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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2004

OR

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

For the transition period from to .

Commission File Number 1-5725

QUANEX CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**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 ☒ No o

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

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

Class	**Outstanding at April 30, 2004**
Common Stock, par value $0.50 per share	16,438,490

QUANEX CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30, 2004	October 31, 2003
	(In thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 5,290	$ 22,108
Accounts and notes receivable, net of allowance for doubtful accounts of $7,933 and $7,222	195,813	123,185
Inventories	139,683	79,322
Deferred income taxes	9,533	6,366
Other current assets	4,258	1,750
Total current assets	354,577	232,731
Property, plant and equipment	882,357	794,000
Less accumulated depreciation and amortization	(483,784)	(458,096)
Property, plant and equipment, net	398,573	335,904
Goodwill, net	137,756	66,436
Cash surrender value insurance policies, net	24,991	24,536
Intangible assets	28,718	2,755
Other assets	5,999	3,501
	$ 950,614	$ 665,863
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 143,226	$ 89,435
Accrued liabilities	46,460	39,209
Income taxes payable	6,400	7,381
Current maturities of long-term debt	3,751	3,877
Other current liabilities	16	46
Total current liabilities	199,853	139,948
Long-term debt	215,817	15,893
Deferred pension credits	2,299	8,323
Deferred postretirement welfare benefits	7,782	7,845
Deferred income taxes	44,005	34,895
Non-current environmental reserves	13,352	13,517
Other liabilities	2,586	283
Total liabilities	485,694	220,704
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	—	—
Common stock, $0.50 par value, shares authorized 50,000,000; issued 16,526,059 and 16,519,271	8,263	8,260
Additional paid-in-capital	189,073	187,114
Retained earnings	274,675	264,067
Unearned compensation	(815)	(164)
Accumulated other comprehensive income	(3,636)	(3,641)
	467,560	455,636
Less common stock held by rabbi trust, 55,521 and 47,507 shares	(1,644)	(1,317)
Less cost of shares of common stock in treasury, 32,048 and 294,803 shares	(996)	(9,160)
Total stockholders' equity	464,920	445,159
	$ 950,614	$ 665,863

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months Ended April 30,		Six Months Ended April 30,	
2004	2003	2004	2003
(In thousands, except per share amounts)			

Net sales	$ 405,993	$ 254,610	$ 687,149	$ 484,119
Cost and expenses:				
Cost of sales	354,222	213,773	599,308	407,898
Selling, general and administrative expense	17,578	14,340	30,686	27,595
Depreciation and amortization	14,419	12,027	27,149	24,041
Gain on sale of land	—	(405)	(454)	(405)
Operating income	19,774	14,875	30,460	24,990
Other income (expense):				
Interest expense	(1,831)	(674)	(2,756)	(1,724)
Other, net	382	431	822	1,965
Income before income taxes	18,325	14,632	28,526	25,231
Income tax expense	(6,781)	(5,267)	(10,555)	(9,083)
Net income	$ 11,544	$ 9,365	$ 17,971	$ 16,148
Earnings per common share:				
Basic net earnings	$ 0.70	$ 0.58	$ 1.10	$ 0.99
Diluted net earnings	$ 0.69	$ 0.58	$ 1.08	$ 0.98
Weighted average number of shares outstanding:				
Basic	16,423	16,064	16,370	16,238
Diluted	16,690	16,286	16,639	16,470
Cash dividends per share	$ 0.17	$ 0.17	$ 0.34	$ 0.34

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Six Months Ended April 30,	
	2004	2003
	(In thousands)	
Operating activities:		
Net income	$ 17,971	$ 16,148
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	(454)	(405)
Depreciation and amortization	27,402	24,221
Deferred income taxes	4,560	3,855
Deferred pension and postretirement benefits	(6,087)	2,342
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Increase in accounts and notes receivable	(49,592)	(9,795)
Increase in inventory	(20,679)	(15,235)
Increase in accounts payable	31,870	7,175
Increase (decrease) in accrued liabilities	1,200	(10,173)
Decrease in income taxes payable	(1,127)	(3,528)
Other, net	231	(4,791)
Cash provided by operating activities	5,295	9,814
Investment activities:		
Acquisitions, net of cash acquired	(214,573)	—
Proceeds from sale of land	637	2,832
Capital expenditures, net of retirements	(8,265)	(14,812)
Other, net	(558)	(3,004)
Cash used for investing activities	(222,759)	(14,984)
Financing activities:		
Bank borrowings, net	200,000	6,700
Purchase of Quanex common stock	—	(13,515)
Common stock dividends paid	(5,591)	(5,379)
Issuance of common stock, net	7,223	1,574
Other, net	(1,011)	(1,687)
Cash provided by (used for) financing activities	200,621	(12,307)
Effect of exchange rate changes on cash equivalents	25	—
Decrease in cash and equivalents	(16,818)	(17,477)
Cash and equivalents at beginning of period	22,108	18,283
Cash and equivalents at end of period	$ 5,290	$ 806
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 2,031	$ 1,508

Cash paid during the period for income taxes	5,720	8,852
Cash received during the period for income tax refunds	284	73

1. Basis of Presentation

The interim unaudited consolidated financial statements of Quanex Corporation and its subsidiaries ("Quanex" or the "Company") include all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X.

Certain reclassifications, none of which affected net income attributable to common stockholders, have been made to prior period amounts to conform to the current period presentation. Specifically, the Company reclassified amortization of debt issuance costs of $0.1 million and $0.2 million for the three and six months ended April 30, 2003, respectively, from other, net to interest expense.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and notes thereto included in the Quanex Corporation 2003 Form 10-K.

2. New Accounting Pronouncements

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act provides a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare. In January 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires that presently enacted changes in the law that affect the future level of healthcare benefit plan coverage should be considered in the current period measurements of postretirement net periodic benefit cost and accumulated postretirement benefit obligation. As permitted, by FSP FAS 106-1, the Company elected to defer reflecting the effect of the Act on postretirement net periodic benefit cost and the accumulated postretirement benefit obligation in the financial statements until further guidance is issued.

In April 2004, the FASB issued proposed FSP No. FAS 106-2, which supercedes FSP FAS 106-1. In general, the FSP concludes that plan sponsors should follow SFAS 106 in accounting for the effects of the Act. Specifically, the effect of the subsidy on benefits attributable to past service cost should be accounted for as an actuarial experience gain and the effect of the subsidy on future costs should be accounted for as a reduction in service cost. For employers that elected deferral under FSP FAS 106-1, this guidance is effective for the first interim or annual period beginning after June 15, 2004. The Company does not expect the adoption of this statement to have a material effect on the Company's financial position, results of operations or cash flows.

In December 2003, the FASB issued the revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised SFAS 132 retains the disclosures required by the original issuance of SFAS 132 and requires additional annual disclosures describing the types of plan assets, investment strategy, measurement date, plan obligations and cash flows. The Company will include the revised SFAS 132 annual disclosures in its Annual Report on Form 10-K for the fiscal year ending October 31, 2004. The revised SFAS 132 also requires additional interim period disclosures, including the components of net periodic benefit cost and changes in planned contributions. The Company has included the required disclosures in Note 10 to its financial statements.

In December 2003, the FASB issued FASB Interpretation ("FIN") No. 46(R) "Consolidation of Variable Interest Entities." FIN 46(R) replaces FIN 46 and addresses consolidation by business enterprises of variable interest entities. The provisions of FIN 46(R) are effective for the first reporting period that ends after December 15, 2003 for variable interests in those entities commonly referred to as special purpose entities. Application of the provisions of FIN 46(R) for all other entities is effective for the first reporting period ending after March 15, 2004. The Company has no interest in any entity considered a special purpose entity; therefore, the initial adoption of FIN 46(R) did not have an impact on the Company. Adoption of this statement in the second quarter of 2004 did not have a material effect on the Company's financial position, results of operations or cash flows.

3. Stock Based Employee Compensation

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", the Company continues to apply the rules for stock-based compensation contained in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" using the intrinsic value method. The pro forma effect on net income and earnings per share of the fair value based method of accounting for stock-based compensation as required by SFAS No. 123 and SFAS No. 148 "Accounting for the Stock-Based Compensation – Transition and Disclosure" is presented below:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
	(In thousands)			
Net income, as reported	$ 11,544	$ 9,365	$ 17,971	$ 16,148
Deduct: Total stock-based employee compensation expense determined under fair value basedmethod for all awards, net of related tax effects	(543)	(378)	(1,106)	(735)
Pro forma net income	$ 11,001	$ 8,987	$ 16,865	$ 15,413
Earnings per common share:				
Basic as reported	$ 0.70	$ 0.58	$ 1.10	$ 0.99

Basic pro forma	$ 0.67	$ 0.56	$ 1.03	$ 0.95
Diluted as reported	$ 0.69	$ 0.58	$ 1.08	$ 0.98
Diluted pro forma	$ 0.66	$ 0.56	$ 1.01	$ 0.94

4. Business Acquisitions

During the first quarter of fiscal 2004, the Company acquired the stock of TruSeal Technologies, Inc. ("TruSeal") and assets of North Star Steel Monroe ("MACSTEEL Monroe"). The acquisitions were accounted for under the purchase method of accounting in accordance with SFAS No. 141 "Business Combinations." Accordingly, the estimated fair value of assets acquired and liabilities assumed in the acquisitions and the results of operations were included in the Company's consolidated financial statements as of the respective effective dates of the acquisitions. There were no material differences between the Company's accounting policies and those of TruSeal and North Star Steel Monroe.

TruSeal

On December 31, 2003, the Company completed the acquisition of TruSeal, a manufacturer of patented and trademarked flexible insulating glass spacer systems and sealants for vinyl, aluminum and wood windows. TruSeal has been integrated into the Engineered Products division within the Building Products segment. The Company acquired TruSeal to further expand the broad range of high quality components and products currently supplied to existing customers and to provide a level of customer diversification. TruSeal has a broad presence in the vinyl and aluminum window markets, whereas the Company's niche is primarily with the wood window OEM's. As consideration for the acquisition of all of the outstanding capital stock of TruSeal, the Company paid $111.2 million in cash, net of a $1.8 million working capital adjustment, and assumed $17.7 million of liabilities. The Company also incurred $1.4 million in transaction fees, including legal, valuation and accounting fees.

MACSTEEL Monroe

On December 31, 2003, the Company completed the asset purchase of MACSTEEL Monroe, a mini-mill steel facility that can produce over 500,000 tons of special bar quality and engineered steel bars in diameters from 0.5625" to 3.25", which primarily serves the light vehicle and heavy-duty truck markets. MACSTEEL Monroe has been integrated into MACSTEEL within the Vehicular Products segment. The Company acquired MACSTEEL Monroe to support and benefit a core business, MACSTEEL, and to expand the range of high quality bar products available to the Company's customers. MACSTEEL Monroe's production of smaller diameter bars complements the Company's existing 1" to 6" size range and expands the customer base and product offerings. As consideration for the MACSTEEL Monroe acquisition, the Company paid $99.8 million in cash, net of a $15.7 million working capital adjustment, and assumed $18.3 million of liabilities. The working capital adjustment resulted in a reduction of property, plant and equipment in the second quarter of fiscal 2004. The Company also incurred $2.2 million in transaction fees, including legal, valuation and accounting fees.

The preliminary allocations of the assets and liabilities acquired and assumed are summarized below. The preliminary allocations were based on independent appraisals and management's estimates of fair values. The allocations are not final and are subject to change based on final estimates of fair value. The Company does not anticipate the final allocation to vary materially from the preliminary allocation presented below:

	(In thousands)
Cash and equivalents	$ 148
Accounts receivable, net of allowance for doubtful accounts	23,049
Inventories	39,711
Deferred income taxes	4,169
Other current assets	2,824
Total current assets	69,901
Property, plant and equipment, net	80,753
Goodwill, net	71,319
Intangible assets:	
Trade names and trademarks	8,230
Patents	14,834
Other intangibles	3,692
Total intangible assets	26,756
Other assets	1,959
Total assets	$ 250,688
Accounts payable	$ 21,924
Accrued liabilities	6,203
Total current liabilities	28,127
Deferred income taxes	5,551
Other liabilities	2,279
Total liabilities	35,957
Investment	214,731
Total liabilities and equity	$ 250,688

The allocations resulted in goodwill of $71.3 million, of which $46.7 million is expected to be deductible for tax purposes. All $71.3 million of goodwill has been assigned to the Building Products segment. The intangible assets are being amortized over periods, which reflect the pattern in which the economic benefits of the assets are expected to be realized. Specifically, the trade names and trademarks are being amortized over an average estimated useful life of 16 years, the patents are being amortized over an average of 17 years and the other intangibles are being amortized over an average of 5 years.

The weighted average useful life of intangible assets, excluding goodwill, created as a result of the acquisitions is 15 years. No residual value is estimated for the intangible assets.

The following table provides unaudited proforma results of operations for the three and six months ended April 30, 2004 and April 30, 2003, as if TruSeal and MACSTEEL Monroe had been acquired as of the beginning of each fiscal year presented. The proforma results include certain adjustments including estimated interest impact from the funding of the acquisitions and estimated depreciation and amortization of fixed and identifiable intangible assets. However, the proforma results presented do not include any anticipated cost savings or other synergies related to either of the acquisitions. Accordingly, such amounts are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the dates indicated or that may result in the future.

	Actual		Proforma	
	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
	(In thousands)			
Net sales	$ 405,993	$ 327,384	$ 731,889	$ 623,388
Net income attributable to common stockholders	11,544	11,696	17,354	19,661
Diluted net earnings per common share	$ 0.69	$ 0.72	$ 1.04	$ 1.19

5. Inventories

Inventories consist of the following:

	April 30, 2004	October 31, 2003
	(In thousands)	
Raw materials	$ 33,915	$ 18,741
Finished goods and work in process	93,119	51,006
	127,034	69,747
Other	12,649	9,575
	$ 139,683	$ 79,322

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

	April 30, 2004	October 31, 2003
	(In thousands)	
LIFO	$ 65,062	$ 54,032
FIFO	74,621	25,290
	$ 139,683	$ 79,322

For purposes of valuing LIFO inventories, a projection of the year-end LIFO reserve is calculated each quarter. Based on this projection, the Company records an estimate of the LIFO change during the year. At the end of the fiscal year, the actual LIFO inventory change is calculated and recorded. With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $16.6 million as of April 30, 2004 and $13.9 million as of October 31, 2003.

6. Acquired Intangible Assets

Intangible assets consist of the following (in thousands):

	As of April 30, 2004			As of October 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Life	Gross Carrying Amount	Accumulated Amortization	Weighted Average Remaining Life
Amortized intangible assets:						
Non-compete Agreements	$ 313	$ 153	2 years	$ 313	$ 119	3 years
Patents	15,277	407	17	443	82	10
Trademarks	8,230	168	16	—	—	—
Customer Relationships	2,491	166	5	—	—	—
Other intangibles	1,201	100	4	—	—	—
Total	$ 27,512	$ 994	15 years	$ 756	$ 201	8 years
Unamortized intangible assets:						
Trade Name	$ 2,200			$ 2,200		

The aggregate amortization expense for the three and six month periods ended April 30, 2004 is $565 thousand and $793 thousand, respectively. The aggregate amortization expense for the three and six month periods ended April 30, 2003 was $31 thousand and $57 thousand, respectively. Estimated amortization expense for the next five years follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization

2004 (remaining six months)	$	1,161
2005		2,303
2006		2,294
2007		2,252
2008		1,988

7. Earnings Per Share

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

	For the Three Months Ended April 30, 2004			For the Three Months Ended April 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Earnings Per Share Computation	$ 11,544	16,423	$ 0.70	$ 9,365	16,064	$ 0.58
Effect of Dilutive Securities						
Effect of common stock equivalents arising from stock options	—	212		—	153	
Effect of common stock held by rabbi trust	—	55		—	69	
Diluted Earnings Per Share Computation						
Total diluted net earnings	$ 11,544	16,690	$ 0.69	$ 9,365	16,286	$ 0.58

	For the Six Months Ended April 30, 2004			For the Six Months Ended April 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic Earnings Per Share Computation	$ 17,971	16,370	$ 1.10	$ 16,148	16,238	$ 0.99
Effect of Dilutive Securities						
Effect of common stock equivalents arising from stock options	—	216		—	167	
Effect of common stock held by rabbi trust	—	53		—	65	
Diluted Earnings Per Share Computation						
Total diluted net earnings	$ 17,971	16,639	$ 1.08	$ 16,148	16,470	$ 0.98

In May 2004, the Company issued $125 million of 2.50% Convertible Senior Debentures due 2034 that, if converted in the future, would have a potentially dilutive effect on the Company's stock. Shares issuable upon conversion of these debentures are excluded from the computation of earnings per share because the contingent conditions for their conversion have not been met (see Note 9).

8. Comprehensive Income

Comprehensive income is defined as the sum of net income and all other non-owner changes in equity, including realized and unrealized gains and losses on derivatives, minimum pension liability adjustments and foreign currency translation adjustments. Total comprehensive income for the three and six months ended April 30, 2004 is $11.6 million and $18.0 million, respectively. Total comprehensive income for the three and six months ended April 30, 2003 is $9.4 million and $16.5 million, respectively.

9. Long-term Debt

Long-term debt consists of the following:

	April 30, 2004	October 31, 2003
	(In thousands)	
"Bank Agreement" Revolver	$ 210,000	$ 10,000
Industrial Revenue and Economic Development Bonds, unsecured, principle due in the years 2005 and 2010, bearing interest ranging from 6.50% to 8.375%	1,665	1,665
State of Alabama Industrial Development Bonds	3,297	3,450
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,200	2,200
Temroc Industrial Development Revenue Bonds	2,128	2,228
Other	278	227
	$ 219,568	$ 19,770

Less maturities due within one year included in current liabilities	3,751	3,877
	$ 215,817	$ 15,893

Bank Agreement

In November 2002, the Company entered into a secured $200 million Revolving Credit Agreement ("Bank Agreement"). The Bank Agreement is secured by all Company assets, excluding land and buildings. The Bank Agreement expires November 15, 2005 and provides up to $25 million for standby letters of credit, limited to the undrawn amount available under the Bank Agreement. All borrowings under the Bank Agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate.

On December 19, 2003, the Company executed an agreement with the banks to increase the Bank Agreement revolver from $200 million to $310 million to provide funds necessary for the TruSeal and MACSTEEL Monroe acquisitions, as detailed in Note 4. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of its Revolving Credit Agreement from November 15, 2005 to February 28, 2007.

The Bank Agreement requires maintenance of certain financial ratios and maintenance of a minimum consolidated tangible net worth. As of April 30, 2004, the Company was in compliance with all current Bank Agreement covenants.

On May 5, 2004, the Company issued $125 million of 2.50% Convertible Senior Debentures due May 15, 2034 (the "Debentures") in a private placement to Credit Suisse First Boston, Bear, Stearns & Co. Inc., Robert W. Baird & Co., and KeyBanc Capital Markets as initial purchasers. The Debentures were offered only to "qualified institutional buyers", in accordance with Rule 144A under the Securities Act of 1933. The Debentures are convertible into shares of Quanex common stock, upon the occurrence of certain events, at an initial conversion rate of 17.3919 shares of common stock per $1,000 principal amount of notes. This conversion rate is equivalent to an initial conversion price of $57.50 per share of common stock, subject to adjustment in some events.

The Debentures are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of the Company's common stock on such last trading day; (ii) if the Company calls the Debentures for redemption; or (iii) upon the occurrence of certain corporate transactions, as defined. Upon conversion, the Company has the right to deliver common stock, cash or a combination of cash and common stock. The Company may redeem some or all of the Debentures for cash any time on or after May 15, 2011 at the Debentures' full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require the Company to purchase, in cash, all or a portion of the Debentures on May 15, 2011, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures' full principal amount plus accrued and unpaid interest, if any.

The net proceeds from the offering, totaling approximately $122 million were used to repay a portion of the amounts outstanding under the revolving credit agreement.

10. Pension Plans and Other Postretirement Benefits

The components of net pension and other postretirement benefit cost are as follows:

	Three Months Ended April 30,		Six Months Ended April 30,	
Pension Benefits:	**2004**	**2003**	**2004**	**2003**
	(In thousands)			
Service Cost	$ 922	$ 723	$ 1,785	$ 1,449
Interest cost	924	726	1,790	1,452
Expected return on plan assets	(773)	(607)	(1,497)	(1,215)
Amortization of unrecognized transition asset	(35)	(28)	(68)	(55)
Amortization of unrecognized prior service cost	61	48	118	96
Amortization of unrecognized net loss	214	168	415	337
Net periodic pension cost	$ 1,313	$ 1,030	$ 2,543	$ 2,064

	Three Months Ended April 30,		Six Months Ended April 30,	
Postretirement Benefits:	**2004**	**2003**	**2004**	**2003**
	(In thousands)			
Service Cost	$ 27	$ 50	$ 54	$ 99
Interest cost	112	206	223	411
Net amortization and deferral	(42)	(77)	(83)	(153)
Net periodic postretirement benefit cost	$ 97	$ 179	$ 194	$ 357

During the six months ended April 30, 2004, the Company made contributions of $6.3 million to its defined benefit pension plans, including $4.0 million of voluntary contributions. The Company anticipates contributions to its pension plans in fiscal 2004 to total $7.2 million.

11. Industry Segment Information

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment is comprised of MACSTEEL, Piper Impact and Temroc. The Building Products segment is comprised of Nichols Aluminum and the Engineered Products division. Below is a presentation of segment disclosure information:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
	(In thousands)			
Net Sales				
Vehicular Products(1)	$ 225,254	$ 118,018	$ 366,233	$ 226,950
Building Products(2)	180,739	136,592	320,916	257,169
Consolidated	$ 405,993	$ 254,610	$ 687,149	$ 484,119
Operating Income (Loss)				
Vehicular Products(1)	$ 13,506	$ 14,336	$ 22,186	$ 24,223
Building Products(2)	12,071	4,218	17,582	8,385
Corporate & Other(3)	(5,803)	(3,679)	(9,308)	(7,618)
Consolidated	$ 19,774	$ 14,875	$ 30,460	$ 24,990

	April 30, 2004	October 31, 2003
	(In thousands)	
Identifiable Assets		
Vehicular Products(1)	$ 502,497	$ 350,767
Building Products(2)	431,773	278,629
Corporate & Other(3)	16,344	36,467
Consolidated	$ 950,614	$ 665,863
Goodwill		
Vehicular Products	$ 13,496	$ 13,496
Building Products(2)	124,260	52,940
Consolidated	$ 137,756	$ 66,436

(1) Fiscal 2004 includes MACSTEEL Monroe as of January 1, 2004.
(2) Fiscal 2004 includes TruSeal as of January 1, 2004.
(3) Included in “Corporate & Other” are inter-segment eliminations, consolidated LIFO inventory adjustments, corporate expenses and assets.

12. Treasury Stock and Stock Option Exercises

On December 5, 2002, the Board of Directors approved a program to purchase up to a total of one million shares of the Company’s common stock in the open market or in privately negotiated transactions. The Company has not purchased any shares in the six month period ending April 30, 2004. At October 31, 2003 there were 294,803 shares in treasury stock with a remaining carrying value of approximately $9.2 million. During the three months ended April 30, 2004, the Company issued out of treasury stock 16,766 shares for the exercise of options and 1,078 shares to cover deferrals under the Company’s deferred compensation plan and restricted stock issuances. For the six months ended April 30, 2004, the Company issued out of treasury stock 230,941 shares for the exercise of options and 31,814 shares to cover deferrals under the Company’s deferred compensation plan and restricted stock issuances. There are currently 32,048 shares in treasury stock with a remaining carrying value of approximately $1.0 million.

The Company has various restricted stock and stock option plans for key employees and directors as described in its Annual Report on Form 10-K for the fiscal year ended October 31, 2003. Below is a table summarizing the stock option activity in all plans since October 31, 2003:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 2003	602,535	982,630	$ 26
Granted		194,600	$ 40
Exercised		(237,729)	$ 23
Cancelled / Lapsed		—	$ —
Balance at April 30, 2004	476,595	939,501	$ 29

13. Financial Instruments and Risk Management

Metal Exchange Commitments and Contracts

The Company’s aluminum mill sheet products group, Nichols Aluminum, uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments (which are designated as “normal purchases” under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”) as well as option contracts on the London Metal Exchange (“LME”). The Company’s risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company’s committed sales orders, net of fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw

material purchase commitments, changes in aluminum prices should have no effect. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices. Ineffectiveness of the LME contracts results from the fact that the mix of raw material grades consumed during production are not exactly the same as the LME.

At April 30, 2004, open LME forward contracts had maturity dates extending through October 2005 covering notional amounts of approximately 3.9 million pounds. At April 30, 2004, these contracts had fair values of approximately $19 thousand (gain), which is recorded as part of other current assets on the balance sheet.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of April 30, 2004, net losses of approximately $18 thousand ($11 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts related to hedge ineffectiveness, are reflected in “Cost of sales” in the income statement. For the six months ended April 30, 2004, $17 thousand of expense was recognized in “Cost of sales” representing the amount of the hedges’ ineffectiveness.

