IN THEIR ENTIRETY TO BE AND READ AS FOLLOWS:

"(a) There is hereby established under this Lease a 'Base Year', which for purposes of determining Basic Costs (as hereinafter defined) for those Lease Years, or portions thereof, (i) commencing with the Commencement Date and ending on September 30, 1989, shall be the calendar year 1984, (ii) commencing with October 1, 1989, and ending on September 30, 1994, shall be the calendar year 1989, and (iii) for the remainder of the Initial Term, calendar year 1994. Landlord and Tenant hereby agree that for purposes of this Lease the Basic Costs for (1) Base Year 1984 will be deemed to be \$5.94 per square foot of Net Rentable Area per year, (2) Base Year 1989 will be deemed to be \$5.46 per square foot of Net Rentable Area per year, and (3) for Base Year 1994, will be equal to the actual Basic Costs of Landlord for such year."

5. SECTION 3.03 OF THE ORIGINAL LEASE IS HEREBY AMENDED BY ADDING A NEW SUBSECTION (D) THERETO, WHICH SHALL BE AND READ AS FOLLOWS:

"(d) Landlord may at its option, but shall not be obligated to, at any time erect, construct, modify, repair, move or remove a project monument sign with respect to the Building. If Landlord constructs such a project monument sign and such sign identifies multiple tenants within the Building, then for so long as Landlord maintains such sign for such purpose, and for so long as Tenant leases at least a full floor in the Building, Tenant shall have the right, at its sole cost and expense, to be listed on

such sign with lettering and numerals of equal size and proportion as those of other tenants listed on such sign. Tenant shall pay and be responsible for all costs and expenses in connection with such listing, including without limitation, the cost of graphics and installation. All graphics must be approved in writing by Landlord."

6. THERE IS HEREBY ADDED TO THE ORIGINAL LEASE A NEW SECTION 5.05, WHICH SHALL BE AND READ AS FOLLOWS:

"5.05 Remodelling and Allowance. Landlord and Tenant agree that the provisions of Exhibit D-1 attached hereto and incorporated herein shall govern the construction of the leasehold improvements requested by Tenant in respect of the extension of the Expiration Date from September 30, 1994, to September 30, 1999. The construction of such improvements shall be in accordance with Exhibit D-1 hereto, and Tenant shall be entitled to the Leasehold Improvement Allowance described therein. To the extent (if any) to which the Leasehold Improvement Allowance shall exceed the costs and expenses of construction, the Landlord's compensation (if any), and all other sums payable from the Leasehold Improvement Allowance pursuant to Exhibit D-1, Tenant shall be entitled to cause the remaining balance of the Leasehold Improvement Allowance to be applied against the rental obligations of Tenant under this Lease in direct order of their maturities. To the extent not inconsistent with the provisions of Exhibit D-1 hereto, the provisions of Section 5.01 of this Lease shall be applicable to the performance of the improvements contemplated by this Section."

7. SECTION 9.01(B)(IV) OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"(iv) [intentionally deleted]"

8. SECTION 9.03 OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"9.03 Renewal Option. Landlord hereby grants to Tenant the Renewal Option set forth in Exhibit G attached hereto and incorporated herein."

9. TENANT ACKNOWLEDGES AND AGREES THAT IT TIMELY RECEIVED FROM 3D TOWER LIMITED THE PAYMENT AND RENTAL ABATEMENT CONTEMPLATED BY PARAGRAPH 1 OF THE LETTER AGREEMENT. TENANT AND LANDLORD FURTHER AGREE THAT THE PROVISIONS OF THE ABOVE DESCRIBED FIRST AMENDMENT, AND PARAGRAPH 2 OF THE LETTER AGREEMENT, RELATING TO PAYMENT OF CERTAIN SUMS TO TENANT IN CONNECTION WITH THE EXERCISE BY TENANT OF AN OPTION TO RENEW THE LEASE FOR A SECOND TERM, ARE HEREBY TERMINATED.

10. SECTION 9.04 OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"9.04 Market Base Rental Rate. As used in this Lease, the term Market Base Rental Rate shall have the meaning set forth in Exhibit G attached hereto and incorporated herein."

11. THE THIRD TO LAST PARAGRAPH OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"The terms and provisions of Exhibits A, B, C, D, D-1, E, F and G attached hereto are hereby made a part hereof for all purposes."

12. THE ORIGINAL LEASE IS HEREBY AMENDED BY ADDING EXHIBITS D-1 AND G TO THIS THIRD AMENDMENT AS EXHIBITS D-1 AND G, RESPECTIVELY, TO THE ORIGINAL LEASE.