Interest Rate Swap Agreements

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the then existing bank agreement revolver to a fixed rate. The Company’s risk management policy related to these swap agreements was to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the swap agreements, payments are made based on a fixed rate ($50 million at 7.025% and $50 million at 6.755%) and received on a LIBOR based variable rate.

With the execution of the Bank Agreement in November 2002, the interest rate swaps no longer qualified as a hedge. As a result, the Company discontinued hedge accounting under SFAS 133 on the swaps after the effective date of the Bank Agreement and reclassified the related portion of other comprehensive income to interest expense in the fiscal quarter ended October 31, 2002.

The interest rate swap agreements were effective until July 29, 2003 and the final interest settlement payment was made at that time. During the period from October 31, 2003 to April 30, 2004, there were no open swap agreement contracts and therefore no asset or liability reflected on the balance sheet.

14. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book versus tax differences and tax credits. It also includes the effect of any valuation allowance expected to be necessary at the end of the year. The Company’s estimated annual effective tax rate increased to 37% from 36% for the prior year period due to an increase in state tax expense.

15. Contingencies

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. 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. 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, financial condition or cash flows.

Total remediation reserves, at April 30, 2004, for Quanex’s current plants, former operating locations, and disposal facilities were approximately $16.5 million. Of that, approximately $2 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. On the balance sheet, $13.4 million of the remediation reserve is included in other liabilities (non-current) with the remainder in accrued liabilities (current).

Approximately 80% of the total remediation reserve currently is allocated to cleanup and other corrective measures at the Piper Impact (“Piper”) division in New Albany, Mississippi. At present, the largest component is for remediation of soil and groundwater contamination from prior operators at the Piper plant on Highway 15. We voluntarily implemented a state-approved remedial action plan there that includes natural attenuation together with a groundwater collection and treatment system, but we continue to investigate site conditions and evaluate performance of the remedy. Apart from continued operation and maintenance of our existing system, it has not been determined whether additional cleanup is warranted; however, we have included in the reserve amounts for further remediation assuming such measures were to become necessary.

Our final remediation costs and the timing of those expenditures at Piper and other sites will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, and regulatory concurrences. While actual remediation costs therefore may be more or less than amounts accrued, management believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. We currently expect to pay the accrued remediation reserve through at least fiscal 2024, although some of the same factors discussed earlier could accelerate or extend the timing.

For fiscal 2004, the Company estimates expenses at its facilities will be approximately $3.7 million for continuing environmental compliance. In addition, the Company estimates that capital expenditures for environmental compliance in fiscal 2004 will be approximately $4.3 million. The increase from the estimate at January 31, 2004 primarily reflects the Company's accelerated plans for complying with coating systems emissions standards by upgrading equipment at two of the Nichols Aluminum facilities. 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 fiscal 2004, but it is not possible at this time to reasonably estimate the amount of those expenditures. Based upon its analysis and experience to date, Quanex does not believe that its compliance with the Clean Air Act or other environmental requirements will have a material adverse effect on its operations or financial condition.

As reported in the annual report for the year ended October 31, 2003, the Company currently has a case in Tax Court regarding the disallowance of a capital loss realized in 1997. The Company believes the ultimate resolution of this matter will not have a material impact on its financial position or results of operations.

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Although the ultimate resolution and impact of such litigation on the Company is not presently determinable, the Company's management believes that the eventual outcome of such litigation will not have a material adverse effect on the overall financial condition or results of operations of the Company.

16. Subsequent Events

On May 5, 2004, the Company issued $125 million of 2.50% Convertible Senior Debentures due May 15, 2034 (the "Debentures") in a private placement. Additional information is provided in footnote 9 (Long-term Debt) and Item 2 of Part II (Unregistered Sales of Equity Securities and Use of Proceeds).

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

General

The discussion and analysis of Quanex Corporation and its subsidiaries' (the "Company's") financial condition and results of operations should be read in conjunction with the April 30, 2004 and October 31, 2003 Consolidated Financial Statements of the Company and the accompanying notes.

Private Securities Litigation Reform Act

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" are "forward-looking" statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements which address future operating performance, events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and statements expressing general optimism about future operating results, are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors exist that could cause the Company's actual results to differ materially from the expected results described in or underlying our Company's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, availability of steel and aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular, home building and remodeling markets, any material changes in purchases by the Company's principal customers, labor supply and relations, environmental regulations, changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company's successful implementation of its internal operating plans and acquisition strategies, successful integration of recent acquisitions, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

Consolidated Results of Operations

Summary Information

	Three Months Ended April 30,				Six Months Ended April 30,			
	2004	2003	Change	%	2004	2003	Change	%
	(Dollars in millions)							
Net sales	$ 406.0	$ 254.6	$ 151.4	59.5%	$ 687.1	$ 484.1	$ 203.0	41.9%
Cost of sales	354.2	213.8	140.4	65.7	599.3	407.9	191.4	46.9
Selling, general and administrative	17.6	14.3	3.3	23.1	30.7	27.6	3.1	11.2
Depreciation and amortization	14.4	12.0	2.4	20.0	27.1	24.0	3.1	12.9
Gain on sale of land	—	(0.4)	0.4	—	(0.5)	(0.4)	(0.1)	25.0

Operating income	19.8	14.9	4.9	32.9	30.5	25.0	5.5	22.0
Interest expense	(1.8)	(0.6)	(1.2)	200.0	(2.8)	(1.7)	(1.1)	64.7
Other, net	0.3	0.4	(0.1)	(25.0)	0.8	1.9	(1.1)	(57.9)
Income tax expense	(6.8)	(5.3)	(1.5)	28.3	(10.5)	(9.1)	(1.4)	15.4
Net income	$ 11.5	$ 9.4	$ 2.1	22.3%	$ 18.0	$ 16.1	$ 1.9	11.8%
Operating income margin	4.9%	5.9%			4.4%	5.2%		

Overview

Net sales were a record $406.0 million in the quarter, up 59.5% over a year ago. Net sales for the quarter for TruSeal and MACSTEEL Monroe totaled $100.6 million. Demand at the Company's Vehicular Products and Building Products segments was very strong and backlogs for the third quarter remain at high levels. Record net income for a second quarter of $11.5 million was up 22.3% compared to last year's second quarter. Diluted earnings per share were $0.69, within $0.01 of the Company's best ever second quarter figure. MACSTEEL Monroe and TruSeal contributed about $0.21 (net of interest expense) to diluted earnings per share in the second quarter.

Runaway steel scrap costs finally abated in April, when the Company experienced a $45 per ton drop in MACSTEEL's overall raw material costs compared to March. Margins however, were significantly compressed during February and March. North American light vehicle builds in the fiscal second quarter were up about 5% over the year ago period. Heavy duty truck builds continued to gain momentum during the fiscal quarter, with builds up some 50% over a year ago. Both housing starts and remodeling activity remained strong through the period, which allowed the Building Products segment to post excellent results.

Business Segments

Quanex has two market-focused segments: Vehicular Products and Building Products. The Vehicular Products segment is comprised of MACSTEEL, Piper Impact and Temroc. The Vehicular segment's main market drivers are North American light vehicle builds and to a lesser extent, heavy-duty truck builds. The Building Products segment is comprised of the Engineered Products division and Nichols Aluminum. The main market drivers of this segment are residential housing starts and remodeling expenditures.

2004 Second Quarter Compared to 2003 Second Quarter

Vehicular Products

	Three Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Net sales	$ 225.3	$ 118.0	$ 107.3	90.9%
Cost of sales	197.2	91.9	105.3	114.6
Selling, general and administrative	5.4	4.1	1.3	31.7
Depreciation and amortization	9.2	7.7	1.5	19.5
Operating income	$ 13.5	$ 14.3	$ (0.8)	(5.6)%
Operating income margin	6.0%	12.1%		

(1) Fiscal 2004 includes MACSTEEL Monroe as of January 1, 2004.

North American light vehicle builds remained at very robust levels during the quarter, and the three MACSTEEL operations ran close to their rated capacity. Backlogs in the third quarter remain healthy, although growing light vehicle inventories at the retail level are a concern. The Vehicular Products segment also benefited from excellent heavy duty truck production during the quarter, which continues to outpace year ago figures by nearly 50%.

Excluding Monroe's results, MACSTEEL's shipments increased approximately 14% for the second quarter 2004 compared to the second quarter 2003, while operating income decreased approximately 34% because of lower operating margins. Rapidly increasing steel scrap costs were a major issue during MACSTEEL's second quarter because average raw material costs were 25% higher in the January to March period compared to December.

However, several favorable developments occurred late in the second fiscal quarter. MACSTEEL experienced a significant drop in raw material costs in April, down approximately $45 per ton from March levels. MACSTEEL also adjusted their formula-based steel scrap surcharge, effective April 1, to more accurately reflect the higher costs experienced in the January through March period. These two actions, along with productivity gains and high value added product sales, enabled the Company to recover some margin during April.

While Piper continued to struggle with the reduction of their base business during the quarter, the Company did benefit from both lower manufacturing costs and new business opportunities, which resulted in positive operating earnings for the quarter. While air bag component sales fell again in the quarter, Piper continued to experience improvement in ordnance and high pressure cylinder sales. Earlier this quarter, the Company announced a restructuring plan for Piper, which is now being executed.

Excluding the impact of MACSTEEL Monroe, net sales were higher than the second quarter of 2003 by 24.9%. The increase in net sales was primarily a result of the 14.6% increase in volume at MACSTEEL, excluding MACSTEEL Monroe. In addition, average prices increased approximately 14% due to growth of the value added MACPLUS products as well as overall price increases from higher steel scrap surcharges that became effective on April 1, 2004.

The increase in cost of sales versus the prior year is attributable to a full quarter's costs from MACSTEEL Monroe and an increase in raw material prices, coupled with an overall increase in volume. Raw material prices, primarily scrap steel, escalated during the quarter with the average price up approximately $120 per ton at MACSTEEL (excluding MACSTEEL Monroe) compared to the second quarter of 2003. Raw material prices have significantly increased over the past year as a result of an exponential growth in scrap exports due largely to demand by China and other consumers.

Excluding the impact from MACSTEEL Monroe, selling, general and administrative expenses were reduced from last year by 2.3%. The general trend across all of the businesses was a decline when compared to the same period last year, with the largest percentage decline at Piper as a result of a reduction of expenses throughout 2003 and 2004, consistent with the restructuring announcement made during the quarter.

Depreciation and amortization expense from the Company's Vehicular Products segment increased $1.5 million compared to the same period last year. Most of the increase is directly related to a full quarter of depreciation expense associated with the assets of MACSTEEL Monroe.

Operating income was lower than the second quarter of 2003 due to the impact from escalating material scrap prices. The addition of MACSTEEL Monroe coupled with increased volume, higher average prices and scrap surcharges, improved product mix, process improvements and reduced fixed costs were not able to offset the sharp increase in material scrap prices realized during the second quarter. All of the businesses continue to look for ways to reduce costs and improve operating income through increased lean initiatives.

Building Products

	Three Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Net sales	$ 180.7	$ 136.6	$ 44.1	32.3%
Cost of sales	154.9	121.5	33.4	27.5
Selling, general and administrative	8.5	6.6	1.9	28.8
Depreciation and amortization	5.2	4.3	0.9	20.9
Operating income	$ 12.1	$ 4.2	$ 7.9	188.1%
Operating income margin	6.7%	3.1%		

(1) Fiscal 2004 includes TruSeal as of January 1, 2004.

Engineered Products, excluding TruSeal, reported very strong sales for the quarter, in part due to the relatively mild winter season experienced by customers, which in turn allowed for an early start to the spring building season. Housing starts and remodeling activity remained higher than expected throughout the quarter and customer demand is expected to again be strong in the fiscal third quarter.

Nichols Aluminum continues to improve with both sales and operating income up markedly from the second quarter of 2003. Shipments remained strong to building and construction customers and demand in the other aluminum markets continued to pick up momentum. Nichols has an excellent backlog of business and demand with capital equipment, service centers, and transportation customers continues to improve. The division successfully pushed through higher prices to help offset increases in material costs, while production efficiency gains continued to benefit the bottom line significantly.

Excluding the impact of three months of revenues from TruSeal, net sales were higher than the second quarter of 2003 by 15.7%. The increase in net sales was a result of the increased volume across the entire segment combined with an 8.5 % increase in average prices at Nichols Aluminum.

The increase in cost of sales versus last year is attributable to a full quarter's costs from TruSeal and an increase in material scrap prices coupled with an overall increase in volume. Raw material prices, primarily aluminum, were higher when compared to the second quarter of 2003.

Excluding the impact from TruSeal, selling, general and administrative expenses actually declined from last year's second quarter by 21.1%. Nichols Aluminum reported lower selling, general and administrative expenses in part due to the transfer of some personnel from overhead into operations, thereby moving the corresponding expense to cost of sales. Excluding the impact of the Nichols transfers, the Building Products segment realized lower expenses due to continued process improvements and overall cost controls at most of the operating facilities.

Most of the increase in depreciation and amortization is directly related to a full quarter of depreciation and amortization expense associated with the TruSeal acquisition.

Operating income was higher than the second quarter of 2003 due to a full quarter's results from TruSeal, increased volume, higher average prices, improved product mix, process improvements and reduced fixed costs, all of which more than offset the impact from the higher raw material prices. Similar to the Vehicular Products segment, all of the businesses remain focused on improving all processes to remain competitive in an increasingly global economy.

Corporate and Other

	Three Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Cost of sales	$ 2.1	$ 0.4	$ 1.7	425.0%
Selling, general and administrative	3.6	3.6	0.0	0.0
Depreciation and amortization	0.1	0.0	0.1	0.0
Gain on sale of land	0.0	(0.4)	0.4	(100.0)
Operating loss	$ (5.8)	$ (3.6)	$ (2.2)	61.1%

Corporate and other operating expenses, which are not in the two operating segments mentioned above, include the consolidated LIFO inventory adjustments (calculated on a combined pool basis), corporate office expenses and inter-segment eliminations. The primary cause for the increase was a $2.0 million LIFO inventory adjustment recorded in the second quarter of 2004, versus $0.6 million last year, to account for the rise in inventory prices.

Interest expense for the three months ended April 30, 2004 was $1.8 million compared to $0.6 million from the same period a year ago. The increase is a result of an increase in the average debt outstanding for the comparative quarters.

Other, net (on the income statement) for the three months ended April 30, 2004 was relatively flat compared to last year.

Six Months Ended April 30, 2004 Compared to Six Months Ended April 30, 2003

Vehicular Products

	Six Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Net sales	$ 366.2	$ 227.0	$ 139.2	61.3%
Cost of sales	317.1	179.4	137.7	76.8
Selling, general and administrative	9.7	8.1	1.6	19.8
Depreciation and amortization	17.2	15.3	1.9	12.4
Operating income	$ 22.2	$ 24.2	$ (2.0)	(8.3)%
Operating income margin	6.1%	10.7%		

(1) Fiscal 2004 includes MACSTEEL Monroe as of January 1, 2004.

Excluding the impact of MACSTEEL Monroe, net sales were higher than the first half of 2003 by 18.2%. The increase in net sales was primarily a result of the 12.4% increase in volume at MACSTEEL, excluding MACSTEEL Monroe. Average prices also increased approximately 11% due to growth of the value added MACPLUS products as well as overall price increases from higher steel scrap surcharges that became effective on April 1, 2004. Piper continued to experience a decline in sales volumes from airbag components and ordnance, which was partially offset by price increases implemented during the first quarter of 2004.

The increase in cost of sales versus last year is attributable to the addition of MACSTEEL Monroe and an increase in raw material prices, coupled with an overall increase in volume. Raw material prices escalated during the comparative period with the average price up approximately $93 per ton at MACSTEEL (excluding MACSTEEL Monroe) compared to the first half of 2003. Steel scrap prices continue to have the largest impact on cost of sales. Efforts to increase volume have resulted in higher cost of sales, but have helped to offset the compression that occurred during the first half of the year.

Excluding the impact from MACSTEEL Monroe, selling, general and administrative expenses were reduced from last year by 2.4%. The general trend across all of the businesses was a decline when compared to the same period last year as all businesses continue their lean initiatives.

The increase in depreciation and amortization is directly related to the addition of MACSTEEL Monroe.

Operating income was lower than the first half of 2003 due primarily to the impact from escalating material scrap prices, which were only partially offset by the addition of MACSTEEL Monroe, increased volume, higher average prices, improved product mix, process improvements, reduced fixed costs and scrap surcharges. The scrap surcharges that went into effect on April 1, 2004 increased the margins for the month of April to levels similar to last year.

Building Products

	Six Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Net sales	$ 320.9	$ 257.2	$ 63.7	24.8%
Cost of sales	279.4	227.7	51.7	22.7
Selling, general and administrative	14.1	12.5	1.6	12.8
Depreciation and amortization	9.8	8.6	1.2	14.0
Operating income	$ 17.6	$ 8.4	$ 9.2	109.5%
Operating income margin	5.5%	3.3%		

(1) Fiscal 2004 includes TruSeal as of January 1, 2004.

Excluding the impact of TruSeal, net sales were higher than the first half of 2003 by 13.2%. The increase in net sales was a result of the increased volume across the entire segment combined with an increase in the average prices at Nichols Aluminum.

The increase in cost of sales compared to last year is attributable to the addition of TruSeal and an increase in material scrap prices coupled with an overall increase in volume. Raw material prices, primarily aluminum, escalated during the first half of the year compared to the same period of 2003.

Excluding the impact from TruSeal, selling, general and administrative expenses actually declined from last year's first half by 21.2%. A portion of the decrease is associated with the Nichols Aluminum transfer of personnel from overhead into operations, thereby moving the corresponding expense to cost of sales. Excluding the impact of the Nichols transfers, the Building Products segment experienced a reduction of selling, general and administrative expenses as a result of process improvements and overall cost controls across the entire segment.

The increase in depreciation and amortization is directly related to depreciation and amortization expense associated with the assets of TruSeal.

Operating income was higher than the first half of 2003 due to the addition of TruSeal, increased volume, higher average prices, improved product mix, process improvements and reduced fixed costs, all of which more than offset the impact from the higher raw material prices. Similar to the Vehicular Products segment, all of the businesses remain focused on improving all processes to remain competitive in an increasingly global economy.

Corporate and Other

	Six Months Ended April 30,			
	2004	2003	Change	%
		(In millions)		
Cost of sales	$ 2.9	$ 0.8	$ 2.1	262.5%
Selling, general and administrative	6.8	7.0	(0.2)	(2.9)
Depreciation and amortization	0.1	0.2	(0.1)	(50.0)
Gain on sale of land	(0.5)	(0.4)	(0.1)	25.0
Operating loss	$ (9.3)	$ (7.6)	$ (1.7)	22.4%

Corporate level operating expenses, which are not in the two operating segments mentioned above, include the consolidated LIFO inventory adjustments (calculated on a combined pool basis), corporate office expenses and inter-segment eliminations. All of the difference is attributable to the $2.7 million LIFO adjustment recorded in the first half of 2004 as compared to $0.9 million during the same period last year.

Interest expense for the six months ended April 30, 2004 was $2.8 million compared to $1.7 million from the same period a year ago. The increase is a result of an increase in the average debt outstanding for the comparative quarters directly as a result of borrowings used to finance the acquisitions of MACSTEEL Monroe and TruSeal. Had the revolver debt been outstanding during the entire first half of 2004, interest expense would have been higher by an estimated $0.9 million.

Other, net (on the income statement) for the six months ended April 30, 2004 was $0.8 million of income compared to $1.9 million of income from the same period a year ago. The difference is primarily related to changes in the cash surrender values of Company held life insurance policies and the Company's stock held in the deferred compensation plan.

Outlook

Demand in the Company's two target markets, vehicular products and building products, remains strong. With an improving economy and favorable interest rates, Quanex expects robust business activity in its two business segments through the end of fiscal 2004 (October).

In the Company's Vehicular Products segment, overall business activity from now through fiscal year end appears excellent. 2004 North American light vehicle builds are expected to remain flat to last year's 16+ million builds, and a healthy increase in heavy truck builds, now estimated to be up 35% to 40% over last year's builds, will serve to fill any gaps in the segment's robust demand outlook. Excluding results from its Monroe operation, MACSTEEL expects to report significantly higher third quarter earnings compared to the third quarter of 2003 and the second quarter of 2004, the result of lower material costs and a higher April 1st steel scrap surcharge, which remains in effect until July 1st.

In the Company's Building Products segment, the market drivers remain positive and order activity remains brisk. Housing starts for 2004 are expected to moderate slightly from last year's record 1.86 million units, while remodeling expenditures, which the Company believes account for about one half of the segment's sales, are also expected to remain at healthy levels. Quanex expects its Engineered Products division to deliver excellent operating results in the third quarter. At Nichols Aluminum, London Metal Exchange ingot prices and scrap prices are expected to remain flat or slightly decrease for the third quarter, a positive for Nichols, while selling prices continue to improve.

Taken together, Quanex's sales and earnings outlook for the remainder of the year remains very favorable. Therefore, for its fiscal third quarter and fiscal year 2004, the Company expects to report diluted earnings per share within a range of $1.00 to $1.20 and $3.25 to $3.75 respectively.

Liquidity and Capital Resources

Sources of Funds

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its secured $310 million Revolving Credit Agreement ("Bank Agreement"). On December 19, 2003, the Company executed an agreement with our credit facility banks to increase the Bank Agreement revolver from $200 million to $310 million to provide funds necessary for the TruSeal and MACSTEEL Monroe acquisitions. On April 9, 2004, the Company requested and received consent from its credit facility bank group to extend the maturity date of its Revolving Credit Agreement from November 15, 2005 to February 28, 2007.

At April 30, 2004, the Company had $210 million borrowed under the Bank Agreement. This represents a $200 million increase from October 31, 2003 borrowing levels, resulting from the TruSeal and MACSTEEL Monroe acquisitions, completed during the first quarter of 2004. In May 2004, the net proceeds from the Debenture offering, totaling approximately $122 million, were used to repay a portion of the amounts outstanding under the revolving credit agreement.

The Company believes that it has sufficient funds and adequate financial resources available to meet its anticipated liquidity needs. The Company also believes that cash flow from operations, cash balances and available borrowings will be sufficient in the foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements, environmental expenditures, dividends and the stock purchase program.

The Company's working capital was $154.7 million at April 30, 2004 compared to $92.8 million at October 31, 2003. The change in working capital was largely a result of the $41.8 million of working capital added as a result of the TruSeal and MACSTEEL Monroe acquisitions that were completed

during the first half of the year. The cash balance decreased $16.8 million and inventories increased $20.7 million mainly due to higher raw material prices. Also included in the working capital change was a $48.5 million increase in accounts receivable due to the increased sales levels offset by a $33.1 million increase in accounts payable and accrued liabilities.

Operating Activities

Cash provided by operating activities during the six months ended April 30, 2004 was $5.3 million compared to $9.8 million for the same six-month period of 2003. This decrease is largely due to the increase in working capital discussed above that is a result of the rise in sales volumes and prices.

Investment Activities

Net cash used for investment activities during the six months ended April 30, 2004 was $222.8 million compared to $15.0 million for the same period of 2003. Investment activities for the six months ended April 30, 2004 included the acquisition and related costs for TruSeal of $112.5 million, net of cash acquired, and the MACSTEEL Monroe assets for $102.1 million. Also included in the first half of 2004 were proceeds of $0.6 million from the sale of land versus $2.8 million of proceeds in the prior year. Additionally, capital expenditures decreased $6.5 million to $8.3 million in the six months ended April 30, 2004 from $14.8 million in the same period of the previous year. This decline was primarily due to reduced spending at Nichols Aluminum of $3.9 and at the Vehicular Products segment of $2.3 million. The Company estimates that fiscal 2004 capital expenditures will be approximately $32 million. At April 30, 2004, the Company had commitments of approximately $7.0 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations.

Financing Activities

Net cash provided by financing activities for the six months ended April 30, 2004 was $200.6 million compared to a use of $12.3 million during the same prior year period. The Company made net borrowings of $200.0 million on the bank revolver in the six months ended April 30, 2004, compared to borrowings of $6.7 million during the same six months of fiscal 2003. No shares of the Company's common stock were purchased in the six months ended April 30, 2004 compared to the payment of $13.5 million to repurchase shares of the Company's common stock in the same period last year. Additionally, Quanex received $7.2 million in the six months ended April 30, 2004 for the issuance of common stock related to the exercise of options, versus $1.6 million in the same period last year.

On February 26, 2003, the Board of Directors of the Company authorized an annual dividend increase of $.04 per common share outstanding, increasing the annual dividend from $.64 to $.68, or $.01 per quarter. This increase was effective with the Company's 2003 first quarter.

Critical Accounting Policies

The preparation of financial statements included in this Quarterly Report on Form 10-Q requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting policies used in the preparation of the Company's consolidated financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

Revenue Recognition and Allowance for Doubtful Accounts

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Inherent in the Company's revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

Inventory

The Company records inventory valued at the lower of cost or market value. The method used to determine the cost of inventories varies among the Company's operations. MACSTEEL (excluding Monroe), Temroc, Nichols Aluminum (excluding Nichols Aluminum Golden), AMSCO and HOMESHIELD determine cost using the last-in, first-out (LIFO) valuation methodology. The remainder of the operations determines cost using the first-in, first-out (FIFO) valuation methodology. Under the LIFO methodology for determining inventory cost, management projections are made during the year (on a fiscal quarter end basis) of inventory prices at the end of that fiscal year. Those projections and estimates are used to review the LIFO reserve balance and determine whether it is adequate or should be adjusted quarterly. To the extent management's judgments are estimates, the actual results at the end of the fiscal year can and do vary from those estimates. The LIFO reserve is then adjusted at the end of the fiscal year based on the actual pricing levels at that time.

Additionally, inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

Long-Lived Assets

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles, and other assets, comprise a significant amount of the Company's total assets. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are periodically reviewed for impairment and further reviewed whenever events or changes in circumstances indicate that carrying value may be impaired. The carrying values are compared with the fair value of such assets calculated based on the anticipated future cash flows related to those assets. If the carrying value of a long-lived asset exceeds its fair value, an impairment charge is recorded in the period in which such review is performed. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Significant changes to assumptions could require a provision for impairment in a future period.

Income Taxes

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's consolidated balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax liability reflects the Company's assumption that the Company will be able to generate sufficient future taxable income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the consolidated statement of income.

Retirement and Pension Plans

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

New Accounting Pronouncements

Please refer to footnote 2 of Item 1 for a presentation of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, 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. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

The Company and its subsidiaries have a Bank Agreement and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates. The Company and certain of its subsidiaries' floating-rate obligations total $215.4 million or 98.1% of total debt at April 30, 2004. Since the expiration of its swap agreements on July 29, 2003, the Company has not entered into any other interest swap agreements and as such is subject to the variability of interest rates on its variable rate debt.

At April 30, 2004, the Company had fixed-rate debt totaling $4.1 million or 1.9% of total debt, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. In May 2004, the net proceeds from the Debenture offering, totaling approximately $122 million, were used to repay a portion of the amounts outstanding under the revolving credit agreement. The impact of the offering and subsequent reduction in the revolving credit agreement reduces the amount of floating-rate obligations and increases the amount of fixed-rate debt. The aggregate availability under the Bank Agreement was $89.5 million at April 30, 2004, which is net of $10.5 million of outstanding letters of credit. Based on the outstanding balance of the Bank Agreement of $210 million at April 30, 2004, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately $2.1 million on an annualized basis.

Commodity Price Risk

MACSTEEL has an effective scrap surcharge program in place, which is a practice that is well established within the engineered steel bar industry. The scrap surcharge is based on a three month trailing average of #1 bundle scrap prices. The Company's long-term exposure is significantly reduced because of the surcharge program. Over time, MACSTEEL recovers the majority of its scrap cost increases, though there is a level of exposure to short-term volatility because of the three month lag.

The Company's aluminum mill sheet products group, Nichols Aluminum, uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133) as well as option contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices. Ineffectiveness of the LME contracts results from the fact that the mix of raw material grades consumed during production are not exactly the same as the LME.

At April 30, 2004, open LME forward contracts had maturity dates extending through October 2005 covering notional amounts of approximately 3.9 million pounds. At April 30, 2004, these contracts had fair values of approximately $19 thousand (gain), which is recorded as part of other current assets in the financial statements.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of April 30, 2004, net losses of approximately $18 thousand ($11 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts related to hedge ineffectiveness, are reflected in “Cost of sales” in the income statement. For the six months ended April 30, 2004, $17 thousand of expense was recognized in “Cost of sales” representing the amount of the hedges’ ineffectiveness.

Item 4. Controls and Procedures

As of the end of the period covered by this report, Quanex management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 5, 2004, the Company issued $125 million of 2.50% Convertible Senior Debentures due May 15, 2034 (the “Debentures”) in a private placement to Credit Suisse First Boston, Bear, Stearns & Co. Inc., Robert W. Baird & Co., and KeyBanc Capital Markets as initial purchasers. The Debentures were offered only to “qualified institutional buyers”, in accordance with Rule 144A under the Securities Act of 1933. The Debentures are convertible into shares of Quanex common stock, upon the occurrence of certain events, at an initial conversion rate of 17.3919 shares of common stock per $1,000 principal amount of notes. This conversion rate is equivalent to an initial conversion price of $57.50 per share of common stock, subject to adjustment in some events.

The Debentures are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of the Company’s common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of the Company’s common stock on such last trading day; (ii) if the Company calls the Debentures for redemption; or (iii) upon the occurrence of certain corporate transactions, as defined. Upon conversion, the Company has the right to deliver common stock, cash or a combination of cash and common stock. The Company may redeem some or all of the Debentures for cash any time on or after May 15, 2011 at the Debentures’ full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require the Company to purchase, in cash, all or a portion of the Debentures on May 15, 2011, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures’ full principal amount plus accrued and unpaid interest, if any.

The net proceeds from the offering, totaling approximately $122 million were used to repay a portion of the amounts outstanding under the revolving credit agreement. The $122 million of proceeds is net of fees associated with the transaction.

Item 4. Submission of Matters to a Vote of Security Holders

The registrant held its Annual Meeting of Shareholders on February 26, 2004. Proxies for the meeting were solicited and there was no solicitation in opposition to management’s nominees for directors as listed in the Proxy Statement, and all such nominees (Vincent R. Scorsone, Joseph J. Ross and Richard L. Wellek) were elected. Of the 15,215,745 shares voted, at least 14,800,275 shares granted authority to vote for these directors and no more than 415,470 shares withheld such authority.

The ratification of the Quanex Employee Stock Purchase Plan was approved by shareholders with 12,352,737 shares voted for ratification, 1,226,413 shares voted against ratification, 460,480 shares abstained and broker non-votes of 1,176,115 shares.

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

a) Exhibits

Exhibit Number	Description Of Exhibits
3.1	Restated Certificate of Incorporation of the Registrant dated as of November 10, 1995, filed as Exhibit 3.1 of the Registrant’s Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1995 and incorporated herein by reference.
3.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2

of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

3.3	Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.

Exhibit Number	Description Of Exhibits
3.4	Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.5	Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999 filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, and incorporated herein by reference.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.
4.2	Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999, and incorporated herein by reference.
4.3	Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2002. Certain schedules and exhibits to this Revolving Credit Agreement were not filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
4.4	First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated April 30, 2003.
4.5	Consent and First Amendment to Revolving Credit Agreement dated December 19, 2003, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.5 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2003. Certain schedules and exhibits to this Consent and First Amendment to Revolving Credit Agreement have not been filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
4.6	Waiver and Second Amendment to Revolving Credit Agreement dated March 11, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) dated January 31, 2004.
* 4.7	Form of Consent to Requested Extension to Revolving Credit Maturity Date under the Quanex Corporation Revolving Credit Agreement dated April 7, 2004.
* 4.8	Form of Consent and Third Amendment to Revolving Credit Agreement dated April 9, 2004, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks.
* 4.9	Indenture dated as of May 5, 2004 between Quanex Corporation and Union Bank of California, N.A. as trustee relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034.

Exhibit Number	Description Of Exhibits
* 4.10	Registration Rights Agreement dated as of May 5, 2004 among Quanex Corporation, Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated, and KeyBanc Capital Markets relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034.
* 10.1	Purchase Agreement dated April 29, 2004, between Quanex Corporation, Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated, and KeyBanc Capital Markets relating to the Company's 2.50% Convertible Senior Debentures due May 15, 2034.
* 31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
* 31.2	Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
* 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrants and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

b) Reports on Form 8-K

On April 2, 2004, the Company filed a Current Report on form 8-K, which included a press release announcing the decision to restructure and sell Quanex Corporation's Piper Impact business.

On April 7, 2004, the Company filed a Current Report on form 8-K, which included a press release issuing guidance for the second quarter of fiscal year 2004.

On April 28, 2004, the Company filed a Current Report on form 8-K, announcing that it had received consent from its credit facility bank group to extend the maturity date of its Revolving Credit Agreement from November 15, 2005 to February 28, 2007 and which also included a press release announcing its intention to sell, subject to market and other conditions, $100 million aggregate principal amount of convertible senior debentures due 2034.

On April 30, 2004, the Company filed a Current Report on form 8-K, which included a press release announcing that its previously announced $100 million aggregate principal amount of convertible senior debentures due 2034 (the Debentures) have been priced at an annual interest rate of 2.5%.

On May 11, 2004, the Company filed a Current Report on form 8-K, which included a press release announcing that on May 5, 2004, it completed the sale of $125 million aggregate principal amount of its 2.50% Convertible Senior Debentures due 2034 (the Debentures).

On June 3, 2004, the Company filed a Current Report on form 8-K, which included a press release reporting the earnings results for the second quarter of fiscal 2004.

SIGNATURES

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

QUANEX CORPORATION

/s/ Terry M. Murphy
Terry M. Murphy
Date: June 9, 2004 Vice President – Finance and Chief Financial Officer
(Principal Financial Officer)

/s/ Ricardo Arredondo
Ricardo Arredondo
Date: June 9, 2004 Vice President – Corporate Controller (Principal Accounting Officer)

MEMORANDUM

TO: Members of the Quanex Bank Group

FROM: Bill Murdock

DATE: April 7, 2004

RE: Requested Extension to the Revolving Credit Maturity Date under the Quanex Corporation Revolving Agreement dated as of November 26, 2002 (as amended, the "Credit Agreement")

Ladies and Gentlemen:

As you are all aware, the Company has exercised its right under and in accordance with Section 2.15 of the Credit Agreement to request that the Banks extend the Revolving Credit Maturity Date to February 28, 2007 ("Extension").

As a condition to the requisite Banks' consent to the Extension, the Company has agreed to pay to each Bank that consents to the Extension on or before April 9, 2004, a consent fee equal to seven and one half basis points on such Bank's existing commitment.

Please confirm your consent to the Extension by signing the Consent in the space provided below and returning your signature, by fax, to me at 313-222-9434. Comerica Bank, in its capacity as a Bank (and not as Agent) has approved the extension.

Should you have any questions, please contact me at 313-222-5594.

We and the Company thank you for your cooperation in connection with this request.

CONSENT

The undersigned Bank hereby confirms its consent to the extension of the Revolving Credit Maturity Date to February 28, 2007.

This Consent shall not be deemed to amend or alter in any respect the terms and conditions of the Credit Agreement, including without limitation all conditions and requirements for Advances) or any of the other Loan Documents, or to constitute a waiver or release by any of the Banks or the Agent or any right, remedy, Default or Event of Default under the Credit Agreement or any of the other Loan Documents, except to the extent specifically set forth in the Memorandum.

COMERICA BANK

By: _____
Its: _____
Date: April , 2004

Exhibit 4.8

EXECUTION COPY

April 9, 2004

QUANEX CORPORATION
Suite 1500
1900 West Loop South
Houston, Texas 77027

Re: Consent and Third Amendment ("Consent and Amendment") under the Quanex Corporation Revolving Credit Agreement dated as of November 26, 2002 (as amended, the "Credit Agreement") by and among Quanex Corporation ("Company"), Comerica Bank and such other financial institutions which are or may from time to time become parties to the Credit Agreement (the "Banks"), and Comerica Bank in its capacity as Agent for the Banks ("Agent")

Ladies and Gentlemen:

Reference is made to the Credit Agreement. Except a specifically defined to the contrary herein, capitalized terms used in this Consent and Amendment shall have the meanings given them in the Credit Agreement. This Consent and Amendment shall not become effective unless and until countersigned by the Company and returned to the Agent.

The Company has proposed to issue up to $150,000,000 aggregate principal amount of senior unsecured debentures (the "Debentures") in an offering under Rule 144A promulgated by the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Offering"), on substantially the terms set forth in Description of Debentures which is attached hereto as Attachment 1 (the "Description of Debentures") (the Offering and the incurrence of the Debt evidenced by the Debentures are referred to herein as the ("Transactions").

Based on the Agent's receipt of the approval of the requisite Banks and subject to the terms and conditions of this letter, this letter will confirm that the Banks hereby consent to Transactions on the terms set forth in the Description of Debentures, subject to the Company's agreement and acknowledgement of the modifications to the Credit Agreement as follows:

(a) The following definitions are added to Section 1 of the Credit Agreement as follows:

"Indenture" shall mean an indenture among the Company and the trustee named therein entered into in connection with the issuance of the Debentures.

"Debentures" shall mean the senior unsecured debentures issued by the Company pursuant to the Indenture in an aggregate amount not to exceed $150,000,000.

(b) Clause (f) of Section 6.2 is redesignated as clause (g); and the following is added as new clause (f) of Section 6.2:

"(f) such other financial and other reports as delivered to the holders of the Debentures pursuant to the Indenture;"

(c) The following is added to the Credit Agreement as new Section 7.17:

"7.17 Amendment of Debentures. Amend, modify or otherwise alter any of the material terms and conditions of the Indenture, the Debentures or any such other documents or instruments evidencing or otherwise related to the Debt evidenced by the Debentures (collectively, the "Restricted Items"), or waive (or permit to be waived) any provision thereof in any material respect, without the prior written approval of requisite Banks, provided that, without limitation, any of the following shall be deemed to be a change to a material terms or condition of the Restricted Items: (i) any increase in the interest rate or other amounts payable with respect to the Debentures; (ii) any change in the dates upon which payments of principal, interest or other amounts are due on the Debentures or change the principal amount of the Debentures (other than changes that would extend the maturity date of such principal, interest or other amounts or reduce the amount of such payment); and (iii) any change to add or make more restrictive any Event of Default or covenant with respect to the Restricted Items."

(d) Clause (m)(i) of Section 8.1 is amended and restated as follows:

"(m)(i) If there shall occur an occurrence of a Change of Control, a "fundamental change" or comparable term or event under any of the Subordinated Debt Documents or the Indenture;"

As an additional condition to the requisite Banks' consent to the Transactions, the Company shall pay to each Bank which consents to the issuance of the Debentures in an aggregate amount of at least $125,000,000 and to the other Transactions or before the Agent's close of business on April 9, 2004, a consent fee equal to two basis points on such Bank's existing commitment.

The Company acknowledges that this Consent and Amendment will be deemed ineffective and the Company will be required to obtain additional consents from the Banks if the terms of the Transactions should change or differ substantially from those set forth in the Description of Debentures attached to this Consent and Amendment. In addition, the Company hereby agrees to deliver to the Agent and the Banks copies of the Debentures and the Indenture within five (5) days after the original issuance thereof.

Except as set forth in this Consent and Amendment, this Consent and Amendment shall not be deemed to amend or alter in any respect the terms and conditions of the Credit Agreement, any of the Notes issued thereunder, or any of the other Loan Documents, or to constitute a waiver by Agent or any Bank of any right or remedy under the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents. Nor shall this Consent and Amendment constitute an undertaking or agreement by any Bank to increase the stated dollar amount of its existing commitment under the Credit Agreement.

By signing and returning a counterpart of this letter to the Agent, the Company acknowledges its acceptance of the terms of this letter.

Very truly yours,

, as Agent

By: _____

Its: _____

Acknowledged and Accepted
as of April 13, 2004

QUANEX CORPORATION

By: _____

Its: _____

AUTHORIZATION AND CONSENT

The undersigned Bank hereby consents to the issuance of the Debentures in an amount not to exceed $150,000,000 and to the other Transactions on the terms and conditions set forth above, and authorizes the Agent to issue the foregoing Consent and Amendment to the Company.

Harris Trust and Savings Bank

By: _____

Its:

Date: April 9, 2004

Exhibit 4.9

EXECUTION COPY

QUANEX CORPORATION,

as Issuer

UNION BANK OF CALIFORNIA, N.A.,

as Trustee

UP TO $125,000,000 AGGREGATE PRINCIPAL AMOUNT OF

2.50% CONVERTIBLE SENIOR DEBENTURES DUE MAY 15, 2034

INDENTURE

DATED AS OF MAY 5, 2004

TABLE OF CONTENTS

CROSS-REFERENCE TABLE*

TIA INDENTURE SECTION	SECTION
Section 310(a)(1)	11.10
(a)(2)	11.10
(a)(3)	N.A.**
(a)(4)	N.A.
(a)(5)	11.10
(b)	11.8; 11.10
(c)	N.A.
Section 311(a)	11.11
(b)	11.11
(c)	N.A.
Section 312(a)	2.5
(b)	15.3
(c)	15.3
Section 313(a)	11
(b)(1)	N.A.
(b)(2)	11
(c)	11.1, 15.2
(d)	11.6
Section 314(a)	8.2; 8.3; 2.2
(b)	N.A.
(c)(1)	15.4(a)

(c)(2)	15.4(a)
(c)(3)	N.A.
(d)	N.A.
(e)	15.4(b)
(f)	N.A.
Section 315(a)	11.1(b)
(b)	11.5; 12.2
(c)	11.1(a)
(d)	11.1(c)
(e)	10.11
Section 316(a)(last sentence)	2.10
(a)(1)(A)	10.5
(a)(1)(B)	10.4
(a)(2)	N.A.
(b)	10.7
(c)	15.5
Section 317(a)(1)	10.8
(a)(2)	10.9
(b)	2.4

* Cross-Reference Table shall not, for any purpose, be deemed a part of this Indenture.
** N.A. means Not Applicable.

THIS INDENTURE dated as of May 5, 2004 is between QUANEX CORPORATION, a Delaware corporation (the "**Company**"), and UNION BANK OF CALIFORNIA, N.A., a national banking association, as trustee (the "**Trustee**").

In consideration of the premises and the purchase of the Securities by the Holders thereof, the parties hereto agree as follows for the benefit of the others and for the equal and ratable benefit of the registered Holders of the Securities.

ARTICLE 1.
DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1. Definitions.

"**Additional Interest**" has the meaning set forth in the Registration Rights Agreement. All references herein or in the Securities to interest accrued or payable as of any date shall include, without duplication, any Additional Interest accrued or payable as of such date as provided in the Registration Rights Agreement.

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise.

"**Agent**" means any Registrar, Paying Agent, Bid Solicitation Agent or Conversion Agent.

"**Applicable Procedures**" means, with respect to any transfer or exchange of beneficial ownership interests in a Global Security, the rules and procedures of the Depositary, in each case to the extent applicable to such transfer or exchange.

"**Board of Directors**" means either the board of directors of the Company or any committee of the Board of Directors specifically authorized to act for it with respect to this Indenture.

"**Business Day**" means each day that is not a Legal Holiday.

"**Capital Stock**" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person.

"**cash**" means such coin or currency of the United States as at any time of payment is legal tender for the payment of public and private debts.

"**Certificated Security**" means a Security that is in substantially the form attached hereto as Exhibit A and that does not include the information or the schedule called for by footnotes 1 and 3 thereof.

"**Closing Sale Price**" of the Common Stock on any Trading Day means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) on such Trading Day as reported in composite transactions for the principal U.S. securities exchange on which the Common Stock is traded or, if the Common Stock is not listed on a U.S. national or regional securities exchange, as reported by the National Association of Securities Dealers Automated Quotation system ("Nasdaq") or, if the Common Stock is not quoted on Nasdaq, on the principal other market on which such Common Stock is then traded.

"**Common Stock**" means the common stock, $.50 par value per share, of the Company as that stock exists on the date of this Indenture or any other shares of Capital Stock of the Company into which such Common Stock shall be reclassified or changed.

"**Company**" means the party named as such in the first paragraph of this Indenture until a successor replaces it pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Company.

"**Contingent Interest**" means all amounts to be paid pursuant to Article 7. All references herein or in the Securities to interest accrued or payable as of any date shall include any Contingent Interest, if any, accrued or payable as of such date.

"**Conversion Price**" means, at any time, $1,000 divided by the Conversion Rate in effect at such time rounded to two decimal places (rounded up if the third decimal place thereof is 5 or more and otherwise rounded down).

"**Conversion Rate**" means initially 17.3919 shares of Common Stock per $1,000 principal amount of Securities, subject to adjustment as set forth herein.

"**Corporate Trust Office**" means the office of the Trustee at which at any time the trust created by this Indenture shall be administered, which office at the date of the execution of this Indenture is located at 475 Sansome Street, 12th Floor, San Francisco, California 94111, Attention: Corporate Trust Department, or at any other time at such other address as the Trustee may designate from time to time by notice to the Company.

"**Default**" or "**default**" means, when used with respect to the Securities, any event which is or, after notice or passage of time or both, would be an Event of Default.

"**Excess Amount**" means, with respect to each $1,000 principal amount of a Security, as of any Conversion Date, a dollar amount equal to the excess, if any, of (a) the product of (i) the Conversion Rate at such time multiplied by (ii) the Closing Sale Price on the last Trading Day prior to such Conversion Date over (b) $1,000.

"**Exchange Act**" means the United States Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"Ex-Dividend Date" means, with respect to any issuance or distribution on shares of Common Stock, the first Trading Day on which the shares of Common Stock trade "regular way" on the principal securities market on which the shares of Common Stock are then traded without the right to receive such issuance or distribution.

"**Extraordinary Cash Dividend**" means any dividend or other cash distribution payable in respect of the Common Stock that is not a Regular Cash Dividend.

"**Final Maturity Date**" means May 15, 2034.

"**GAAP**" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time and consistently applied.

"**Global Security**" means a permanent Global Security that is in substantially the form attached hereto as Exhibit A and that includes the information and schedule called for by footnotes 1 and 3 thereof and which is deposited with the Depositary or its custodian and registered in the name of the Depositary or its nominee.

"**Holder**" or "**Securityholder**" means the person in whose name a Security is registered on the Registrar's books.

"**Indebtedness**" means, with respect to any person,

(a) all obligations, contingent or otherwise, of such person (i) for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such person or only to a portion thereof), (ii) evidenced by a note, debenture, bond or written instrument (including a purchase money obligation), (iii) in respect of leases of such person required, in conformity with GAAP, to be accounted for as capitalized lease obligations on the balance sheet of such person; or (iv) in respect of letters of credit (including reimbursement obligations with respect thereto), local guarantees or bankers' acceptances;

(b) all obligations secured by a mortgage, pledge, lien, encumbrance, charge or adverse claim affecting title or resulting in an encumbrance to which the property or assets of such person are subject and as are reflected as debt on the balance sheet of such person, whether or not the obligations secured thereby shall have been assumed by or shall otherwise be such person's legal liability;

(c) all obligations of such person under interest rate and currency swap agreements, cap, floor and collar agreements, spot and forward contracts and similar agreements and arrangements; and

(d) all obligations of others of the type described in clause (a), (b) or (c) above assumed by or guaranteed in any manner by such person or in effect guaranteed by such person

through an agreement to purchase, contingent or otherwise (and the obligations of such person under any such assumptions, guarantees or other such arrangements).

"**Indenture**" means this Indenture as amended or supplemented from time to time pursuant to the terms of this Indenture, including the provisions of the TIA that are explicitly incorporated in this Indenture by reference to the TIA.

"**Initial Purchasers**" means Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc. and the other initial purchasers named in Schedule A to the Purchase Agreement.

"**Interest Payment Date**" has the meaning set forth in the Securities.

"**Interest Payment Record Date**" has the meaning set forth in the Securities.

"**Officer**" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary, Assistant Secretary or any Vice President of such Person.

"**Officers' Certificate**" means a certificate signed by two Officers; provided, however, that for purposes of Sections 6.11 and 8.3, "Officers' Certificate" means a certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company and by one other Officer.

"**Opinion of Counsel**" means a written opinion from legal counsel. The counsel may be an employee of or counsel to the Company or the Trustee.

"**Person**" or "**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof.

"**Redemption Date**" when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to this Indenture.

"**Registration Rights Agreement**" means the Registration Rights Agreement, dated as of May 5, 2004, among the Company and the Initial Purchasers.

"**Regular Cash Dividend**" means the regular quarterly cash dividend in respect of the Common Stock as declared by the Board of Directors as part of the dividend payment practice or stated cash dividend policy of the Company then in effect, whether publicly announced or not; provided that Regular Cash Dividends shall not include any other dividends or distributions, such as any dividends designated by the Board of Directors as extraordinary, special or otherwise nonrecurring.

"**Restricted Certificated Security**" means a Certificated Security that is a Restricted Security.

"**Restricted Global Security**" means a Global Security that is a Restricted Security.

"**Restricted Security**" means a Security required to bear the Restricted Legend set forth in the form of Security set forth in Exhibit A of this Indenture.

"**Rule 144**" means Rule 144 under the Securities Act or any successor to such Rule, as it may be amended from time to time.

"**Rule 144A**" means Rule 144A under the Securities Act or any successor to such Rule, as it may be amended from time to time.

"**SEC**" means the United States Securities and Exchange Commission.

"**Security**" or "**Securities**" means the Company's 2.50% Convertible Senior Debentures due May 15, 2034, as amended or supplemented from time to time, that are issued under this Indenture.

"**Securities Act**" means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, as in effect from time to time.

"**Securities Custodian**" means the Trustee, as custodian with respect to the Securities in global form, or any successor thereto.

"**Significant Subsidiary**" means, in respect of any Person, a Subsidiary of such Person that would constitute a "significant subsidiary" as such term is defined under Rule 1-02 of Regulation S-X under the Securities Act or the Exchange Act.