13. THE FIRST SENTENCE OF SECTION 10.03 OF THE ORIGINAL LEASE IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"Landlord agrees to provide, and Tenant obligates itself to rent, certain reserved parking permits (each a 'Reserved Permit') and unassigned parking permits (each an 'Unassigned Permit') for the parking of automobiles in spaces in locations from time to time designated by Landlord in the parking garage ('Parking Garage') within the Project, in the following numbers during the following periods: (x) for that portion of the Initial Term from and after October 1, 1989 and through and including September 30, 1994, one Reserved Permit and 38 Unassigned Permits; and (y) for that portion of the Initial Term from and after October 1, 1994 and through and including September 30, 1999 (and thereafter during the Renewal Term, if the Renewal Option provided hereby shall be exercised by Tenant), one Reserved Permit and 45 Unassigned Permits."

14. THE NINTH SENTENCE OF SECTION 10.03 IS HEREBY AMENDED IN ITS ENTIRETY TO BE AND READ AS FOLLOWS:

"Notwithstanding the foregoing, no parking rent shall accrue for either the Reserved Permit or the Unassigned Permits for (i) the twenty-four (24) month calendar period beginning October 1, 1989 and ending September 30, 1991, or (ii) the twenty-four (24) month calendar period beginning October 1, 1994 and ending September 30, 1996."

15. A NEW SENTENCE IS HEREBY ADDED TO SECTION 10.03 OF THE ORIGINAL LEASE, IMMEDIATELY FOLLOWING THE NINTH SENTENCE THEREOF, WHICH SHALL BE AND READ AS FOLLOWS:

"In addition, Tenant shall be entitled to a visitor parking validation credit, for Tenant's visitors who park in the Parking Garage, of up to \$200 per calendar month during the portion of the Initial Term commencing on October 1, 1994 and through and including September 30, 1999. Tenant and Tenant's visitors shall comply with all rules, regulations and requirements which may be imposed by Landlord in connection therewith."

16. EXCEPT AS EXPRESSLY AMENDED HEREBY, THE ORIGINAL LEASE SHALL REMAIN IN FULL FORCE AND EFFECT. THE ORIGINAL LEASE, AS AMENDED BY THIS THIRD AMENDMENT, AND ALL RIGHTS, POWERS AND REMEDIES CREATED THEREBY OR THEREUNDER ARE HEREBY RATIFIED AND CONFIRMED IN ALL RESPECTS. THIS THIRD AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

EXECUTED effective as of the date first above written.

QUANEX CORPORATION:

By: _____
Wayne M. Rose
Vice President and Chief Financial Officer

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

	Three Months Ended January 31,	
	1995	1994
----- (Unaudited) -----		
Income before extraordinary charge.....	\$ 4,653	\$ 1,768
Extraordinary charge - early extinguishment of debt....	(2,021)	-
	-----	-----
Net income.....	2,632	1,768
Preferred dividend requirements.....	(1,484)	(1,484)
	-----	-----
Net income attributable to common stockholders.....	\$ 1,148	\$ 284
	=====	=====
Weighted average shares outstanding-primary.....	13,566	13,407
	=====	=====
Earnings per common share:		
Primary:		
Earnings before extraordinary charge.....	0.23	0.02
Extraordinary charge.....	(0.15)	-
	-----	-----
Earnings per common share.....	0.08	0.02
	=====	=====
Income before extraordinary charge.....	\$ 4,653	\$ 1,768
Extraordinary charge - early extinguishment of debt....	(2,021)	-
	-----	-----
Net income.....	2,632	1,768
	=====	=====
Weighted average shares outstanding-primary.....	13,566	13,407
Effect of common stock equivalents arising from stock options.....	-	24
Preferred stock assumed converted to common stock.....	2,738	2,738
	-----	-----
Weighted average shares outstanding-fully diluted.....	16,304	16,169
	=====	=====
Earnings per common share:		
Assuming full dilution:		
Earnings before extraordinary charge.....	0.28	0.11
Extraordinary charge.....	(0.12)	-
	-----	-----
Earnings per common share.....	0.16	0.11
	=====	=====

This schedule contains summary financial information extracted from the balance sheet as of January 31, 1995 and the income statement for the three months ended January 31, 1995 and is qualified in its entirety by reference to such financial statements.

1,000

3-MOS	OCT-31-1995	NOV-01-1994	JAN-31-1995
			22,737
			0
		97,573	0
		93,791	0
	221,779		509,006
		245,226	
		526,923	
156,994			47,942
			6,715
	0		86,250
			139,648
526,923			199,886
	199,886		177,189
			177,189
			0
			0
	3,116		
		8,022	
		3,369	
4,653			0
	2,021		0
			2,632
			.08
			.16