"**Subsidiary**" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"**TIA**" means the United States Trust Indenture Act of 1939, as amended, and the rules and regulations thereunder as in effect on the date of this Indenture and except to the extent any amendment to the Trust Indenture Act expressly provides for application of the Trust Indenture Act as in effect on another date.

"**Trading Day**" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if the Common Stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which the Common Stock is then listed or, if the Common Stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation system ("Nasdaq") or, if the Common Stock is not quoted on Nasdaq, on the principal other market on which such Common Stock is then traded.

"**Trading Price**" means, for any Security on the date of determination, the average of the secondary market bid quotations per $1,000 Security obtained by the Bid Solicitation Agent for $10,000,000 principal amount of the Securities at approximately 4:00 p.m., New York City time, on such determination date from three unaffiliated securities dealers selected by the Company; provided that if at least three such bids are not obtained by the Bid Solicitation Agent, or if, in the reasonable judgment of the Company, the bid quotations are not indicative of the secondary market value of the Securities, then the Trading Price shall equal the then applicable Conversion Rate multiplied by the average Closing Sale Price of the Common Stock on the five Trading Days ending on such determination date.

"**Trustee**" means the party named as such in the first paragraph of this Indenture until a successor replaces it in accordance with the provisions of this Indenture, and thereafter means the successor.

"**Trust Officer**" means, with respect to the Trustee, any officer assigned to the Corporate Trust Office, and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

"**Undisrupted Trading Day**" means a Trading Day on which the Common Stock does not experience any of the following at any time during the one-hour period ending at the conclusion of the regular Trading Day:

(a) any suspension of or limitation imposed on trading of the Common Stock on any national or regional securities exchange or association or over-the-counter market;

(b) any event (other than an event listed in clause (c) below) that disrupts or impairs the ability of market participants in general to (i) effect transactions in or obtain market values for the Common Stock on any relevant national or regional securities exchange or association or over-the-counter market or (ii) effect transactions in or obtain market values for, futures or options contracts relating to the Common Stock on any relevant national or regional securities exchange or association or over-the-counter market; or

(c) any relevant national or regional securities exchange or association or over-the-counter market on which the Common Stock trades closes on any exchange Trading Day prior to its scheduled closing time unless such earlier closing time is announced by the exchange at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such exchange and (ii) the submission deadline for orders to be entered into the exchange for execution on such Trading Day,

if, in the case of clauses (a) and (b) (but not clause (c)) above, the Company determines the effect of such suspension, limitation, disruption or impairment is material.

"**Unrestricted Certificated Security**" means a Certificated Security that is not a Restricted Security.

"**Unrestricted Global Security**" means a Global Security that is not a Restricted Security.

"**Vice President**" when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president."

Section 1.2. Other Definitions.

Term	Defined in Section
"Agent Members"	2.1(b)
"Bankruptcy Law"	10.1
"Bid Solicitation Agent"	2.3
"Cash Amount"	6.13(b)
"Cash Settlement Averaging Period"	6.13(b)
"Company Order"	2.2
"Contingent Debt Regulations"	13
"Contingent Interest Period"	7.1
"Conversion Agent"	2.3
"Conversion Date"	6.2(c)
"Conversion Notice"	6.2(b)
"Conversion Obligation"	6.13(b)
"Current Market Price"	6.5(g)
"Custodian"	10.1
"DTC"	2.1(a)
"Depositary"	2.1(a)
"Event of Default"	10.1
"Excess Conversion Obligations"	6.13(b)
"Expiration Date"	6.5(f)
"Expiration Time"	6.5(f)
"Final Notice Date"	6.13(b)

“Fundamental Change”	5.1(a)
“Fundamental Change Company Notice”.	5.1(b)
“Fundamental Change Purchase Date”	5.1(a)
“Fundamental Change Purchase Notice”	5.1(c)
“Fundamental Change Purchase Price”	5.1(a)
“Legal Holiday”	15.7
“Notice of Default”	10.1
“Paying Agent”	2.3
“Principal Conversion Settlement Election”	6.13(a)
“Purchase Agreement”	2.1
“Purchased Shares”	6.5(f)
“Purchase Date”	4.1(a)
“Purchase Notice”	4.1(c)
“Purchase Price”	4.1(a)
“QIB” or “QIBs”	2.1(a)

Defined in Section Term	
“Redemption Price”	3.1
“Register”	2.3
“Registrar”	2.3
“Restricted Legend”	2.12(f)
“Rights Plan”	6.5(d)
“Settlement Notice Period”	6.13(b)
“Triggering Distribution”	6.5(e)
“Trigger Event”	6.5(d)

Section 1.3. Trust Indenture Act Provisions.

Whenever this Indenture refers to a provision of the TIA, that provision is incorporated by reference in and made a part of this Indenture. The Indenture shall also include those provisions of the TIA required to be included herein by the provisions of the Trust Indenture Reform Act of 1990. The following TIA terms used in this Indenture have the following meanings:

“**Commission**” means the SEC.

“**indenture securities**” means the Securities;

“**indenture security holder**” means a Securityholder;

“**indenture to be qualified**” means this Indenture;

“**indenture trustee**” or “**institutional trustee**” means the Trustee; and

“**obligor**” on the indenture securities means the Company and any successor obligor on the Securities.

All other terms used in this Indenture that are defined in the TIA, defined by TIA reference to another statute or defined by any SEC rule and not otherwise defined herein have the meanings assigned to them therein.

Section 1.4. Rules of Construction.

Unless the context otherwise requires:

(a) a term has the meaning assigned to it herein;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(c) words in the singular include the plural, and words in the plural include the singular;

(d) provisions apply to successive events and transactions;

(e) the term “merger” includes a statutory share exchange and the term “merged” has a correlative meaning;

(f) the masculine gender includes the feminine and the neuter;

(g) references to agreements and other instruments include subsequent amendments thereto; and

(h) “herein,” “hereof” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

ARTICLE 2.
THE SECURITIES

Section 2.1. Form and Dating.

The Securities and the corresponding Trustee's certificate of authentication shall be substantially in the respective forms set forth in Exhibit A, which Exhibit is incorporated in and made part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company shall provide any such notations, legends or endorsements to the Trustee in writing. Each Security shall be dated the date of its authentication. The Securities are being offered and sold by the Company pursuant to a Purchase Agreement, dated April 29, 2004 (the "**Purchase Agreement**"), among the Company and the Initial Purchasers, in transactions exempt from, or not subject to, the registration requirements of the Securities Act.

The terms and provisions contained in the Securities shall constitute, and are hereby expressly made, a part of this Indenture and the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby. However, to the extent permitted by applicable law, if any provision of any Security conflicts with the express provisions of this Indenture, the provisions of this Indenture shall govern and be controlling.

(a) Restricted Global Securities. All of the Securities are initially being offered and sold to qualified institutional buyers as defined in Rule 144A (collectively, "**QIBs**" or individually, each a "**QIB**") in reliance on Rule 144A and shall be issued initially in the form of one or more Restricted Global Securities, which shall be deposited on behalf of the purchasers of the Securities represented thereby with the Trustee, at its Corporate Trust Office, as custodian for the depositary, The Depository Trust Company ("**DTC**") (such depositary, or any successor thereto, being hereinafter referred to as the "**Depositary**"), and registered in the name of its nominee, Cede & Co., duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Restricted Global Securities may from time to time be increased or decreased by adjustments made on the records of the Securities

Custodian and the Depositary as hereinafter provided, subject in each case to compliance with the Applicable Procedures and the provisions of this Indenture.

(b) Global Securities In General. Each Global Security shall represent such of the outstanding Securities as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon and that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, redemptions, purchases or conversions of such Securities. Any adjustment of the aggregate principal amount of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee in accordance with instructions given by the Holder thereof as required by Section 2.12 hereof and shall be made on the records of the Trustee and the Depositary.

Members of, or participants in, the Depositary ("**Agent Members**") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depositary or under the Global Security, and the Depositary (including, for this purpose, its nominee) may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and Holder of such Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall (A) prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary, or such nominee, as the case may be, or (B) impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

(c) Book Entry Provisions. The Company shall execute and the Trustee shall, in accordance with this Section 2.1(c), authenticate and deliver initially one or more Global Securities that (i) shall be registered in the name of Cede & Co. or as otherwise instructed by the Depositary, (ii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instructions and (iii) shall bear legends substantially to the following effect:

"UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED

CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY."

(d) Certificated Securities. Certificated Securities will be issued only under the limited circumstances provided in Section 2.12(a)(i).

Section 2.2. Execution and Authentication.

An Officer shall sign the Securities for the Company by manual or facsimile signature. Typographic and other minor errors or defects in any such facsimile signature shall not affect the validity or enforceability of any Security that has been authenticated and delivered by the Trustee.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

(a) The Trustee shall authenticate and make available for delivery Securities for original issue in the aggregate principal amount of up to $125,000,000 ($25,000,000 of which includes Securities issued upon exercise in full of the Initial Purchasers' option to purchase additional debentures provided for in the Purchase Agreement) upon receipt of a written order or orders of the Company signed by an Officer of the Company (a "**Company Order**"). Each Company Order shall specify the amount of Securities to be authenticated, shall provide that all such Securities shall be represented by a Restricted Global Security and the date on which each original issue of Securities is to be authenticated. The aggregate principal amount of Securities outstanding at any time may not exceed $125,000,000 except as provided in Section 2.7.

The Trustee shall act as the initial authenticating agent. Thereafter, the Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent shall have the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities shall be issuable only in registered form without coupons and only in denominations of $1,000 principal amount and any integral multiple thereof.

Section 2.3. Registrar, Paying Agent, Conversion Agent and Bid Solicitation Agent.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("**Registrar**"), an office or agency where Securities may be presented for redemption, purchase or payment ("**Paying Agent**"), an office or agency where Securities may be presented for conversion ("**Conversion Agent**") and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company shall also appoint a bid solicitation agent ("**Bid Solicitation Agent**") to act as set forth in paragraph 3 of the Securities. Pursuant to Section 8.8, the Company shall at all times maintain a Paying Agent, Conversion Agent, Bid Solicitation Agent and Registrar and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Registrar shall keep a register of the Securities ("**Register**") and of their transfer and exchange.

The Company may have one or more co-registrars, one or more additional paying agents, one or more additional conversion agents and one or more additional bid solicitation agents. The term Paying Agent includes any additional paying agent, including any named pursuant to Section 8.8. The term Conversion Agent includes any additional conversion agent, including any named pursuant to Section 8.8.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar, Paying Agent, Conversion Agent or Bid Solicitation Agent or agent for service of notices and demands in any place required by this Indenture, or fails to give the foregoing notice, the Trustee shall act as such. The Company or any Affiliate of the Company may act as Paying Agent. None of the Company or any Affiliate may act as Bid Solicitation Agent.

The Company hereby initially appoints the Trustee as Registrar, Paying Agent, Conversion Agent and Bid Solicitation Agent in connection with the Securities.

Section 2.4. Paying Agent to Hold Money and Securities in Trust.

Prior to 10:00 a.m., New York City time, on each due date of payments in respect of, or delivery of Common Stock upon conversion of, any Security, the Company shall deposit with the Paying Agent cash (in immediately available funds if deposited on the due date) or with the Conversion Agent such number of shares of Common Stock sufficient to make such payments or deliveries when so becoming due. The Company shall require each Paying Agent or Conversion Agent, as applicable (other than the Trustee), to agree in writing that such Agent shall hold in trust for the benefit of Securityholders or the Trustee all cash or Common Stock, as applicable, held by such Agent for the making of payments or deliveries in respect of the Securities and shall notify the Trustee of any default by the Company in making any such payment or delivery. If the Company or an Affiliate of the Company acts as Paying Agent or Conversion Agent, as applicable, it shall segregate the cash and Common Stock, as applicable,

held by it as Paying Agent or Conversion Agent, as applicable, and hold it as a separate trust fund.

The Company at any time may require a Paying Agent or Conversion Agent, as applicable, to pay all cash or Common Stock held by it to the Trustee, and the Trustee may at any time during the continuance of any default, upon written request to the Paying Agent or the Conversion Agent, as applicable, require such Paying Agent or Conversion Agent, as applicable, to pay forthwith to the Trustee all cash or Common Stock, as applicable, so held in trust by such Paying Agent or Conversion Agent. Upon doing so, the Paying Agent or the Conversion Agent, as applicable, shall have no further liability for the cash or Common Stock, as applicable.

Section 2.5. Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of the Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee on or before each semi-annual Interest Payment Date, and at

such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Securityholders.

Section 2.6. Transfer and Exchange.

(a) Subject to compliance with any applicable additional requirements contained in Section 2.12, when a Security is presented to a Registrar with a request to register a transfer thereof or to exchange such Security for an equal principal amount of Securities of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested; provided, however, that every Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by an assignment form, in the form included in Exhibit A attached hereto and, if applicable, a transfer certificate, in the form included in Exhibit B attached hereto, and in form satisfactory to the Registrar duly executed by the Holder thereof or its attorney duly authorized in writing. To permit registration of transfers and exchanges, upon surrender of any Security for registration of transfer or exchange at an office or agency maintained pursuant to Section 2.3, the Company shall execute and the Trustee shall authenticate Securities of a like aggregate principal amount at the Registrar's request. Any exchange or transfer shall be without charge, except that the Company or the Registrar may require payment of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in relation thereto.

Neither the Company, any Registrar nor the Trustee shall be required to exchange or register a transfer of (i) any Securities for a period of 15 days next preceding any mailing of a notice of Securities to be redeemed, (ii) any Securities or portions thereof selected or called for redemption (except, in the case of redemption of a Security in part, the portion thereof not to be redeemed) or (iii) any Securities or portions thereof in respect of which a Fundamental Change Purchase Notice or Purchase Notice has been delivered and not withdrawn by the Holder thereof (except, in the case of the purchase of a Security in part, the portion thereof not to be purchased).

All Securities issued upon any transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture, as the Securities surrendered upon such transfer or exchange.

(b) Any Registrar appointed pursuant to Section 2.3 hereof shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Securities upon transfer or exchange of Securities.

(c) Each Holder of a Security agrees to indemnify the Company, the Registrar and the Trustee against any liability that may result from the transfer, exchange or assignment of such Holder's Security in violation of any provision of this Indenture and/or applicable United States federal or state securities law.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Agent Members or other beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Section 2.7. Replacement Securities.

If (a) any mutilated Security is surrendered to the Company, a Registrar or the Trustee, or (b) the Company, the Registrar and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and, in either case, there is delivered to the Company, the Registrar and the Trustee such security or indemnity as shall be required by them to save each of them harmless, then, in the absence of notice to the Company, such Registrar or the Trustee that such Security has been acquired by a bona fide or protected purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be redeemed pursuant to Article 3 or purchased by the Company pursuant to Articles 4 or 5, the Company in its discretion may, instead of issuing a new Security, pay, redeem or purchase such Security, as the case may be.

Upon the issuance of any new Securities under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the reasonable fees and expenses of the Trustee or the Registrar) in connection therewith.

Every new Security issued pursuant to this Section 2.7 in lieu of any mutilated, destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be at any time

enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are (to the extent lawful) exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 2.8. Outstanding Securities.

Securities outstanding at any time are all Securities authenticated by the Trustee, except for those canceled by it, those paid, redeemed or repurchased pursuant to Section 2.7, those delivered to it for cancellation and those described in this Section 2.8 as not outstanding.

If a Security is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Trustee receives, subsequent to the new Security's authentication, proof satisfactory to the Company that the replaced Security is held by a bona fide or protected purchaser.

If the Paying Agent holds, in accordance with the terms of this Indenture, prior to 10:00 a.m., New York City time, on the Final Maturity Date or a Redemption Date or on the Business Day immediately following a Purchase Date or a Fundamental Change Purchase Date, as the case may be, cash or securities, if permitted hereunder, sufficient to pay Securities payable, then immediately after such Final Maturity Date, Redemption Date, Purchase Date or Fundamental Change Purchase Date, as the case may be, such Securities shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Securities shall cease to accrue.

If a Security is converted in accordance with Article 6, then from and after 5:00 p.m., New York City time, on the Conversion Date, such Security shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Security shall cease to accrue.

Subject to the restrictions contained in Section 2.9, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

Section 2.9. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have given or concurred in any notice, request, demand, authorization, direction, waiver or consent, Securities owned by the Company or any other obligor on the Securities or by any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be outstanding, except that, for purposes of determining whether the Trustee shall be protected in relying on any such notice, direction, waiver or consent, only Securities which a Trust Officer of the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Securities and that the pledgee is not the Company or any other obligor on the Securities or any Affiliate of the Company or of such other obligor.

Section 2.10. Temporary Securities.

Until definitive Securities are ready for delivery, the Company may prepare and execute, and, upon receipt of a Company Order, the Trustee shall authenticate and deliver, temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company with the consent of the Trustee considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate and deliver definitive Securities in exchange for temporary Securities. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency of the Company designated for such purpose pursuant to Section 2.3, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

Section 2.11. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar, the Paying Agent and the Conversion Agent shall forward to the Trustee or its agent any Securities surrendered to them for transfer, exchange, redemption, payment or conversion. The Trustee and no one else shall cancel, in accordance with its standard procedures, all Securities surrendered for transfer, exchange, redemption, payment, conversion or cancellation and shall deliver the canceled Securities to the Company.

All Securities that are redeemed, purchased pursuant to Article IV or Article V or otherwise acquired by the Company or any of its Subsidiaries prior to the Final Maturity Date shall be delivered to the Trustee for cancellation, and the Company may not hold or resell such Securities or issue any new Securities to replace any such Securities or any Securities that any Holder has converted pursuant to Article 6.

Section 2.12. Legend; Additional Transfer and Exchange Requirements

(a) Transfer and Exchange of Global Securities.

(i) Certificated Securities shall be issued in exchange for interests in the Global Securities only if (x) the Depositary notifies the Company that it is unwilling or unable to continue as Depositary for the Global Securities or if it at any time ceases to be a "clearing agency" registered under the Exchange Act, if so required by applicable law or regulation, and a successor Depositary is not appointed by the Company within 90 days or (y) an Event of Default has occurred and is continuing. In any such case, the Company shall execute, and the Trustee shall, upon receipt of a Company Order (which the Company agrees to deliver promptly), authenticate and deliver Certificated Securities in an aggregate principal amount equal to the principal amount of such Global Securities in exchange therefor. Only Restricted Certificated Securities shall be issued in exchange for beneficial interests in Restricted Global Securities, and only Unrestricted Certificated Securities shall be issued in exchange for beneficial interests in Unrestricted Global

Securities. Certificated Securities issued in exchange for beneficial interests in Global Securities shall be registered in such names and shall be in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver or cause to be delivered such Certificated Securities to the Persons in whose name such Securities are so registered. Such exchange shall be effected in accordance with the Applicable Procedures.

(ii) Notwithstanding any other provisions of this Indenture other than the provisions set forth in Section 2.12(a)(i), a Global Security may not be transferred except as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(b) Transfer and Exchange of Certificated Securities. In the event that Certificated Securities are issued in exchange for beneficial interests in Global Securities in accordance with Section 2.12(a)(i), and, on or after such event, Certificated Securities are presented by a Holder to the Registrar with a request:

(x) to register the transfer of the Certificated Securities to a person who will take delivery thereof in the form of Certificated Securities only; or

(y) to exchange such Certificated Securities for an equal principal amount of Certificated Securities of other authorized denominations,

such Registrar shall register the transfer or make the exchange as requested; provided that the Certificated Securities presented or surrendered for register of transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in accordance with the proviso to the first paragraph of Section 2.6; and

(ii) in the case of a Restricted Certificated Security, such request shall be accompanied by the following additional information and documents, as applicable:

(A) if such Restricted Certificated Security is being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, or such Restricted Certificated Security is being transferred to the Company or a Subsidiary of the Company, a certification to that effect from such Holder (in substantially the form set forth in Exhibit B);

(B) if such Restricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB in accordance with Rule 144A, or pursuant to an effective registration statement under the Securities Act or in compliance with Rule 904 under the Securities Act, a

certification to that effect from such Holder (in substantially the form set forth in Exhibit B);

(C) if such Restricted Certificated Security is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 pursuant to and in compliance with an exemption from the registration requirements under the Securities Act, a certification to that effect from the Holder (in substantially the form set forth in Exhibit B) and if the Company or the Registrar so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and the Registrar to the effect that such transfer does not require registration under the Securities Act.

(c) Transfer of a Beneficial Interest in a Restricted Global Security for a Beneficial Interest in an Unrestricted Global Security. Any person having a beneficial interest in a Restricted Global Security may upon request, subject to the Applicable Procedures, transfer such beneficial interest to a person who is required or permitted to take delivery thereof in the form of an Unrestricted Global Security. Upon receipt by the Trustee of written instructions, or such other form of instructions as is customary for the Depositary, from the Depositary or its nominee on behalf of any person having a beneficial interest in a Restricted Global Security and the following additional information and documents in such form as is customary for the Depositary from the Depositary or its nominee on behalf of the person having such beneficial interest in the Restricted Global Security (all of which may be submitted by facsimile or electronically):

(i) if such beneficial interest is being transferred pursuant to an effective registration statement under the Securities Act, a certification to that effect from the Holder (in substantially the form set forth in Exhibit B); or

(ii) if such beneficial interest is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144, a certification to that effect from the Holder (in substantially the form set forth in Exhibit B) and, if the Company or the Trustee so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and the Register to the effect that such transfer does not require registration under the Securities Act,

the Registrar shall reduce or cause to be reduced the aggregate principal amount of the Restricted Global Security by the appropriate principal amount and shall increase or cause to be increased the aggregate principal amount of the Unrestricted Global Security by a like principal amount. Such transfer shall otherwise be effected in accordance with the Applicable Procedures. If no Unrestricted Global Security is then outstanding, the Company shall execute and the Trustee shall, upon receipt of a Company Order (which the Company agrees to deliver promptly), authenticate and deliver an Unrestricted Global Security.

(d) Transfer of a Beneficial Interest in an Unrestricted Global Security for a Beneficial Interest in a Restricted Global Security. Any person having a beneficial interest in an Unrestricted Global Security may upon request, subject to the Applicable Procedures, transfer

such beneficial interest to a person who is required or permitted to take delivery thereof in the form of a Restricted Global Security. Upon receipt by the Trustee of written instructions, or such other form of instructions as is customary for the Depositary, from the Depository or its nominee on behalf of any person having a beneficial interest in an Unrestricted Global Security and the following additional information and documents in such form as is customary for the Depositary, from the Depositary or its nominee on behalf of the person having such beneficial interest in the Unrestricted Global Security (all of which may be submitted by facsimile or electronically):

(i) a certification from the Holder (in substantially the form set forth in Exhibit B) to the effect that such beneficial interest is being transferred to a person that the transferor reasonably believes is a QIB in accordance with Rule 144A; or

(ii) a certification from the Holder (in substantially the form set forth in Exhibit B) to the effect that such beneficial interest is being transferred in compliance with Rule 904 under the Act.

The Registrar shall reduce or cause to be reduced the aggregate principal amount of the Unrestricted Global Security by the appropriate principal amount and shall increase or cause to be increased the aggregate principal amount of the Restricted Global Security by a like principal amount. Such transfer shall otherwise be effected in accordance with the Applicable Procedures. If no Restricted Global Security is then outstanding, the Company shall execute and the Trustee shall, upon receipt of a Company Order (which the Company agrees to deliver promptly), authenticate and deliver a Restricted Global Security.

(e) Transfers of Certificated Securities for Beneficial Interest in Global Securities. In the event that Certificated Securities are issued in exchange for beneficial interests in Global Securities and, thereafter, the events or conditions specified in Section 2.12(a)(i) which required such exchange shall cease to exist, the Company shall mail notice to the Trustee and to the Holders stating that Holders may exchange Certificated Securities or interests in Global Securities by complying with the procedures set forth in this Indenture and briefly describing such procedures and the events or circumstances requiring that such notice be given. Thereafter, if Certificated Securities are presented by a Holder to a Registrar with a request:

(x) to register the transfer of such Certificated Securities to a person who will take delivery thereof in the form of a beneficial interest in a Global Security, which request shall specify whether such Global Security will be a Restricted Global Security or an Unrestricted Global Security, or

(y) to exchange such Certificated Securities for an equal principal amount of beneficial interests in a Global Security, which beneficial interests will be owned by the Holder transferring such Certificated Securities (provided that in the case of such an exchange, Restricted Certificated Securities may be exchanged only for Restricted Global Securities and Unrestricted Certificated Securities may be exchanged only for Unrestricted Global Securities), the Registrar shall register the transfer or make the exchange as requested by canceling such Certificated Security and causing the aggregate principal amount of the applicable Global Security to be increased accordingly and, if no such Global Security is then outstanding, the Company shall issue and the Trustee shall,

upon receipt of a Company Order (which the Company agrees to deliver promptly) authenticate and deliver a new Global Security;

provided that the Certificated Securities presented or surrendered for registration of transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in accordance with the proviso to Section 2.6(a);

(ii) in the case of a Restricted Certificated Security to be transferred for a beneficial interest in an Unrestricted Global Security, such request shall be accompanied by the following additional information and documents, as applicable:

(A) if such Restricted Certificated Security is being transferred pursuant to an effective registration statement under the Securities Act, a certification to that effect from such Holder (in substantially the form set forth in Exhibit B); or

(B) if such Restricted Certificated Security is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144, a certification to that effect from such Holder (in substantially the form set forth in Exhibit B) and, if the Company or the Registrar so requests, a customary opinion of counsel, certificates and other information reasonably acceptable to the Company and the Trustee to the effect that such transfer does not require registration under of the Securities Act;

(iii) in the case of a Restricted Certificated Security to be transferred or exchanged for a beneficial interest in a Restricted Global Security, such request shall be accompanied by the following information and documents, as applicable:

(A) if such Restricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB (which, in the case of an exchange, shall be such Holder) in accordance with Rule 144A, a certification to that effect from such Holder (in substantially the form set forth in Exhibit B); or

(B) if such Restricted Certificated Security is being transferred in compliance with Rule 904 under the Act, certification to that effect from such Holder (in substantially the form set forth in Exhibit B);

(iv) in the case of an Unrestricted Certificated Security to be transferred or exchanged for a beneficial interest in an Unrestricted Global Security, such request need not be accompanied by any additional information or documents; and

(v) in the case of an Unrestricted Certificated Security to be transferred or exchanged for a beneficial interest in a Restricted Global Security, such request shall be accompanied by the following additional information and documents, as applicable:

(A) if such Unrestricted Certificated Security is being transferred to a person the Holder reasonably believes is a QIB (which, in the case of an exchange, shall be such Holder) in accordance with Rule 144A, a certification to that effect from such Holder (in substantially the form set forth in Exhibit B); or

(B) if such Unrestricted Certificated Security is being transferred in compliance with Rule 904 under the Act, certification to that effect from such Holder (in substantially the form set forth in Exhibit B).

(f) Legends.

(i) Except as permitted by the following paragraphs (ii), (iii) and (iv), each Global Security and Certificated Security (and all Securities issued in exchange therefor or upon registration of transfer or replacement thereof) shall bear a legend in substantially the form called for by footnote 2 to Exhibit A attached hereto (the "**Restricted Legend**"**)**, for so long as it is required by this Indenture to bear such legend.

(ii) Upon any sale or transfer of a Restricted Security (x) after the expiration of the holding period applicable to sales of the Securities under Rule 144(k) of the Securities Act, (y) pursuant to Rule 144 or (z) pursuant to an effective registration statement under the Securities Act:

(A) in the case of any Restricted Certificated Security, any Registrar shall permit the Holder thereof to exchange such Restricted Certificated Security for an Unrestricted Certificated Security, or (under the circumstances described in Section 2.12(e)) to transfer such Restricted Certificated Security to a transferee who shall take such Security in the form of a beneficial interest in an Unrestricted Global Security, and in each case shall rescind any restriction on the transfer of such Security; provided that the Holder of such Restricted Certificated Security shall, in connection with such exchange or transfer, comply with the other applicable provisions of this Section 2.12; and

(B) in the case of any beneficial interest in a Restricted Global Security, the Trustee shall permit the beneficial owner thereof to transfer such beneficial interest to a transferee who shall take such interest in the form of a beneficial interest in an Unrestricted Global Security and shall rescind any restriction on transfer of such beneficial interest; provided that such Unrestricted Global Security shall continue to be subject to the provisions of Section 2.12(a)(ii); and provided further that the owner of such beneficial interest shall, in connection with such transfer, comply with the other applicable provisions of this Section 2.12.

(iii) Upon the exchange, registration of transfer or replacement of Securities not bearing the Restricted Legend, the Company shall execute, and the Trustee shall authenticate and deliver, Securities that do not bear such Restricted Legend.

(iv) After the expiration of the holding period pursuant to Rule 144(k) of the Securities Act, the Company may with the consent of the Holder of a Restricted Global Security or a Restricted Certificated Security, remove any restriction of transfer on such Security, and the Company shall execute, and the Trustee shall authenticate and deliver, Securities that do not bear the Restricted Legend.

(v) Until the expiration of the holding period applicable to sales of the Securities under Rule 144(k) of the Securities Act or a transfer pursuant to Rule 144 or pursuant to an effective registration statement under the Securities Act, the shares of Common Stock issued upon conversion of the Securities shall bear the Restricted Legend.

(g) Transfers to the Company. Nothing contained in this Indenture or in the Securities shall prohibit the sale or other transfer of any Securities (including beneficial interests in Global Securities) to the Company or any of its Subsidiaries.

Section 2.13. CUSIP Numbers.

The Company in issuing the Securities may use one or more "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption or purchase as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption or purchase and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption or purchase shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee of any change in the "CUSIP" numbers.

Section 2.14. Ranking.

The indebtedness of the Company arising under or in connection with this Indenture and every outstanding Security issued under this Indenture from time to time constitutes and shall constitute a senior unsecured general obligation of the Company, ranking equally with existing and future senior unsecured Indebtedness of the Company and ranking senior in right of payment to any future Indebtedness of the Company that is expressly made subordinate to the Securities by the terms of such Indebtedness.

Section 2.15. Persons Deemed Owners

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of, Redemption Price, Purchase Price or Fundamental Change Purchase Price, and interest (including Contingent Interest and Additional Interest, if any) on the Security, for the purpose of receiving cash or Common Stock upon conversion and for all other purposes whatsoever, whether or not such Security is overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

ARTICLE 3.
REDEMPTION

Section 3.1. The Company's Right to Redeem; Notice to Trustee.

Prior to May 15, 2011, the Securities shall not be redeemable at the Company's option. On or after May 15, 2011, the Company, at its option, may redeem the Securities in accordance with this Article 3 at any time as a whole or from time to time in part, at the redemption price in cash equal

to 100% of the principal amount of the Securities to be redeemed plus any accrued and unpaid interest (including Contingent Interest and Additional Interest, if any, to, but not including, the Redemption Date (the "**Redemption Price**").

In the event that the Company elects to redeem the Securities on a date that is after any Interest Payment Record Date but on or before the corresponding Interest Payment Date, the Company shall be required to pay any accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) to the same Holder to whom the Company pays the principal of such Security regardless of whether such Holder was the registered Holder on the Interest Payment Record Date immediately preceding such Redemption Date and, if the Holder to whom the Company pays the principal, interest (including Contingent Interest and Additional Interest, if any) was not the registered Holder on the Interest Payment Record Date, such payment shall be in lieu of payment to the registered Holder on such Interest Payment Record Date.

If the Company elects to redeem Securities pursuant to this Section 3.1 and paragraph 5 of the Securities, it shall notify the Trustee of the Redemption Date and the principal amount of Securities to be redeemed at least 15 days prior to the date notice of the Redemption Date is given to the Holders pursuant to Section 3.3 (unless a shorter notice shall be satisfactory to the Trustee).

Section 3.2. Selection of Securities to be Redeemed.

If less than all of the Securities are to be redeemed, unless the procedures of the Depositary provide otherwise, the Trustee shall select the Securities to be redeemed. The Trustee shall make the selection from the Securities outstanding and not previously called for redemption by lot, on a pro rata basis or by any other method the Trustee considers fair and appropriate. The Trustee shall make the selection within five Business Days after it receives the notice provided for in Section 3.1 from outstanding Securities not previously called for redemption. Securities in denominations of $1,000 may only be redeemed in whole. The Trustee may select for redemption portions (equal to $1,000 or any integral multiple thereof) of the principal of Securities that have denominations larger than $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. The Trustee shall notify the Company promptly of the Securities or portions of the Securities to be redeemed.

Securities and portions of Securities that are to be redeemed are convertible by the Holder until 5:00 p.m., New York City time, on the Business Day immediately preceding the

Redemption Date. If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed to be the portion selected for redemption. Securities that have been converted subsequent to the Trustee commencing selection of Securities to be redeemed but prior to redemption of such Securities shall be treated by the Trustee as outstanding for the purpose of such selection.

Section 3.3. Notice of Redemption.

At least 30 days but not more than 60 days before a Redemption Date, the Company shall mail or cause to be mailed a notice of redemption to each Holder of Securities to be redeemed in accordance with Section 15.2.

The notice shall identify the Securities (including CUSIP numbers) to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) the then current Conversion Rate;

(4) the name and address of the Paying Agent and Conversion Agent;

(5) that Securities called for redemption must be presented and surrendered to the Paying Agent at any time prior to 5:00 p.m., New York City time, on the Business Day preceding the Redemption Date, to collect the Redemption Price;

(6) that Holders who wish to convert Securities must surrender such Securities for conversion prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Redemption Date and must satisfy the other requirements set forth in paragraph 7 of the Securities and Article 6 hereof;

(7) that, unless the Company defaults in making the payment of the Redemption Price, interest (including Contingent Interest and Additional Interest, if any) on Securities called for redemption shall cease accruing on and after the Redemption Date; and

(8) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the Redemption Date, upon presentation and surrender of such Security, a new Security or Securities in aggregate principal amount equal to the unredeemed portion thereof shall be issued.

If any of the Securities to be redeemed is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to redemptions.

At the Company's written request, the Trustee shall give the notice of redemption to each Holder in the Company's name and at the Company's expense; provided that the Company makes such request at least three Business Days (unless a shorter period shall be satisfactory to the Trustee) prior to the date by which such notice of redemption must be given to Holders in accordance with this Section 3.3; provided, further, that the text of the notice of redemption shall be prepared by the Company.

Section 3.4. Effect of Notice of Redemption.

Once notice of redemption is mailed, Securities called for redemption become due and payable on the Redemption Date and at the Redemption Price stated in the notice, except for Securities that are converted in accordance with the provisions of this Indenture. Upon surrender to the Paying Agent, such Securities shall be paid at the Redemption Price.

Section 3.5. Deposit of Redemption Price.

Prior to 10:00 a.m. New York City time, on the applicable Redemption Date, the Company shall deposit with the Paying Agent (or, if the Company or an Affiliate acts as Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount of cash (in immediately available funds if deposited on such Redemption Date) sufficient to pay the aggregate Redemption Price of all Securities or portions thereof that are to be redeemed on that date, other than Securities or portions thereof called for redemption on that date that have been delivered by the Company to the Trustee for cancellation or have been converted.

If the Paying Agent holds, in accordance with the terms hereof, at 10:00 a.m., New York City time on the applicable Redemption Date, cash sufficient to pay the Redemption Price of any Securities for which notice of redemption is given, then, immediately after such Redemption Date, such Securities shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Securities shall cease to accrue, whether or not such Securities are delivered to the Paying Agent, and the rights of the Holders in respect thereof shall terminate (other than the right to receive the Redemption Price upon delivery of such Securities).

Section 3.6. Securities Redeemed in Part.

Any Certificated Security that is to be redeemed only in part shall be surrendered at the office of the Paying Agent and promptly after the Redemption Date, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security without service charge a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not redeemed.

Section 3.7. Repayment to the Company.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 3.5 exceeds the aggregate Redemption Price of the Securities or portions thereof that the Company is obligated to redeem on the Redemption Date (because of the

conversion of Securities pursuant to Article 6 or otherwise, then, promptly after the Redemption Date, the Paying Agent shall return any such excess cash to the Company.

ARTICLE 4. OPTIONAL PUT

Section 4.1. Optional Put.

(a) Securities shall be purchased by the Company, at the option of any Holder thereof, in accordance with the provisions of paragraph 6 of the Securities on May 15 of 2011, 2014, 2019, 2024 and 2029 (each, a "**Purchase Date**") at a purchase price in cash equal to 100% of the principal amount of those Securities plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) to, but excluding, the Purchase Date (the "**Purchase Price**"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 4.1(c).

(b) Notice of Purchase Date. No later than 20 Business Days prior to each Purchase Date, the Company shall mail a written notice of the purchase right to each Holder (and to beneficial owners as required by applicable law) in accordance with Section 15.2. The notice shall include a form of Purchase Notice to be completed by the Holder and shall state, as applicable:

(1) the date by which the Purchase Notice must be delivered to the Paying Agent in order for a Holder to exercise the purchase right;

(2) the Purchase Date;

(3) the Purchase Price;

(4) the procedures the Holder must follow to exercise its put right under this Section 4.1;

(5) the name and address of the Paying Agent and the Conversion Agent;

(6) that the Securities must be surrendered to the Paying Agent to collect payment;

(7) that the Purchase Price for any Security as to which a Purchase Notice has been duly given and not withdrawn shall be paid promptly following the later of the Purchase Date and the time of surrender of such Security;

(8) the conversion rights, if any, of the Securities;

(9) the current Conversion Rate;

(10) that the Securities as to which a Purchase Notice has been given may be converted if they are otherwise convertible pursuant to Article 6 of this Indenture only if the Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(11) the procedures for withdrawing a Purchase Notice;

(12) that, unless the Company defaults in making payment of such Purchase Price, interest (including Contingent Interest and Additional Interest, if any) on Securities surrendered for purchase by the Company shall cease to accrue on and after the Purchase Date; and

(13) the CUSIP number(s) of the Securities.

If any of the Securities is in the form of a Global Security, the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to repurchases.

At the Company's request, the Trustee shall give the notice of purchase right in the Company's name and at the Company's expense; provided that the Company makes such request at least three Business Days (unless a shorter period shall be satisfactory to the Trustee) prior to the date by which such notice of purchase right must be given to the Holder in accordance with this Section 4.1(b); provided further that the text of such notice of purchase right shall be prepared by the Company.

(c) Purchase Notice. A Holder may exercise its right specified in Section 4.1(a) upon delivery of a written notice (which shall be in substantially the form included in Exhibit A hereto and which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) of the exercise of such rights (a "**Purchase Notice**"), to a Paying Agent at any time during the period beginning at 9:00 a.m., New York City time, on the date that is 20 Business Days immediately preceding the relevant Purchase Date until 5:00 p.m., New York City time, on the Business Day immediately preceding such Purchase Date. The Purchase Notice must state:

(1) if Certificated Securities are to be delivered, the certificate number of the Security that the Holder shall deliver to be purchased;

(2) the portion of the principal amount of the Security that the Holder shall deliver to be purchased, which portion must be in principal amounts of $1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased by the Company as of the Purchase Date pursuant to the terms and conditions specified in paragraph 6 of the Securities and in this Indenture.

The delivery of such Security to any Paying Agent (together with all necessary endorsements) at the office of such Paying Agent shall be a condition to the receipt by the Holder of the Purchase Price; provided that such Purchase Price shall be paid pursuant to this

Section 4.1 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 4.1, a portion of a Security if the principal amount of such portion is $1,000 or an integral multiple of $1,000. Provisions of this Article 4 that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 4.1(c) shall have the right to withdraw such Purchase Notice at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding to the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 4.2.

A Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

Anything herein to the contrary notwithstanding, in the case of Global Securities, any Purchase Notice may be delivered or withdrawn and such Securities may be surrendered or delivered for purchase in accordance with the Applicable Procedures as in effect from time to time.

Section 4.2. Effect of Purchase Notice.

Upon receipt by the Paying Agent of the Purchase Notice specified in Section 4.1(c), the Holder of the Security in respect of which such Purchase Notice was given shall (unless such Purchase Notice is withdrawn as specified below) thereafter be entitled to receive solely the Purchase Price with respect to such Security. Such Purchase Price shall be paid to such Holder promptly following the later of (x) the Purchase Date with respect to such Security (provided the conditions in Section 4.1 have been satisfied) and (y) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 4.1. Securities in respect of which a Purchase Notice has been given by the Holder thereof may not be converted pursuant to Article 6 hereof on or after the date of the delivery of such Purchase Notice, unless such Purchase Notice has first been validly withdrawn.

A Purchase Notice may be withdrawn upon delivery of a written notice of withdrawal (which may be delivered by mail, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) to a Paying Agent at any time prior 5:00 p.m., New York City time, on the Business Day immediately preceding the Purchase Date, specifying:

(1) if Certificated Securities are to be withdrawn, the certificate number of the Security in respect of which such notice of withdrawal is being submitted;

(2) the principal amount of the Security with respect to which such notice of withdrawal is being submitted; and

(3) the principal amount, if any, of such Security that remains subject to the original Purchase Notice and that has been or shall be delivered for purchase by the Company.

Section 4.3. Deposit of Purchase Price.

Prior to 10:00 a.m., New York City time, on the applicable Purchase Date, the Company shall deposit with the Paying Agent (or, if the Company or an Affiliate is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount in cash (in immediately available funds if deposited on such Purchase Date) sufficient to pay the aggregate Purchase Price of all the Securities or portions thereof that are to be purchased as of such Purchase Date.

If a Paying Agent holds, in accordance with the terms hereof, at 10:00 a.m., New York City time on the applicable Purchase Date, cash sufficient to pay the Purchase Price of any Security for which a Purchase Notice has been tendered and not withdrawn prior to the applicable Purchase Date then, immediately after such Purchase Date, such Securities shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Securities shall cease to accrue, whether or not such Securities are delivered to the Paying Agent, and the rights of the Holder in respect thereof shall terminate (other than the right to receive the Purchase Price upon delivery of such Securities).

Section 4.4. Securities Purchased in Part.

Any Certificated Security that is to be purchased only in part shall be surrendered at the office of a Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and promptly after the Fundamental Change Purchase Date or the Purchase Date, as the case may be, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

Section 4.5. Repayment to the Company.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 4.3 exceeds the aggregate Purchase Price of the Securities or portions thereof that the Company is obligated to purchase on the Purchase Date, then, promptly after the Purchase Date, the Paying Agent shall return any such excess cash to the Company.

Section 4.6. Compliance with Securities Laws Upon Purchase of Securities

When complying with the provisions of Section 4.1 hereof (provided that such offer or purchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) under the Exchange Act at the time of

such offer or purchase), and subject to any exemptions available under applicable law, the Company shall:

(a) comply with Rule 13e-4 and Rule 14e-1 and any other tender offer rules under the Exchange Act that may then be applicable;

(b) file the required related Schedule TO (or any successor schedule, form or report) under the Exchange Act; and

(c) otherwise comply with all federal and state securities laws so as to permit the rights and obligations in connection with any purchase pursuant to Section 4.1 to be exercised in the time and in the manner specified therein.

ARTICLE 5. PUT OPTION UPON FUNDAMENTAL CHANGE

Section 5.1. Purchase of Securities at Option of the Holder Upon a Fundamental Change.

(a) If at any time that Securities remain outstanding there shall occur a Fundamental Change, Securities shall be purchased by the Company at the option of any Holder thereof, in accordance with the provisions of paragraph 6 of the Securities on the date that is 30 Business Days after the occurrence of the Fundamental Change (the "**Fundamental Change Purchase Date**") at a purchase price in cash equal to 100% of the principal amount of the Securities plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) to, but excluding, the Fundamental Change Purchase Date (the "**Fundamental Change Purchase Price**"), subject to satisfaction by or on behalf of any Holder of the requirements set forth in Section 5.1(c).

A "**Fundamental Change**" shall be deemed to have occurred if any of the following occurs after the date hereof:

(1) any "person" or "group" is or becomes the "beneficial owner", directly or indirectly, of shares of the Company's voting stock representing 50% or more of the total voting power of all outstanding classes of the Company's voting stock or has the power, directly or indirectly, to elect a majority of the members of the Company's board of directors;

(2) the Company consolidates with, or merges with or into, another person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of the Company's assets, or any person consolidates with, or merges with or into, the Company, in any such event other than pursuant to a transaction in which the persons that "beneficially owned" directly or indirectly, the shares of the Company's voting stock immediately prior to such transaction beneficially own, directly or indirectly, shares of voting stock representing a majority of the total voting power of all outstanding classes of voting stock of the surviving or transferee person;

(3) a majority of the members of the Company's board of directors are not continuing directors (as defined below);

(4) the holders of the Company's capital stock approve any plan or proposal for the Company's liquidation or dissolution (whether or not otherwise in compliance with this Indenture); or

(5) the Company's Common Stock ceases to be listed on a national securities exchange or quoted on The Nasdaq National Market or another established automated over-the-counter trading market in the United States.

Notwithstanding anything to the contrary set forth in this Section 5.1, a Fundamental Change shall not be deemed to have occurred if either:

(1) the Closing Sale Price of the Common Stock for any five Trading Days during the ten Trading Days immediately preceding the Fundamental Change is equal to or exceeds 105% of the Conversion Price in effect on such Trading Day; or

(2) in the case of a merger or consolidation, all of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) in the merger or consolidation constituting the Fundamental Change consists of common stock traded on a national securities exchange or quoted on The Nasdaq National Market (or which shall be so traded or quoted when issued or exchanged in connection with such Fundamental Change) and as a result of such transaction or transactions the debentures become convertible solely into such common stock.

For purposes of this section:

(1) "person" or "group" shall have the meanings given to them for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(l) under the Exchange Act, or any successor provision;

(2) a "beneficial owner" shall be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture;

(3) "beneficially own" and "beneficially owned" have meanings correlative to that of beneficial owner;

(4) "board of directors" means the Board of Directors or other governing body charged with the ultimate management of any person;

(5) "capital stock" means: (i) in the case of a corporation, corporate stock; (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (iii) in the case of a partnership or limited liability company, partnership interests (whether

general or limited) or membership interests; or (iv) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person;

(6) "continuing director" means, as of any date of determination, any member of the Company's board of directors who was a member of such board of directors on the date of this Indenture; or was nominated for election or elected to such board of directors with the approval of: (A) a majority of the continuing directors who were members of such board at the time of such nomination or election or (B) a nominating committee, a majority of which committee were continuing directors at the time of such nomination or election.

(7) "voting stock" means any class or classes of capital stock or other interests then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees.

(b) Notice of Fundamental Change. Within 10 Business Days after the occurrence of a Fundamental Change, the Company shall notify the Trustee of the Fundamental Change Purchase Date and shall mail a written notice of the Fundamental Change (the "**Fundamental Change Company Notice**") to each Holder (and to beneficial owners as required by applicable law) in accordance with Section 15.2. The notice shall include the form of a Fundamental Change Purchase Notice to be completed by the Holder and shall state, as applicable:

(1) the events causing a Fundamental Change and the date of such Fundamental Change;

(2) that the Holder has a right to require the Company to purchase the Holder's Securities;

(3) the date by which the Fundamental Change Purchase Notice must be delivered to the Paying Agent in order for a Holder to exercise the Fundamental Change purchase right;

(4) the Fundamental Change Purchase Date;

(5) the Fundamental Change Purchase Price;

(6) the procedures that the Holder must follow to exercise its Fundamental Change purchase rights under this Section 5.1;

(7) the name and address of the Paying Agent and the Conversion Agent;

(8) that the Securities must be surrendered to the Paying Agent to collect payment;

(9) that the Fundamental Change Purchase Price for any Security as to which a Fundamental Change Purchase Notice has been duly given and not withdrawn shall be

paid promptly following the later of the Fundamental Change Purchase Date and the time of surrender of such Security;

(10) the conversion rights, if any, of the Securities arising as a result of such Fundamental Change;

(11) the current Conversion Rate and any adjustments to the Conversion Rate that may result from the Fundamental Change;

(12) that the Securities as to which a Fundamental Change Purchase Notice has been given may be converted pursuant to Article 6 of this Indenture only if the Fundamental Change Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(13) the procedures for withdrawing a Fundamental Change Purchase Notice;

(14) that, unless the Company defaults in making payment of such Fundamental Change Purchase Price, interest (including Contingent Interest and Additional Interest, if any) on Securities surrendered for purchase by the Company shall cease to accrue on and after the Fundamental Change Purchase Price; and

(15) the CUSIP number(s) of the Securities.

If any of the Securities is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to repurchases.

At the Company's request, the Trustee shall give notice of such Fundamental Change on behalf of the Company and at the Company's expense; provided that the Company makes such request at least three Business Days (unless a shorter period shall be satisfactory to the Trustee) prior to the date by which such Fundamental Change Company Notice must be given to the Holders in accordance with this Section 5.1(b); provided further that the text of such notice shall be prepared by the Company.

(c) Fundamental Change Purchase Notice. A Holder may exercise its right specified in Section 5.1(a) upon delivery of a written notice (which shall be in substantially the form included in Exhibit A hereto and which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) of the exercise of such rights (a "**Fundamental Change Purchase Notice**") to a Paying Agent at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Fundamental Change Purchase Date. The Fundamental Change Purchase Notice must state:

(1) if Certificated Securities are to be delivered, the certificate number of the Security that the Holder shall deliver to be purchased;

(2) the portion of the principal amount of the Security that the Holder shall deliver to be purchased, which portion must be in principal amounts of $1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased by the Company on the Fundamental Change Purchase Date pursuant to the terms and conditions specified in paragraph 6 of the Securities and in this Indenture.

The delivery of such Security to any Paying Agent (together with all necessary endorsements) at the office of such Paying Agent shall be a condition to the receipt by the Holder of the Fundamental Change Purchase Price; provided that such Fundamental Change Purchase Price shall be paid pursuant to this Section 5.1 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Fundamental Change Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 5.1, a portion of a Security if the principal amount of such portion is $1,000 or an integral multiple of $1,000. Provisions of this Article 5 that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Purchase Notice contemplated by this Section 5.1(c) shall have the right to withdraw such Fundamental Change Purchase Notice at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Fundamental Change Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 5.2.

A Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Purchase Notice or written notice of withdrawal thereof.

Anything herein to the contrary notwithstanding, in the case of Global Securities, any Fundamental Change Purchase Notice may be delivered or withdrawn and such Securities may be surrendered or delivered for purchase in accordance with the Applicable Procedures as in effect from time to time.

Section 5.2. Effect of Fundamental Change Purchase Notice.

Upon receipt by any Paying Agent of the Fundamental Change Purchase Notice specified in Section 5.1(c), the Holder of the Security in respect of which such Fundamental Change Purchase Notice was given shall (unless such Fundamental Change Purchase Notice is withdrawn as specified

below) thereafter be entitled to receive the Fundamental Change Purchase Price with respect to such Security. Such Fundamental Change Purchase Price shall be paid to such Holder promptly following the later of (a) the Fundamental Change Purchase Date with respect to such Security (provided the conditions in Section 5.1(c) have been satisfied) and (b) the time of delivery of such Security to a Paying Agent by the Holder thereof in the manner required by Section 5.1(c). Securities in respect of which a Fundamental Change Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock

pursuant to Article 6 on or after the date of the delivery of such Fundamental Change Purchase Notice unless such Fundamental Change Purchase Notice has first been validly withdrawn.

A Fundamental Change Purchase Notice may be withdrawn upon delivery of a written notice of withdrawal (which may be delivered by mail, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) to a Paying Agent at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Fundamental Change Purchase Date, specifying:

(1) if Certificated Securities are to be withdrawn, the certificate number of the Security in respect of which such notice of withdrawal is being submitted;

(2) the principal amount of the Security with respect to which such notice of withdrawal is being submitted; and

(3) the principal amount, if any, of such Security that remains subject to the original Fundamental Change Purchase Notice and that has been or shall be delivered for purchase by the Company.

Section 5.3. Deposit of Fundamental Change Purchase Price.

Prior to 10:00 a.m., New York City time, on the Fundamental Change Purchase Date, the Company shall deposit with the Paying Agent (or if the Company or an Affiliate is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount in cash (in immediately available funds if deposited on such Fundamental Change Purchase Date) sufficient to pay the aggregate Fundamental Change Purchase Price of all the Securities or portions thereof that are to be purchased as of such Fundamental Change Purchase Date.

If a Paying Agent holds, in accordance with the terms hereof, at 10:00 a.m., New York City time, on the applicable Fundamental Change Purchase Date, cash sufficient to pay the Fundamental Change Purchase Price of any Security for which a Fundamental Change Purchase Notice has been tendered and not withdrawn in accordance with this Indenture then, immediately after the Fundamental Change Purchase Date, such Securities shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Securities shall cease to accrue, whether or not such Securities are delivered to the Paying Agent, and the rights of the Holders in respect thereof shall terminate (other than the right to receive the Fundamental Change Purchase Price upon delivery of such Securities).

Section 5.4. Securities Purchased in Part.

Any Certificated Security that is to be purchased only in part shall be surrendered at the office of a Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and promptly after the Fundamental Change Purchase Date, the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service

charge, a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

Section 5.5. Repayment to the Company.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 5.3 exceeds the aggregate Fundamental Change Purchase Price of the Securities or portions thereof that the Company is obligated to purchase on the Fundamental Change Purchase Date, then, promptly after the Fundamental Change Purchase Date, the Paying Agent shall return any such excess cash to the Company.

Section 5.6. Compliance with Securities Laws Upon Purchase of Securities.

When complying with the provisions of Section 5.1 hereof (provided that such offer or purchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) under the Exchange Act at the time of such offer or purchase), and subject to any exemptions available under applicable law, the Company shall:

(a) comply with Rule 13e-4 and Rule 14e-1 and any other tender offer rules under the Exchange Act that may then be applicable;

(b) file the required related Schedule TO (or any successor schedule, form or report) under the Exchange Act; and

(c) otherwise comply with all federal and state securities laws so as to permit the rights and obligations in connection with any purchase pursuant to a Fundamental Change to be exercised in the time and in the manner specified therein.

ARTICLE 6.
CONVERSION

Section 6.1. Conversion Privilege.

(a) Subject to the further provisions of this Article 6 and paragraph 7 of the Securities, a Holder of a Security may convert the principal amount of such Security (or any portion thereof equal to $1,000 or any integral multiple of $1,000 in excess thereof) into Common Stock at the Conversion Rate in effect on the Conversion Date only as follows:

(i) during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the Closing Sale Price of the Common Stock for at least 20 Trading Days in the 30 Trading Days ending on the last Trading Day of the previous fiscal quarter is more than 120% of the Conversion Price per share of Common Stock on such last Trading Day;

(ii) at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Redemption Date, if such Security has been called for redemption pursuant to Article 3 hereof;

(iii) in the event that the Company declares

(A) a dividend or distribution of any rights or warrants (other than pursuant to a Rights Plan) to all holders of Common Stock entitling them to subscribe for or purchase shares of Common Stock at less than the Closing Sale Price of the Common Stock on the record date of such issuance, or

(B) a dividend or distribution of cash, debt securities (or other evidences of indebtedness), or other assets (excluding dividends or distributions for which the Conversion Rate adjustment is required to be made under Section 6.5(a) or 6.5(b) of this Indenture), which distribution has a per share value exceeding 5% of the Closing Sale Price of the Common Stock on the Trading Day preceding the declaration date for such distribution,

then the Securities may be surrendered for conversion beginning on the date the Company gives notice to the Holders of such right, which shall not be less than 20 days prior to the Ex-Dividend Date for such dividend or distribution and Securities may be surrendered for conversion at any time thereafter until the close of business on the Business Day prior to the Ex-Dividend Date or until the Company announces that such distribution shall not take place; or

(iv) in the event that the Company is a party to a consolidation, merger, combination or binding share exchange involving the Company or transfer or lease of all or substantially all of its assets pursuant to which the Common Stock would be converted into cash, securities or other assets, the Securities may be surrendered for conversion at any time from or after the date that is 15 days prior to the anticipated effective time of the transaction as announced by the Company, which announcement must occur no later than 15 days prior to such anticipated effective time, until 15 days after the actual date of such transaction.

(b) The Company shall determine on the first day of each of its fiscal quarters whether the Securities shall be convertible as a result of the occurrence of an event specified in clause (a)(i) of this Section 6.1 and, if the Securities shall be so convertible, the Company shall promptly deliver to the Trustee written notice thereof.

Whenever the Securities shall become convertible pursuant to this Section 6.1, the Company or, at the Company's request, the Trustee in the name and at the expense of the Company, shall notify the Holders in writing of the event triggering such convertibility in the manner provided in Section 15.2, and the Company shall also publicly announce such information by press release and publish it on the Company's website. Any notice so given shall be conclusively presumed to have been given, whether or not the Holders receives such notice.

Section 6.2. Conversion Procedures.

(a) Subject to Section 6.13, each Security shall be convertible at the office of the Conversion Agent into fully paid and nonassessable shares of Common Stock (calculated to the nearest 1/100th of a share).

The Conversion Agent shall notify the Company when it receives a Conversion Notice. Settlement of the conversion obligation relating to any Security subject to a Conversion Notice shall be in accordance with the procedures set forth in Section 6.13. If the Company elects to settle in Common Stock only, a certificate for the number of full shares of Common Stock into which the Securities are converted (and cash in lieu of fractional shares) shall be delivered to such Holder, assuming all of the other requirements have been satisfied by such Holder, as soon as practicable after the Company issues its notification of its chosen method of settlement in accordance with Section 6.13. If the Company elects to settle in cash or a combination of cash and Common Stock, the cash and, if applicable, a certificate for the number of full shares of Common Stock into which the Securities are converted (and cash in lieu of fractional shares) shall be delivered to such Holder, assuming all of the other requirements have been satisfied by such Holder, in accordance with Section 6.13. Notwithstanding the foregoing, the Company shall not be required to deliver certificates for Common Stock while the stock transfer books for such stock or the security register are duly closed for any purpose, but certificates for Common Stock shall be issued and delivered as soon as practicable after the opening of such books or security register.

No separate cash payment of accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) shall be paid by the Company on a converted Security, and except as described in Section 6.12 hereof. Accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) shall be deemed to be paid in full with the shares of Common Stock issued or cash paid upon conversion, rather than deemed cancelled, extinguished or forfeited.

The Company shall not issue any fraction of a share of Common Stock in connection with any conversion of Securities, but instead shall, subject to Section 6.11 hereof, make a cash payment (calculated to the nearest cent) equal to such fraction multiplied by the Closing Sale Price of the Common Stock on the last Trading Day prior to the date of conversion.

If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares of Common Stock that shall be deliverable upon conversion shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof to the extent permitted thereby) so surrendered.

Notwithstanding the foregoing, a Security in respect of which a Holder has delivered a Purchase Notice or Fundamental Change Purchase Notice exercising such Holder's option to require the Company to purchase such Security may be converted only if such notice of exercise is withdrawn in accordance with Sections 4.2 or 5.2 hereof, as the case may be, prior to the close of business on the Business Day immediately preceding the applicable Purchase Date or Fundamental Change Purchase Date, as the case may be.

A Holder of Securities is not entitled to any rights of a holder of Common Stock until such Holder has converted its Securities to Common Stock, and only to the extent such Securities are deemed to have been converted into Common Stock pursuant to this Section 6.2(c).

(b) Before any Holder of a Security shall be entitled to convert the same into Common Stock, such Holder shall, in the case of Global Securities, comply with the Applicable Procedures of the Depositary in effect at that time, and in the case of Certificated Securities, surrender such Securities, duly endorsed to the Company or in blank, at the office of the Conversion Agent, and shall give written notice to the Company at said office or place in the form of the Conversion Notice attached to the Securities (the "**Conversion Notice**") that such Holder elects to convert (in whole or in part so long as the principal amount to be converted is in multiples of $1,000 principal amount) the same and shall state in writing therein the principal amount of Security to be converted and the name or names (with addresses) in which such Holder wishes the certificate or certificates for Common Stock to be issued.

Before any such conversion, a Holder also shall pay all funds required, if any, relating to interest (including Contingent Interest and Additional Interest, if any), on the Securities, as provided in Section 6.12 and all taxes or duties, if any, as provided in Section 6.3.

If shares of Common Stock to be issued upon conversion of a Restricted Security are to be issued in the name of a Person other than the Holder of such Restricted Security, such Holder shall deliver to the Conversion Agent a certification in substantially the form set forth in Exhibit B dated the date of surrender of such Restricted Security and signed by such Holder, as to compliance with the restrictions on transfer applicable to such Restricted Security. The Company shall not be required to issue Common Stock upon conversion of any such Restricted Security to a Person other than the Holder if such Restricted Security is not so accompanied by a properly completed certification, and the Registrar shall not be required to register Common Stock upon conversion of any such Restricted Security in the name of a Person other than the Holder if such Restricted Security is not so accompanied by a properly completed certification.

(c) A Security shall be deemed to have been converted immediately prior to 5:00 p.m., New York City time on the date of the surrender of such Security for conversion and all of the items required for conversion shall have been delivered and all requirements for conversion as provided above shall have been met (such date, the "**Conversion Date**" for such Security), and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record Holder or Holders of such Common Stock as of immediately prior to 5:00 p.m., New York City time on such date.

(d) In case any Certificated Security shall be surrendered for partial conversion, the Company shall execute and the Trustee shall authenticate and deliver to or upon the written order of the Holder of the Security so surrendered, without charge to such Holder (subject to the provisions of Section 6.3 hereof), a new Security or Securities in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Certificated Securities.

Section 6.3. Taxes on Conversion.

The issue of stock certificates on conversion of Securities shall be made without charge to the converting Holder for any documentary, stamp or similar issue or transfer taxes in respect of the issue thereof, and the Company shall pay any and all documentary, stamp or similar issue or transfer taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any such tax which may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or the portion, if any, of the Securities which are not so converted in a name other than that in which the Securities so converted were registered, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of such tax or has established to the satisfaction of the Company that such tax has been paid. Nothing herein shall preclude any tax withholding required by law or regulation.

Section 6.4. Company to Provide Stock.

The Company shall, prior to issuance of any Securities hereunder, and from time to time as may be necessary, reserve, out of its authorized but unissued Common Stock, a sufficient number of shares of Common Stock to permit the conversion of all outstanding Securities into shares of Common Stock.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company shall endeavor promptly to comply with all federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and shall list or cause to have quoted such shares of Common Stock on each national securities exchange or on The Nasdaq National Market or other over-the-counter market or such other market on which the Common Stock is then listed or quoted; provided, however, that if rules of such exchange or automated quotation system permit the Company to defer the listing of such Common Stock until the first conversion of the Securities into Common Stock in accordance with the provisions of this Indenture, the Company covenants to list such Common Stock issuable upon conversion of the Securities in accordance with the requirements of such exchange or automated quotation system at such time. Any Common Stock issued upon conversion of a Security hereunder which at the time of conversion was a Restricted Security shall also be a Restricted Security.

Section 6.5. Adjustment of Conversion Rate.

The Conversion Rate shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall, at any time or from time to time while any of the Securities are outstanding, pay a dividend or make a distribution in shares of Common Stock to all holders of its outstanding shares of Common Stock, then the Conversion Rate in effect at the opening of business on the date next following the record date fixed for the determination of

stockholders entitled to receive such dividend or other distribution shall be increased by multiplying such Conversion Rate by a fraction:

(i) the numerator of which shall be the sum of the number of shares of Common Stock outstanding at the close of business on such record date fixed for such determination and the total number of shares constituting such dividend or other distribution; and

(ii) the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on such record date fixed for such determination.

If any dividend or distribution of the type described in this Section 6.5(a) is declared but not so paid or made, the Conversion Rate shall again be adjusted to the Conversion Rate which would then be in effect if such dividend or distribution had not been declared.

(b) In case the Company shall issue rights or warrants (other than pursuant to a Rights Plan) to all holders of its Common Stock entitling them (for a period commencing no earlier than the record date described below and expiring not more than 60 days after such record date) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share (or having a conversion price per share) less than the Current Market Price per share of Common Stock on the Trading Day immediately prior to the date of announcement of such issuance, the Conversion Rate in effect shall be adjusted so that the same shall equal the rate determined by multiplying the Conversion Rate in effect immediately prior to such announcement by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date of announcement plus the number of additional shares of Common Stock offered (or into which the convertible securities so offered are convertible), and the denominator of which shall be the number of shares of Common Stock outstanding at the close of business on the date of announcement plus the number of shares which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered, which shall be determined by multiplying the number of shares of Common Stock issuable upon conversion of such convertible securities by the conversion price per share of Common Stock pursuant to the terms of such convertible securities) would purchase at the Current Market Price per share of Common Stock on the Trading Day immediately preceding the date of announcement of such issuance. Such adjustment shall be made successively whenever any such rights or warrants are issued, and shall become effective on the day following the date of announcement of such issuance. If at the end of the period during which such rights or warrants are exercisable not all rights or warrants shall have been exercised, the adjusted Conversion Rate shall be immediately readjusted to what it would have been based upon the number of additional shares of Common Stock actually issued (or the number of shares of Common Stock issuable upon conversion of convertible securities actually issued).

(c) In case the Company shall, at any time or from time to time while any of the Securities are outstanding, subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock or combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, then the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision or combination becomes

effective shall be adjusted by multiplying such Conversion Rate by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately after giving effect to such subdivision or combination and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such subdivision or combination.

(d) In case the Company shall distribute to all holders of its Common Stock any shares of capital stock of the Company, Extraordinary Cash Dividends, evidences of indebtedness or other assets (including securities of any person other than the Company but excluding dividends or distributions referred to in subsection (a) of this Section 6.5 and dividends referred to in subsection (e) of this Section 6.5), or shall distribute to all holders of its Common Stock rights or warrants to subscribe for or purchase any of its securities (excluding those rights and warrants referred to in subsection (b) of this Section 6.5), then in each such case the Conversion Rate shall be adjusted so that the same shall equal the rate determined by multiplying the current Conversion Rate by a fraction of which the numerator shall be the Current Market Price per share of the Common Stock on the record date mentioned below and the denominator shall be the Current Market Price per share of the Common Stock on such record date less the sum of any such Extraordinary Cash Dividends per share of Common Stock and the fair market value on such record date (as determined by the Board of Directors, whose determination shall be conclusive evidence of such fair market value and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of the portion of the capital stock, evidences of indebtedness or other assets so distributed or of such rights or warrants applicable to one share of Common Stock (in each case, determined on the basis of the number of shares of Common Stock outstanding on the record date). Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of shareholders entitled to receive such distribution.

In the event the sum of any such Extraordinary Cash Dividends per share of Common Stock and the then fair market value (as so determined) of the portion of the Capital Stock, evidences of indebtedness or other assets so distributed or of such rights or warrants applicable to one share of Common Stock is equal to or greater than the Current Market Price per share of Common Stock on such record date, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of a Security shall have the right to receive upon conversion the amount of Capital Stock, Extraordinary Cash Dividends, evidences of indebtedness or other assets so distributed or of such rights or warrants such holder would have received had such holder converted each Security on such record date. In the event that such dividend or distribution is not so paid or made, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. If the Board of Directors determines the fair market value of any distribution for purposes of this Section 6.5 by reference to the actual or when issued trading market for any securities, it must in doing so consider the prices in such market over the same period used in computing the Current Market Price of the Common Stock.

In the event that the Company has in effect a rights plan described in the next paragraph ("**Rights Plan**"), upon conversion of the Securities into Common Stock, to the extent that the Rights Plan is still in effect upon such conversion, the holders of Securities shall receive, in addition to the Common Stock, the rights described therein (whether or not the rights have

separated from the Common Stock at the time of conversion), subject to the limitations set forth in the Rights Plan.

Rights or warrants distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's Capital Stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("**Trigger Event**"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 6.5 (and no adjustment to the Conversion Rate under this Section 6.5 shall be required) until the occurrence of the earliest Trigger Event, whereupon such rights and warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Rate shall be made under this Section 6.5. If any such right or warrant, including any such existing rights or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and record date with respect to new rights or warrants with such rights (and a termination or expiration of the existing rights or warrants without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Rate under this Section 6.5 was made, (1) in the case of any such rights or warrants which shall all have been redeemed or purchased without exercise by any holders thereof, the Conversion Rate shall be readjusted upon such final redemption or purchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or purchase price received by a holder or holders of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or purchase, and (2) in the case of such rights or warrants which shall have expired or been terminated without exercise by any holders thereof, the Conversion Rate shall be readjusted as if such rights and warrants had not been issued.

(e) In case the Company shall pay or distribute a Regular Cash Dividend to all holders of its Common Stock in excess of $0.17 in the aggregate in any fiscal quarter (a "**Triggering Distribution**"), the Conversion Rate shall be increased so that the same shall equal the rate determined by multiplying such Conversion Rate in effect on the Business Day immediately preceding the record date for such Triggering Distribution by a fraction of which the numerator shall be the Current Market Price per share of the Common Stock on the record date mentioned below, and the denominator shall be the Current Market Price per share of the Common Stock on the such record date less the aggregate amount by which the cash so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on such record date) exceeds $0.17 in the aggregate in any fiscal quarter. It is expressly understood that a stock buyback, repurchase or similar transaction or program shall in no event be considered a Triggering Distribution for purposes of this Section 6.5(e). Such adjustment shall be made successively whenever any such dividend or distribution is made and shall become effective immediately after the record date for the determination of

shareholders entitled to receive such dividend or distribution. In the event that such dividend or distribution is not so paid or made, the Conversion Rate shall again be adjusted to be the Conversion Rate that would be in effect if such dividend or distribution had not been declared.

Notwithstanding the foregoing, adjustments to the Conversion Rate resulting from Regular Cash Dividends may not cause the Conversion Rate to exceed 24.35 (the quotient obtained by dividing $1,000 by the last reported closing sale price per share of the Common Stock on April 29, 2004) as adjusted for any other adjustment pursuant to this Section 6.5.

(f) In case the Company or any of its Subsidiaries shall purchase any shares of the Company's Common Stock by means of a tender offer, then, effective immediately prior to the opening of business on the day after the last date (the "**Expiration Date**") tenders could have been made pursuant to such tender offer (as it may be amended) (the last time at which such tenders could have been made on the Expiration Date is hereinafter sometimes called the "**Expiration Time**"), the Conversion Rate shall be increased so that the same shall equal the rate determined by multiplying the Conversion Rate in effect immediately prior to the close of business on the Expiration Date by a fraction of which the numerator shall be the sum of (x) the aggregate consideration (determined as set forth below) payable to stockholders of the Company based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "**Purchased Shares**") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares and excluding any shares held in the treasury of the Company) immediately after the Expiration Time and the Current Market Price per share of Common Stock (as determined in accordance with subsection (g) of this Section 6.5), and the denominator shall be the product of the number of shares of Common Stock outstanding (including Purchased Shares but excluding any shares held in the treasury of the Company) immediately prior to the Expiration Time multiplied by the Current Market Price per share of the Common Stock (as determined in accordance with subsection (g) of this Section 6.5). For purposes of this Section 6.5(f), the aggregate consideration in any such tender offer shall equal the sum of the aggregate amount of cash consideration and the aggregate fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in such tender offer. In the event that the Company is obligated to purchase shares pursuant to any such tender offer, but the Company is permanently prevented by applicable law from effecting any or all such purchases or any or all such purchases are rescinded, the Conversion Rate shall again be adjusted to be the Conversion Rate which would have been in effect based upon the number of shares actually purchased. If the application of this Section 6.5(f) to any tender offer would result in a decrease in the Conversion Rate, no adjustment shall be made for such tender offer under this Section 6.5(f). For purposes of this Section 6.5(f), the term "tender offer" shall mean and include both tender offers and exchange offers, all references to "purchases" of shares in tender offers (and all similar references) shall mean and include both the purchase of shares in tender offers and the acquisition of shares pursuant to exchange offers, and all references to "tendered shares" (and all similar references) shall mean and include shares tendered in both tender offers and exchange offers.

(g) For the purpose of any computation under subsections (b), (d) and (e) of this Section 6.5, the current market price (the "**Current Market Price**") per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices for the five consecutive Trading Days commencing six Trading Days before the record date with respect to distributions, issuances or other events requiring such computation under subsection (b), (d) or (e) of this Section 6.5. For purposes of any computation under subsection (f) of this Section 6.5, the Current Market Price per share of Common Stock shall be deemed to be the average of the daily Closing Prices for the five consecutive Trading Days commencing on the Trading Day next succeeding the Expiration Date.

(h) In any case in which this Section 6.5 shall require that an adjustment be made following a record date, an announcement date or an Expiration Date, as the case may be, established for purposes of this Section 6.5, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 6.8) issuing to the Holder of any Security converted after such record date or announcement date or Expiration Date the shares of Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Rate prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence prepared by the Company of the right to receive such shares. If any distribution in respect of which an adjustment to the Conversion Rate is required to be made as of the record date or announcement date or Expiration Date therefor is not thereafter made or paid by the Company for any reason, the Conversion Rate shall be readjusted to the Conversion Rate which would then be in effect if such record date had not been fixed or such announcement date or effective date or Expiration Date had not occurred.

(i) All calculations under this Section 6.5 shall be made to the nearest cent or one-hundredth of a share, with one-half cent and 0.005 of a share, respectively, being rounded upward. Notwithstanding any other provision of this Section 6.5, the Company shall not be required to make any adjustment of the Conversion Rate unless such adjustment would require an increase or decrease of at least 1% of such rate. Any lesser adjustment shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least 1% in such rate. Any adjustments under this Section 6.5 shall be made successively whenever an event requiring such an adjustment occurs.

Section 6.6. No Adjustment.

No adjustment in the Conversion Price shall be required if Holders may participate in the transactions described in Section 6.5 without converting.

No adjustment need be made for issuances of Common Stock pursuant to a Company plan for reinvestment of dividends or for a change in the par value or a change to no par value of the Common Stock.

Section 6.7. Notice of Adjustment.

Whenever an adjustment in the Conversion Rate with respect to the Securities is required:

(a) the Company shall forthwith place on file with the Trustee and any Conversion Agent for such securities a certificate of the Treasurer of the Company, stating the adjusted Conversion Rate determined as provided herein and setting forth in reasonable detail such facts as shall be necessary to show the reason for and the manner of computing such adjustment; and

(b) a notice stating that the Conversion Rate has been adjusted and setting forth the adjusted Conversion Rate shall forthwith be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company, to each Holder in the manner provided in Section 15.2 hereof. Any notice so given shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice.

Section 6.8. Notice of Certain Transactions.

In the event that:

(1) the Company takes any action which would require an adjustment in the Conversion Rate;

(2) the Company consolidates or merges with, or transfers all or substantially all of its property and assets to, another corporation and shareholders of the Company must approve the transaction; or

(3) there is a dissolution or liquidation of the Company,

the Company shall mail to Holders and file with the Trustee a notice stating the proposed record or effective date, as the case may be. The Company shall mail the notice at least ten days before such date. Failure to mail such notice or any defect therein shall not affect the validity of any transaction referred to in clause (1), (2) or (3) of this Section 6.8.

Section 6.9. Effect of Reclassification, Consolidation, Merger or Sale on Conversion Privilege.

If any of the following shall occur:

(a) any reclassification or change of shares of Common Stock issuable upon conversion of the Securities (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination, or any other change for which an adjustment is provided in Section 6.5);

(b) any consolidation, merger, combination or binding share exchange to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than in par value, or from

par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock; or

(c) any transfer or lease of all or substantially all of the assets of the Company, directly or indirectly, to any person,

then the Company, or such successor, purchasing or transferee Person, as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, combination, binding share exchange, transfer or lease, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, combination, binding share exchange, transfer or lease by a holder of the number of shares of Common Stock issuable upon conversion of such Security immediately prior to such reclassification, change, consolidation, merger, combination, binding share exchange, transfer or lease. Such supplemental indenture shall provide for adjustments of the Conversion Rate that shall be as nearly equivalent as may be practicable to the adjustments of the Conversion Rate provided for in this Article 6. If, in the case of any such consolidation, merger, combination, binding share exchange, transfer or lease, the stock or other securities and property (including cash) receivable thereupon by a holder of Common Stock include shares of stock or other securities and property of a person other than the successor, purchasing or transferee Person, as the case may be, in such consolidation, merger, combination, binding share exchange, transfer or lease of all, then such supplemental indenture shall also be executed by such other person and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors shall reasonably consider necessary by reason of the foregoing. The provisions of this Section 6.9 shall similarly apply to successive reclassifications, changes, consolidations, mergers, combinations, binding share exchanges, transfers or leases.

In the event the Company shall execute a supplemental indenture pursuant to this Section 6.9, the Company shall promptly file with the Trustee (x) an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or other securities or property (including cash) receivable by Holders of the Securities upon the conversion of their Securities after any such reclassification, change, consolidation, merger, combination, binding share exchange, transfer or lease, any adjustment to be made with respect thereto and that all conditions precedent have been complied with and (y) an Opinion of Counsel that all conditions precedent have been complied with, and the Company or the Trustee on behalf of the Company shall promptly mail notice thereof to all Holders.

Section 6.10. Trustee's Disclaimer.

The Trustee has no duty to determine when an adjustment under this Article 6 should be made, how it should be made or what it should be. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for any failure of the Company to comply with this Article 6. Each Conversion Agent other than the Company shall have the same protection under this Section 6.10 as the Trustee.

The rights, privileges, protections, immunities and benefits given to the Trustee under this Indenture including, without limitation, its rights to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each Paying Agent or Conversion Agent acting hereunder.

Section 6.11. Voluntary Increase.

The Company from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least 20 days and if the increase is irrevocable during the period if the Board of Directors determines that such increase would be in the best interest of the Company or to avoid or diminish income tax to holders of shares of Common Stock in connection with a dividend or distribution of stock or similar event, and the Company provides 15 days prior notice of any increase in the Conversion Rate; provided that in no event may the Company increase the Conversion Rate such that a share of Common Stock would be issuable upon conversion of the Securities at less than the par value of a share of Common Stock.

Section 6.12. Conversion After Record Date.

Except as provided in this Section 6.12, a converting Holder of Securities shall not be entitled to receive any separate cash payments with respect to accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on any such Securities being converted. By delivery to the Holder of the number of shares of Common Stock or other consideration issuable or cash payable upon conversion in accordance with this Article 6, any accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on such Securities shall be deemed to have been paid in full. If any Securities are surrendered for conversion subsequent to the record date preceding an Interest Payment Date but prior to such Interest Payment Date, the Holder of such Securities at the close of business on such record date shall receive the interest (including Contingent Interest and Additional Interest, if any) payable on such Security on such Interest Payment Date notwithstanding the conversion thereof. Securities surrendered for conversion during the period from the close of business on any record date preceding any Interest Payment Date to the opening of business on such Interest Payment Date shall be accompanied by payment from converting Holders, for the account of the Company, in New York Clearing House funds, or other funds of an amount equal to the interest (including Contingent Interest and Additional Interest, if any) payable on such Interest Payment Date on the Securities being surrendered for conversion;provided that no such payment is required if (a) the Company has specified a Redemption Date during the period from the close of business on any record date preceding any Interest Payment Date through and including such Interest Payment Date or (b) any overdue interest (including any overdue Contingent Interest and Additional Interest, if any) exists at the time of the conversion with respect to the Securities converted, but only to the extent of the amount of such overdue interest.

Except as provided in Section 6.2(a) and this Section 6.12, no payment or adjustments in respect of payments of interest (including Contingent Interest and Additional Interest, if any) on Securities surrendered for conversion or any dividends or distributions on the Common Stock issued upon conversion shall be made upon the conversion of any Securities.

Section 6.13. Option to Satisfy Conversion Obligation with Cash, Common Stock or Combination Thereof

(a) On the first date the Securities become convertible under the circumstances described in Section 6.1, the Company shall make an election at its sole and absolute discretion (the "**Principal Conversion Settlement Election**") and shall publicly announce such information by press release no later than the end of the first Business Day thereafter and notify the Holders in writing through the Trustee whether a Holder who converts a Security shall be entitled to receive, in respect of the principal amount of such Security upon surrender thereof, all Common Stock (other than with respect to fractional shares), all cash or a combination of cash and Common Stock. If the Company elects to settle the Conversion Obligation relating to the principal amount of such Security in a combination of cash and Common Stock, the Company shall specify the percentage of the principal amount to be satisfied in cash. This notification is irrevocable and legally binding with regard to any conversion of the Securities under the circumstances described in Section 6.1.

(b) If the Company receives any Holder's Conversion Notice on or prior to the day that is 31 Trading Days prior to the Final Maturity Date (the "**Final Notice Date**"), then (i) as to the principal amount of the Security, the method for settlement shall be in accordance with the Principal Conversion Settlement Election and (ii) as to the Excess Amount, the Company shall notify the Holder in writing through the Trustee, at any time on or before the date that is three Trading Days following receipt of the Conversion Notice required pursuant to Section 6.2 (such period, the "**Settlement Notice Period**") of the method the Company elects to settle its obligation upon conversion of the Excess Amount (the "**Excess Conversion Obligation**", which together with the obligation upon conversion in respect of principal constitutes the "**Conversion Obligation**") by specifying whether the Holder is entitled to receive, in respect of the Excess Conversion Obligation, all cash, all Common Stock (other than with respect to fractional shares), or a combination of cash and Common Stock. If the Company elects to settle the Excess Conversion Obligation in a combination of cash and Common Stock, the Company shall specify the percentage of the obligation to be settled in cash. The Company shall treat all Holders converting on the same Trading Day in the same manner and the Company shall not have any obligation to settle Excess Conversion Obligations arising on different Trading Days in the same manner.

Settlement of the Company's entire Conversion Obligation in Common Stock only shall occur in accordance with Section 6.2(a). Settlement in cash or in a combination of cash and Common Stock shall, subject to Section 6.13(d), occur on the third Trading Day following the final Trading Day of the 20 Trading Day period (the "**Cash Settlement Averaging Period**") beginning on the final Trading Day of the Settlement Notice Period.

Settlement amounts shall be computed as follows:

(i) if the Company elects to satisfy its entire Conversion Obligation, including the principal amount and Excess Amount, in shares of Common Stock (other than with respect to fractional shares), the Company shall deliver to a Holder, for each $1,000 principal amount of a Security, a number of shares of Common Stock equal to the applicable Conversion Rate;

(ii) if the Company elects to satisfy its entire Conversion Obligation in cash, including principal amount and Excess Amount, the Company shall deliver to a Holder, for each $1,000 principal amount of Securities, cash in an amount equal to the product of (i)) the applicable Conversion Rate multiplied by (ii) the volume weighted average price of the Common Stock during the Cash Settlement Averaging Period;

(iii) if the Company elects to satisfy its Conversion Obligation, including principal amount and Excess Amount, in a combination of cash and Common Stock, the Company shall deliver to a Holder, for each $1,000 principal amount of Securities:

(1) a cash amount (the "**Cash Amount**") (excluding any cash in lieu of fraction shares) equal to the sum of:

(A) the product of (x) $1,000 multiplied by (y) the percentage of such principal amount of a Security to be satisfied in cash; plus

(B) if greater than zero, the product of (x) the amount of cash that would be paid pursuant to clause (ii) immediately above minus $1,000, multiplied by (y) the percentage of the Excess Amount to be satisfied in cash;

and

(2) a number of shares of Common Stock equal to the difference between:

(A) the number of shares of Common Stock that would be issued pursuant to clause (i) immediately above, minus

(B) the number of shares equal to the quotient of (x) the Cash Amount divided by (y) the volume weighted average price of the Common Stock during the Cash Settlement Averaging Period.

The "volume weighted average price" per share of the Common Stock on any Trading Day shall be the volume weighted average price on the New York Stock Exchange, or if the Common Stock is not listed on the New York Stock Exchange, on the principal exchange or over-the-counter market on which the Common Stock is then listed or traded, from 9:30 a.m. to 4:00 p.m. (New York City time) on that Trading Day as displayed by Bloomberg (Bloomberg key-strokes: NX Equity VAP) (or if such volume weighted average price is not available, the market value of one share on such Trading Day as we determine in good faith using a volume weighted method).

(c) The Company shall settle all of its Conversion Obligations arising after the Final Notice Date in the same manner. Settlement of the Conversion Obligation relating to the principal amount of the Securities shall be according to the Principal Conversion Settlement Election. On or prior to the Final Notice Date, the Company shall notify the Holders through the Trustee of the method it chooses to settle any Excess Conversion Obligations arising after the Final Notice Date.

Settlement of Conversion Obligations arising after the Final Notice Date in Common Stock only shall occur in accordance with Section 6.2(a). Subject to Section 6.13(d), settlement of Conversion Obligations arising after the Final Notice Date in cash or in a combination of cash and Common Stock shall occur on the third Trading Day following the final Trading Day of the Cash Settlement Averaging Period described in the following

sentence. The settlement amount of cash or combination of cash and Common Stock in satisfaction of Conversion Obligations arising after the Final Notice Date shall be computed in the same manner as set forth in Section 6.13(b), except that the Cash Settlement Averaging Period shall be the 20 Trading Day period beginning on the date that is the 23rd Trading Day prior to the Final Maturity Date.

(d) If any Trading Day during a Cash Settlement Averaging Period is not an Undisrupted Trading Day, then determination of the price for that day shall be delayed until the next Undisrupted Trading Day and such day shall not count as one of the 20 Trading Days that constitute the Cash Settlement Averaging Period. If this results in the Cash Settlement Averaging Period extending beyond the eighth Trading Day after the last of the original 20 Trading Days in the Cash Settlement Averaging Period, then the Company shall determine all prices for all delayed and undetermined prices on that eighth Trading Day based on its good faith estimate of the value of the Common Stock on that date. In the event that any Trading Day during the Cash Settlement Averaging Period beginning on the date that is the 23rd Trading Day prior to the Final Maturity Date is not an Undisrupted Trading Day, settlement will occur after the Final Maturity Date.

ARTICLE 7.
CONTINGENT INTEREST

Section 7.1. Contingent Interest.

The Company shall make Contingent Interest payments to the Holders of Securities, as set forth in Section 7.2 below, during any six-month period from May 15 to November 14 and from November 15 to May 14, commencing with the six-month period beginning May 15, 2011 (each a "**Contingent Interest Period**"), if the average Trading Price of a Security for the five Trading Days ending on the third Trading Day immediately preceding the first day of the relevant Contingent Interest Period equals 120% or more of the principal amount of such Security. During any Contingent Interest Period when Contingent Interest is payable pursuant to this Section 7.1, each Contingent Interest payment due and payable on each $1,000 principal amount shall equal 0.25% per annum of such average Trading Price of such Security. Contingent Interest, if any, shall accrue and be payable to Holders in the same manner as regular cash interest. Regular cash interest shall continue to accrue at the rate specified in the Securities whether or not Contingent Interest is paid.

Section 7.2. Payment of Contingent Interest; Contingent Interest Rights Preserved.

(a) The Company shall pay Contingent Interest owed pursuant to Section 7.1 for any Contingent Interest Period on the Interest Payment Date immediately succeeding the applicable Contingent Interest Period to Holders of Securities as of the record date relating to such Interest Payment Date.

(b) Upon a determination by the Company that Holders of Securities shall be entitled to receive Contingent Interest during a Contingent Interest Period, on or prior to the first day of such Contingent Interest Period, the Company shall notify the Holders in writing of such determination in the manner provided in Section 15.2, and the Company shall also publicly announce such information by press release and publish it on the Company's website.

ARTICLE 8.
COVENANTS

Section 8.1. Payment of Securities.

The Company shall promptly make all payments in respect of the Securities on the dates and in the manner provided in the Securities and this Indenture. Principal amount, Redemption Price, Purchase Price and Fundamental Change Purchase Price and accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) shall be considered paid on the date it is due if the Paying Agent holds by 10:00 a.m., New York City time, on such date the Paying Agent holds, in accordance with this Indenture, cash or securities, if permitted hereunder, sufficient to pay all such amounts then due. The Company shall, to the fullest extent permitted by law, pay interest on overdue principal and overdue installments of interest (including Contingent Interest and Additional Interest, if any) at the rate borne by the Securities per annum. Except as otherwise specified, all references in this Indenture or the Securities to interest shall be deemed to include, without duplication, Additional Interest, if any, payable pursuant to the Registration Rights Agreement.

Payment of the principal of, interest (including Contingent Interest and Additional Interest, if any) on the Securities shall be made at the Corporate Trust Office of the Trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. Payment of interest (including Contingent Interest and Additional Interest, if any) on Certificated Securities shall be made by (i) check mailed to the address of the Person entitled thereto as such address appears in the Register if such Securities have an aggregate principal amount of $5 million or less or (ii) wire transfer of immediately available funds to an account within the United States designated by such Person if such Securities have an aggregate principal amount in excess of $5 million. Notwithstanding the foregoing, so long as the Securities are registered in the name of a Depositary or its nominee, all payments with respect to the Securities shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee.

The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue amounts from time to time on demand at the rate then in effect; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest (including Contingent Interest and Additional Interest, if any) (without regard to any applicable grace periods) from time to time on demand at the same rate to the extent lawful. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 8.2. SEC Reports.

The Company shall file all reports and other information and documents that it is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, and within 15 days after it files them with the SEC, the Company shall deliver copies of all such reports, information and other documents to the Trustee. In the event the Company is at any time no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange

Act, it shall continue to provide the Trustee with annual and quarterly reports containing substantially the same information as would have been required to be filed with the SEC had the Company continued to have been subject to such reporting requirements. In such event, such reports shall be provided at the times the Company would have been required to provide reports had it continued to have been subject to such reporting requirements. The Company also shall comply with the other provisions of TIA Section 314(a).

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 8.3. Compliance Certificates.

(a) The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year (beginning with fiscal year ending October 31, 2004), an Officers' Certificate stating that a review of the activities of the Company during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge the Company has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action the Company is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which payments on account of the principal of or interest, if any, on the Securities is prohibited or if such event has occurred, a description of the event and what action the Company is taking or proposes to take with respect thereto.

(b) The Company shall, so long as any of the Securities are outstanding, deliver to the Trustee, as soon as practicable and in any event within five Business Days upon any Officer becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto.

Section 8.4. Further Instruments and Acts.

Upon request of the Trustee, the Company shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

Section 8.5. Maintenance of Corporate Existence.

Subject to Article 9, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 8.6. Rule 144A Information Requirement.

Within the period prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), the Company covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the Exchange Act, upon the request of any Holder or beneficial holder of the Securities make available to such Holder or beneficial holder of Securities or any Common Stock issued upon conversion thereof which continue to be Restricted Securities in connection with any sale thereof and any prospective purchaser of Securities or such Common Stock designated by such Holder or beneficial holder, the information required pursuant to Rule 144A(d)(4) under the Securities Act and it shall take such further action as any Holder or beneficial holder of such Securities or such Common Stock may reasonably request, all to the extent required from time to time to enable such Holder or beneficial holder to sell its Securities or Common Stock without registration under the Securities Act within the limitation of the exemption provided by Rule 144A, as such Rule may be amended from time to time. Upon the request of any Holder or any beneficial holder of the Securities or such Common Stock, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements.

Section 8.7. Stay, Extension and Usury Laws.

The Company covenants, to the extent it may lawfully do so, that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal amount, Redemption Price, Purchase Price or Fundamental Change Purchase Price in respect of Securities, or any interest (including Contingent Interest and Additional Interest, if any) on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture, and the Company, to the extent it may lawfully do so, hereby expressly waives all benefit or advantage of any such law and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the

Trustee or any Agent, but shall suffer and permit the execution of every such power as though no such law had been enacted.

Section 8.8. Maintenance of Office or Agency of the Trustee, Regstrar, Paying Agent and Conversion Agent

The Company shall maintain an office or agency of the Trustee, Registrar, Paying Agent and Conversion Agent where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer, exchange, redemption, purchase or conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. An office of the Trustee shall initially be such office or agency for all of the aforesaid purposes. The Company shall give prompt written notice to the Trustee of the location, and of any change in the location, of any such office or agency (other than a change in the location of the office of the Trustee). If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 15.2.

ARTICLE 9.
CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

Section 9.1. Company May Consolidate, Etc, Only on Certain Terms.

The Company shall not consolidate with or merge into any other Person (in a transaction in which the Company is not the surviving corporation) or convey, transfer or lease all or substantially of its properties and assets to any successor Person, unless:

(1) the resulting, surviving or transferee Person is organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, all of the obligations of the Company under the Securities and this Indenture;

(2) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 9.2. Successor Substituted.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of all or substantially all of the properties

and assets of the Company in accordance with Section 9.1, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE 10.
DEFAULT AND REMEDIES

Section 10.1. Events of Default.

An "**Event of Default**" shall occur if:

(1) the Company defaults in the payment of any principal of any of the Securities when the same becomes due and payable (whether at maturity, upon redemption, on a Purchase Date or Fundamental Change Purchase Date or otherwise);

(2) the Company defaults in the payment of any accrued and unpaid interest (including Contingent Interest and Additional Interest, if any), in each case, when due and payable, and such default continues for a period of 30 days;

(3) following the exercise by the Holder of the right to convert a Security pursuant to and in accordance with Article 6, the Company (i) fails to deliver the cash, if any, when required to be delivered following the Company's election to so deliver cash upon conversion pursuant to Section 6.13 or (ii) fails to deliver the Common Stock, if any, when required to be delivered following the Company's election to so deliver Common Stock upon conversion pursuant to Section 6.13;

(4) the Company fails to provide the Fundamental Change Company Notice as required by this Indenture;

(5) the Company fails to comply with any other covenant or warranty contained in the Securities or in this Indenture (other than those referred to in clauses 1 through 4 above) and such failure continues for 60 days after receipt by the Company of a Notice of Default (defined below);

(6) the Company defaults under any Indebtedness for money borrowed by the Company or any Significant Subsidiary in an aggregate outstanding principal amount in excess of $10,000,000, and such Default continues for 30 days after receipt by the Company of a Notice of Default, which default:

(A) is caused by a failure to pay principal or interest when due on such Indebtedness by the end of the applicable grace period, if any, unless such Indebtedness is discharged, or

(B) results in the acceleration of such Indebtedness, unless such acceleration is waived, cured, rescinded or annulled;

(7) the Company or any of its Significant Subsidiaries, pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case or proceeding;

(B) consents to the entry of an order for relief against it in an involuntary case or proceeding or the commencement of any case against it;

(C) consents to the appointment of a Custodian of it or for any substantial part of its property; or

(D) makes a general assignment for the benefit of its creditors; or

(8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Significant Subsidiary of the Company in an involuntary case or proceeding;

(B) appoints a Custodian of the Company or any Significant Subsidiary of the Company, or for any substantial part of the property of the Company or any Significant Subsidiary of the Company; or

(C) orders the winding up or liquidation of the Company or any Significant Subsidiary of the Company;

and in each case of this subclause (8) the order or decree remains unstayed and in effect for 60 consecutive days.

The term "**Bankruptcy Law**" means Title 11 of the United States Code (or any successor thereto) or any similar federal or state law for the relief of debtors. The term "**Custodian**" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

A default under clause (5) or (6) above is not an Event of Default until the Trustee notifies the Company, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding notify the Company and the Trustee, in writing of the Default, and the Company does not cure the Default (and such Default is not waived) within the time period specified in clauses (5) or (6) above after actual receipt of such notice. The notice given pursuant to this Section 10.1 must specify the Default, demand that it be remedied and state that the notice is a "**Notice of Default**." When any Default under this Section 10.1 is cured, it ceases.

The Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the Corporate Trust Office of the Trustee by the Company, a Paying Agent, any Holder or any agent of any Holder.

Section 10.2. Acceleration.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) of Section 10.1) occurs and is continuing, the Trustee may, by notice to the Company, or the Holders of at least 25% in aggregate principal amount of the Securities then outstanding may, by notice to the Company and the Trustee, declare all unpaid principal of plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on all the Securities then outstanding to be due and payable upon any such declaration, and the same shall become and be immediately due and payable.

If an Event of Default specified in clause (7) or (8) of Section 10.1 occurs, all unpaid principal of plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on all the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee may rescind an acceleration of Securities and its consequences before a judgment or decree for the payment of money has been obtained by the Trustee if (a) all existing Events of Default, other than the nonpayment of the principal of plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on the Securities that has become due solely by such declaration of acceleration, have been cured or waived and (b) all payments due to the Trustee and any predecessor Trustee under Section 11.7 have been made. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

Section 10.3. Other Remedies.

If an Event of Default occurs and is continuing, the Trustee may, but shall not be obligated to, pursue any available remedy by proceeding at law or in equity to collect the payment of the principal of or accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

Section 10.4. Waiver of Defaults and Events of Default.

Subject to Sections 10.7 and 12.2, the Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee may waive an existing Default or Event of Default and its consequence, except a Default or Event of Default in the payment of the principal of, or any interest (including Contingent Interest and Additional Interest, if any) on any Security, or the payment of any applicable Purchase Price, Fundamental Change Purchase Price or Redemption Price, or a failure by the Company to convert any Securities into Common Stock and/or cash or any Default or Event of Default in respect of any provision of this Indenture or the Securities that, under Section 12.2, cannot be modified or amended without the consent of the Holder of each Security affected. When a Default or Event of Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right. This Section 10.4 shall be in lieu of Section 316(a)1(B) of the TIA and such Section 316(a)1(B) is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 10.5. Control by Majority.

The Holders of a majority in aggregate principal amount of the Securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that the Trustee determines may be unduly prejudicial to the rights of another Holder or the Trustee, or that may involve the Trustee in personal liability unless the Trustee is offered indemnity satisfactory to it; provided that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction. This Section 10.5 shall be in lieu of Section 316(a)1(A) of the TIA and such Section 316(a)1(A) is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 10.6. Limitations on Suits.

A Holder of a Security may not pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee reasonable indemnity to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Securities then outstanding.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over such other Securityholder.

Section 10.7. Rights of Holders to Receive Payment and to Convert.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment of the principal amount, Redemption Price, Purchase Price, Fundamental Change Purchase Price or interest (including Contingent Interest and Additional Interest, if any) on any Security, on or after the respective due dates expressed in the Security and this Indenture, to convert such Security in accordance with Article 6 and to bring suit for the enforcement of any such payment on or after such respective dates or the right to convert, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

Section 10.8. Collection Suit by Trustee.

If an Event of Default in the payment of principal or interest specified in clause (1) or (2) of Section 10.1 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or another obligor on the Securities for the whole amount owing with respect to the Securities and the amounts provided for in Section 11.7.

Section 10.9. Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor on the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any money or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 11.7, and to the extent that such payment of the reasonable compensation, expenses, disbursements and advances in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other property which the Holders may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to, or, on behalf of any Holder, to authorize, accept or adopt any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 10.10. Priorities.

If the Trustee collects any money pursuant to this Article 10, it shall pay out the money in the following order:

First, to the Trustee for amounts due under Section 11.7;

Second, to Securityholders for amounts due and unpaid on the Securities for the principal amount, Redemption Price, Purchase Price, Fundamental Change Purchase Price or interest (including Contingent Interest and Additional Interest, if any), as the case may be, ratably, without preference or priority of any kind, according to such amounts due and payable on the Securities; and

Third, the balance, if any, to the Company.

The Trustee may fix a record date and payment date for any payment to Holders pursuant to this Section 10.10. At least 15 days before such record date, the Trustee shall mail to each Securityholder and the Company a notice that states the record date, the payment date and the amount to be paid.

Section 10.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 10.11 does not apply to a suit made by the Trustee, a suit by a Holder pursuant to Section 10.7, or a suit by Holders of more than 10% in aggregate principal amount of the Securities then outstanding. This Section 10.11 shall be in lieu of Section 315(e) of the TIA and such Section 315(e) is hereby expressly excluded from this Indenture, as permitted by the TIA.

ARTICLE 11.
TRUSTEE

Section 11.1. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person in a similar capacity would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. The Trustee, however, shall examine any certificates and opinions which by any provision hereof are specifically required to be delivered to the Trustee to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of subsection (b) of this Section 11.1;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 10.5.

(d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers unless the Trustee shall have received adequate indemnity in its opinion against potential costs and liabilities incurred by it relating thereto.

Subparagraphs (c)(i), (ii) and (iii) shall be in lieu of Sections 315(d)(1), 315(d)(2) and 315(d)(3) of the TIA, respectively, and such Sections 315(d)(1), 315(d)(2) and 315(d)(3) are hereby expressly excluded from this Indenture, as permitted by the TIA.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to subsections (a), (b), (c) and (d) of this Section 11.1.

(f) The Trustee shall not be liable for interest or any other investment income on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

Section 11.2. Rights of Trustee.

Subject to Section 11.1:

(a) The Trustee may rely conclusively on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 15.4(b). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion.

(c) The Trustee may act through its agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of such counsel as to matters of law shall be full and complete authorization and protection in respect of any such action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(g) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice by the Company or any Holder of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office, and such notice references the Securities and this Indenture.

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

Section 11.3. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or an Affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 11.10 and 11.11.

Section 11.4. Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities other than its certificate of authentication.

Section 11.5. Notice of Default or Events of Default.

If a Default or an Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall give to each Securityholder notice of the Default within 90 days after it occurs or, if later, within 15 days after it is known to the Trustee, unless such Default or Event of Default shall have been cured or waived before the giving of such notice. Notwithstanding the preceding sentence, except in the case of a Default or Event of Default described in Section 10.1(a) or (b), the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interest of the Securityholders. The preceding sentence shall be in lieu of the proviso to Section 315(b) of the TIA and such proviso is hereby expressly excluded from this Indenture, as permitted by the TIA.

Section 11.6. Reports by Trustee to Holders.

If such report is required by TIA Section 313, within 60 days after each March 15, beginning with the March 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such March 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(2) and (c).

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed. The Company shall notify the Trustee whenever the Securities become listed on any stock exchange or listed or admitted to trading on any quotation system and any changes in the stock exchanges or quotation systems on which the Securities are listed or admitted to trading and of any delisting thereof.

Section 11.7. Compensation and Indemnity.

The Company shall pay to the Trustee from time to time such compensation (as agreed to from time to time by the Company and the Trustee in writing) for its services (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust). The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such expenses may

include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee or any predecessor Trustee (which for purposes of this Section 11.7 shall include its officers, directors, employees and agents) for, and hold it harmless against, any and all loss, liability or expense (including reasonable legal fees and expenses) including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), incurred by it in connection with the acceptance or administration of its duties under this Indenture or any action or failure to act as authorized or within the discretion or rights or powers conferred upon the Trustee hereunder including the reasonable costs and expenses of the Trustee and its counsel in defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Company need not pay for any settlement without its written consent, which shall not be unreasonably withheld.

The Company need not reimburse the Trustee for any expense or indemnify it against any loss or liability incurred by it resulting from its negligence or bad faith.

To secure the Company's payment obligations in this Section 11.7, the Trustee shall have a senior claim to which the Securities are hereby made subordinate on all money or property held or collected by the Trustee, except such money or property held in trust to pay the principal of, Redemption Price, Purchase Price, Fundamental Change Purchase Price or interest (including Contingent Interest and Additional Interest, if any), as the case may be, on the Securities. The obligations of the Company under this Section 11.7 shall survive the satisfaction and discharge of this Indenture and the Securities or the resignation or removal of the Trustee.

When the Trustee incurs expenses or renders services after an Event of Default specified in clause (7) or (8) of Section 10.1 occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law. The provisions of this Section shall survive the termination of this Indenture and the Securities.

Section 11.8. Replacement of Trustee.

The Trustee may resign by so notifying the Company. The Holders of a majority in aggregate principal amount of the Securities then outstanding may remove the Trustee by so notifying the Trustee and may, with the Company's written consent, appoint a successor Trustee. The Company may remove the Trustee if:

(1) the Trustee fails to comply with Section 11.10;

(2) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. The resignation or removal of a Trustee shall not be effective until a successor Trustee shall have delivered the written acceptance of its appointment as described below.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of 10% in principal amount of the Securities then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee at the expense of the Company.

If the Trustee fails to comply with Section 11.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee and be released from its obligations (exclusive of any liabilities that the retiring Trustee may have incurred while acting as Trustee) hereunder, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Holder.

A retiring Trustee shall not be liable for the acts or omissions of any successor Trustee after its succession and shall be protected in its actions taken in accordance with this Indenture prior to such resignation.

Notwithstanding replacement of the Trustee pursuant to this Section 11.8, the Company's obligations under Section 11.7 shall continue for the benefit of the retiring Trustee.

Section 11.9. Successor Trustee by Merger, Etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust assets (including the administration of this Indenture) to, another corporation, the resulting, surviving or transferee corporation, without any further act, shall be the successor Trustee, provided such transferee corporation shall qualify and be eligible under Section 11.10. Such successor Trustee shall promptly mail notice of its succession to the Company and each Holder.

Section 11.10. Eligibility; Disqualification.

The Trustee shall always satisfy the requirements of paragraphs (1), (2) and (5) of TIA Section 310(a). The Trustee (or its parent holding company) shall have a combined capital and surplus of at least $50,000,000. If at any time the Trustee shall cease to satisfy any such requirements, it shall

resign immediately in the manner and with the effect specified in this Article 11. The Trustee shall be subject to the provisions of TIA Section 310(b). Nothing herein shall prevent the Trustee from filing with the SEC the application referred to in the penultimate paragraph of TIA Section 310(b).

Section 11.11. Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 12.
AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 12.1. Without Consent of Holders.

The Company and the Trustee may amend or supplement the Indenture or the Securities without notice to or consent of any Securityholder:

(a) to comply with Sections 6.9 and 9.1;

(b) to cure any ambiguity, omission, defect or inconsistency;

(c) to make any other change that does not adversely affect the rights of any Securityholder;

(d) to comply with the provisions of the TIA;

(e) to add to the covenants of the Company for the equal and ratable benefit of the Securityholders or to surrender any right, power or option conferred upon the Company; or

(f) to appoint a successor Trustee.

Section 12.2. With Consent of Holders.

The Company and the Trustee may amend or supplement the Securities or this Indenture with the written consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding. The Holders of at least a majority in aggregate principal amount of the Securities then outstanding may waive compliance in a particular instance by the Company with any provision of the Securities or this Indenture without notice to any Securityholder. However, notwithstanding the foregoing but subject to Section 12.4, without the written consent of each Securityholder affected, an amendment, supplement or waiver, including a waiver pursuant to Section 10.4, may not:

(a) change the stated maturity of the principal of, or the payment date of any installment of interest (including Contingent Interest and Additional Interest, if any) on, or with respect to any Security;

(b) reduce the principal amount of, the Redemption Price, Purchase Price or Fundamental Change Purchase Price of, or rate of interest (including Contingent Interest and Additional Interest, if any) on, any Security;

(c) reduce the amount of principal payable upon acceleration of the maturity of any Security;

(d) change the currency of payment of principal of, the Redemption Price, Purchase Price or Fundamental Change Purchase Price of, or rate of interest (including Contingent Interest and Additional Interest, if any) on, any Security;

(e) impair the right to institute suit for the enforcement of any payment on, or with respect to, any Security;

(f) modify the provisions with respect to the purchase rights of Holders as provided in Articles 4 and 5 in a manner adverse to Holders;

(g) adversely affect the right of Holders to convert Securities other than as provided in or under Article 6 of this Indenture;

(h) reduce the percentage of the aggregate principal amount of the outstanding Securities the written consent or affirmative vote of whose Holders is required to take specific actions under this Indenture;

(i) reduce the percentage of the aggregate principal amount of the outstanding Securities necessary for the waiver of compliance with certain provisions of this Indenture or the waiver of certain Defaults under this Indenture; or

(j) alter the manner of calculation or rate of accrual of interest, Contingent Interest, Additional Interest, Redemption Price or Purchase Price on any Security or extend the time or payment of any such amount.

It shall not be necessary for the consent of the Holders under this Section 12.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section 12.2 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not,

however, in any way impair or affect the validity of any such amendment, supplement or waiver.

Section 12.3. Compliance with Trust Indenture Act.

Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as in effect at the date of such amendment or supplement.

Section 12.4. Revocation and Effect of Consents.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to its Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective.

After an amendment, supplement or waiver becomes effective, it shall bind every applicable Securityholder.

Section 12.5. Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

Section 12.6. Trustee to Sign Amendments, Etc.

The Trustee shall sign any amendment or supplemental indenture authorized pursuant to this Article 12 if the amendment or supplemental indenture does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, in its sole discretion, but need not sign it. In signing or refusing to sign such amendment or supplemental indenture, the Trustee shall be entitled to receive and, subject to Section 11.1, shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment or supplemental indenture is authorized or permitted by this Indenture.

Section 12.7. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

ARTICLE 13.
TAX TREATMENT

The Company agrees, and by acceptance of a beneficial ownership interest in the Securities each Holder and each beneficial owner of the Securities shall be deemed to have agreed, for United States federal income tax purposes (1) to treat the Securities as indebtedness that is subject to Treasury regulations section 1.1275-4 (the "**Contingent Debt Regulations**") and, for purposes of the Contingent Debt Regulations, to treat the fair market value of any stock

beneficially received upon any conversion of the Securities as a contingent payment, (2) to accrue interest with respect to the Securities as original issue discount on a constant yield basis using the comparable yield of 5.86% per annum compounded semi-annually and (3) to be bound by the Company's determination of the "comparable yield" and "projected payment schedule," within the meaning of the Contingent Payment Regulations, with respect to the Securities. A Holder of Securities may obtain the issue price, amount of original issue discount, issue date, yield to maturity, comparable yield and projected payment schedule for the Securities by submitting a written request for such information to the Company at the following address: Quanex Corporation, 1900 West Loop South, Suite 1500, Houston, Texas 77027, Attention: Chief Financial Officer and Treasurer.

ARTICLE 14.
SATISFACTION AND DISCHARGE

Section 14.1. Satisfaction and Discharge of the Indenture.

This Indenture shall cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(a) either

(i) all Securities theretofore authenticated and delivered (other than Securities that have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.7) have been delivered to the Trustee for cancellation; or

(ii) all such Securities not theretofore delivered to the Trustee for cancellation have become due and payable or shall become due and payable (whether at the Final Maturity Date or upon acceleration, or on any Redemption Date, or with respect to any Purchase Date or Fundamental

Change Purchase Date), and the Company deposits with the Paying Agent cash or Common Stock, as applicable, sufficient to pay all amounts due and owing on all outstanding Securities (other than Securities replaced pursuant to Section 2.7);

(b) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company as to conversion of the Securities under Article 6 of this Indenture and to the Trustee under Section 11.7 and, if money shall have been deposited with the Trustee pursuant to Section 14.1(a)(ii), the obligations of the Trustee under Section 14.2 shall survive.

Section 14.2. Repayment to the Company.

The Trustee and the Paying Agent shall return to the Company upon written request any cash or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, subject to applicable unclaimed property law. After return to the Company, Holders entitled to the cash or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person and the Trustee and the Paying Agent shall have no further liability to the Securityholders with respect to such cash or securities for that period commencing after the return thereof.

ARTICLE 15.
MISCELLANEOUS

Section 15.1. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317, inclusive, of the TIA through operation of Section 318(c) thereof, such imposed duties shall control.

Section 15.2. Notices.

Any demand, authorization notice, request, consent or communication shall be given in writing and delivered in person or mailed by first-class mail, postage prepaid, addressed as follows or transmitted by facsimile transmission (confirmed by delivery in person or mail by first-class mail, postage prepaid, or by guaranteed overnight courier) to the following facsimile numbers:

If to the Company, to:

Quanex Corporation
1900 West Loop South
Suite 1500
Houston, TX 77027
Attention: Kevin P. Delaney, Esq.
General Counsel
Fax No.: (713) 626-7549

if to the Trustee, to:

Union Bank of California, N.A.
475 Sansome Street, 12th Floor
San Francisco, CA 94111
Attention: Corporate Trust Office
Facsimile No.: (415) 296-6957

Such notices or communications shall be effective when received.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed by first-class mail, postage prepaid, or delivered by an overnight delivery service to it at its address shown on the register kept by the Registrar.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication to a Securityholder is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 15.3. Communications by Holders with Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other person shall have the protection of TIA Section 312(c).

Section 15.4. Certificate and Opinion as to Conditions Precedent.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee at the request of the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent (including any covenants, compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent (including any covenants, compliance with which constitutes a condition precedent) have been complied with.

(b) Each Officers' Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with;

provided that with respect to matters of fact an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

Section 15.5. Record Date for Vote or Consent of Securityholders.

The Company may set a record date for purposes of determining the identity of Holders entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture, which record date shall not be more than 30 days prior to the date of the commencement of solicitation of such action. Notwithstanding the provisions of Section 12.4, if a record date is fixed, those persons who were Holders of Securities at the close of business on such record date (or their duly designated proxies), and only those persons, shall be entitled to take such action by vote or consent or to revoke any vote or consent previously given, whether or not such persons continue to be Holders after such record date.

Section 15.6. Rules by Trustee, Paying Agent, Registrar and Conversion Agent.

The Trustee may make reasonable rules (not inconsistent with the terms of this Indenture) for action by or at a meeting of Holders. Any Registrar, Paying Agent or Conversion Agent may make reasonable rules for its functions.

Section 15.7. Legal Holidays.

A "**Legal Holiday**" is a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York and the state in which the Corporate Trust Office is located are not required to be open. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If an Interest Payment Record Date is a Legal Holiday, the record date shall not be affected.

Section 15.8. Governing Law.

This Indenture and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 15.9. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary of the Company. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 15.10. No Recourse Against Others.

All liability described in paragraph 14 of the Securities of any director, officer, employee or shareholder, as such, of the Company is waived and released.

Section 15.11. Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successor.

Section 15.12. Multiple Counterparts.

The parties may sign multiple counterparts of this Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

Section 15.13. Separability.

In case any provisions in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 15.14. Table of Contents, Headings, Etc.

The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the date and year first above written.

QUANEX CORPORATION

By: _____
Name:
Title:

UNION BANK OF CALIFORNIA, N.A., as
Trustee

By: _____
Name:
Title:

EXHIBIT A

[FORM OF FACE OF SECURITY]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN. THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE AND, UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY.](1)

[THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), AND THIS SECURITY AND COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.](2)

[THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY AND COMMON STOCK ISSUABLE UPON CONVERSION THEREOF MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE

(1) This legend should be included only if the Security is a Global Security.

(2) This legend to be included only if the Security is a Restricted Security.

SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. IN ANY CASE, THE HOLDER HEREOF WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTIONS WITH REGARD TO THIS SECURITY EXCEPT AS PERMITTED UNDER THE SECURITIES ACT.](2)

[THE HOLDER OF THIS SECURITY IS ENTITLED TO THE BENEFITS OF A REGISTRATION RIGHTS AGREEMENT (AS SUCH TERM IS DEFINED IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF) AND, BY ITS ACCEPTANCE HEREOF, AGREES TO BE BOUND BY AND TO COMPLY WITH THE PROVISIONS OF SUCH REGISTRATION RIGHTS AGREEMENT.](2)

THE COMPANY AGREES, AND BY ACCEPTANCE OF A BENEFICIAL OWNERSHIP INTEREST IN THE SECURITIES EACH HOLDER AND EACH BENEFICIAL OWNER OF THE SECURITIES WILL BE DEEMED TO HAVE AGREED, FOR UNITED STATES FEDERAL INCOME TAX PURPOSES (1) TO TREAT THE SECURITIES AS INDEBTEDNESS THAT IS SUBJECT TO TREASURY REGULATIONS SECTION 1.1275-4 (THE "CONTINGENT DEBT REGULATIONS") AND, FOR PURPOSES OF THE CONTINGENT DEBT REGULATIONS, TO TREAT THE FAIR MARKET VALUE OF ANY STOCK BENEFICIALLY RECEIVED UPON ANY CONVERSION OF THE SECURITIES AS A CONTINGENT PAYMENT, (2) TO ACCRUE INTEREST WITH RESPECT TO THE SECURITIES AS ORIGINAL ISSUE DISCOUNT ON A CONSTANT YIELD BASIS USING THE COMPARABLE YIELD OF 5.86% PER ANNUM COMPOUNDED SEMI-ANNUALLY AND (3) TO BE BOUND BY THE COMPANY'S DETERMINATION OF THE "COMPARABLE YIELD" AND "PROJECTED PAYMENT SCHEDULE," WITHIN THE MEANING OF THE CONTINGENT PAYMENT REGULATIONS, WITH RESPECT TO THE SECURITIES. A HOLDER OF SECURITIES MAY OBTAIN THE ISSUE PRICE, AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE, YIELD TO MATURITY, COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE FOR THE SECURITIES BY SUBMITTING A WRITTEN REQUEST FOR SUCH INFORMATION TO THE COMPANY AT THE FOLLOWING ADDRESS: QUANEX CORPORATION, 1900 WEST LOOP SOUTH, SUITE 1500, HOUSTON, TEXAS 77027, ATTENTION: CHIEF FINANCIAL OFFICER AND TREASURER.

QUANEX CORPORATION

2.50% Convertible Senior Debentures due May 15, 2034

No. CUSIP: 747620AD4

QUANEX CORPORATION, a Delaware corporation (the "**Company**", which term shall include any successor corporation under the Indenture referred to on the reverse hereof), promises to pay to , or registered assigns, up to the principal amount of ($) [, or such greater or lesser amount as is indicated on the Schedule of Exchanges of Securities on the other side of this Security](3) on May 15, 2034, and to pay interest thereon, in arrears, from May 5, 2004 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, on May 15 and November 15 in each year (each, an "**Interest Payment Date**"), commencing on November 15, 2004, at the rate of 2.50% per annum until the principal hereof is paid or made available for payment at May 15, 2034, or upon acceleration, or until such date on which the Securities are converted, redeemed or purchased as provided herein. The interest so payable and punctually paid or duly provided for on any Interest Payment Date shall, as provided in the Indenture (as hereinafter defined), be paid to the Person in whose name this Security is registered at the close of business on the regular record date for such interest, which shall be the May 1 or November 1 (whether or not a Business Day), as the case may be, next preceding the corresponding Interest Payment Date (an "**Interest Payment Record Date**").

The Company shall make Contingent Interest payments to the Holders of Securities during any six-month period from May 15 to November 14 and from November 15 to May 14, commencing with the six-month period beginning May 15, 2011, if the average Trading Price of a Security for the five Trading Days ending on the third Trading Day immediately preceding the first day of the relevant Contingent Interest Period equals 120% or more of the principal amount of such Security. Contingent Interest shall be paid to the Person in whose name a Security is registered on the next preceding Interest Payment Record Date on which Contingent Interest is payable. The amount of Contingent Interest payable per $1,000 principal amount of Securities in respect of any Contingent Interest Period shall equal 0.25% per annum of such average Trading Price of such Security.

Reference is hereby made to the further provisions of this Security set forth on the reverse side of this Security, which further provisions shall for all purposes have the same effect as if set forth at this place.

[Signature page follows]

(3) This should be included only if the Security is a Global Security.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: _____

QUANEX CORPORATION

By: _____
Name:
Title:

Attested by:

_____
Name:
Title:

Trustee's Certificate of Authentication: This is one of the Securities referred to in the within-mentioned Indenture.

UNION BANK OF CALIFORNIA, N.A.
as Trustee

By: _____
Authorized Signatory

[FORM OF REVERSE SIDE OF SECURITY]

QUANEX CORPORATION

2.50% Convertible Senior Debentures due May 15, 2034

This Security is one of a duly authorized issue of 2.50% Convertible Senior Debentures due May 15, 2034 (the "**Securities**") of QUANEX CORPORATION, a Delaware corporation (including any successor corporation under the Indenture hereinafter referred to, the "**Company**"), issued under an Indenture, dated as of May 5, 2004 (the "**Indenture**"), between the Company and Union Bank of California, N.A., as trustee (the "**Trustee**"). The terms of the Security include those stated in the Indenture, those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended ("**TIA**"), and those set forth in this Security. This Security is subject to all such terms, and Holders are referred to the Indenture and the TIA for a statement of all such terms. To the extent permitted by applicable law, in the event of any inconsistency between the terms of this Security and the terms of the Indenture, the terms of the Indenture shall control. Capitalized terms used but not defined herein have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

1. Interest.

Interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months.

If this Security is redeemed pursuant to paragraph 5 of this Security, or the Holder elects to require the Company to purchase this Security pursuant to paragraph 6 of this Security, on a date that is after the Interest Payment Record Date and on or before the corresponding Interest Payment Date, interest, Contingent Interest and Additional Interest, if any, accrued and unpaid hereon to, but excluding, the applicable Redemption Date, Purchase Date or Fundamental Change Purchase Date shall be paid to the same Holder to whom the Company pays the principal of this Security. Interest, Contingent Interest and Additional Interest, if any, accrued and unpaid hereon at the Final Maturity Date also shall be paid to the same Holder to whom the Company pays the principal of this Security.

Interest, Contingent Interest and Additional Interest, if any, on Securities converted after the close of business on a Interest Payment Record Date but prior to the opening of business on the corresponding Interest Payment Date shall be paid to the Holder of the Securities on the Interest Payment Record Date but, upon conversion, the Holder must pay the Company an amount equal to the interest, Contingent Interest and Additional Interest, if any, which has accrued and shall be paid on such Interest Payment Date. No such payment need be made with respect to Securities converted after an Interest Payment Record Date and prior to the corresponding Interest Payment Date after being called for redemption if the Company has specified a Redemption Date during the period from the close of business on any record date preceding any Interest Payment Date through and including such Interest Payment Date.

Except as otherwise stated herein, any reference herein to interest accrued or payable as of any date shall include Contingent Interest, if any, and Additional Interest, if any accrued or payable on such date as provided in the Registration Rights Agreement.

2. Method of Payment.

Payment of the principal of, interest (including Contingent Interest and Additional Interest, if any) on the Securities shall be made at the Corporate Trust Office of the Trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. The Holder must surrender this Security to a Paying Agent to collect payment of principal. Payment of interest (including Contingent Interest and Additional Interest, if any) on Certificated Securities will be made by (i) check mailed to the address of the Person entitled thereto as such address appears in the Register if such Securities have an aggregate principal amount of $5 million or less or (ii) wire transfer of immediately available funds to an account designated by such Person if such Securities have an aggregate principal amount in excess of $5 million. Notwithstanding the foregoing, so long as the Securities are registered in the name of a Depositary or its nominee, all payments with respect to the Securities shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee.

3. Paying Agent, Registrar, Conversion Agent and Bid Solicitation Agent.

Initially, the Trustee will act as Paying Agent, Registrar, Bid Solicitation Agent and Conversion Agent. The Company or any Affiliate of the Company may act as Paying Agent, Registrar, Conversion Agent or co-registrar. None of the Company or any Affiliate of any of them may act as Bid Solicitation Agent.

4. Indenture.

The Securities are general unsecured senior obligations of the Company limited to up to $125,000,000 aggregate principal amount ($25,000,000 of which includes Securities issued upon exercise in full of the Initial Purchasers' option to purchase additional Securities provided for in the Purchase Agreement). The Indenture does not limit other debt of the Company, secured or unsecured.

5. Redemption at the Option of the Company.

The Company may, at its option, redeem the Securities at any time as a whole, or from time to time in part, on or after May 15, 2011, at a redemption price in cash equal to 100% of the principal amount of Securities to be redeemed plus any accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on those Securities to, but not including, the Redemption Date.

Notice of redemption pursuant to this Section of this Security shall be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Securities to be redeemed at the Holder's registered address. If cash sufficient to pay the Redemption Price of all Securities or portions thereof to be redeemed on the Redemption Date is deposited with the Paying Agent prior to 10:00 a.m., New York City time, on the Redemption Date, then immediately after such Redemption Date, such Securities or portions thereof shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) shall cease to accrue on such Securities or portions thereof and the Holder thereof shall have no other rights as such other than the right to receive the Redemption Price upon surrender of such

Security. Securities in denominations larger than $1,000 of principal amount may be redeemed in part but only in multiples of $1,000 of principal amount.

6. Purchase by the Company at the Option of the Holder or Upon a Fundamental Change.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, all or any portion of the Securities held by such Holder on May 15 of 2011, 2014, 2019, 2024 and 2029 in multiples of $1,000 at a purchase price in cash equal to 100% of the principal amount of those Securities plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) to, but not including, such Purchase Date. To exercise such right, a Holder shall deliver to the Paying Agent a Purchase Notice containing the information set forth in the Indenture, at any time from 9:00 a.m., New York City time, on the date that is 20 Business Days immediately preceding such Purchase Date until 5:00 p.m., New York City time, on the Business Day immediately preceding such Purchase Date, and shall deliver the Securities to the Paying Agent as set forth in the Indenture.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, all or any portion of the Securities held by such Holder upon a Fundamental Change in multiples of $1,000 at the Fundamental Change Purchase Price. To exercise such right, a Holder shall deliver to the Paying Agent a Fundamental Change Purchase Notice containing the information set forth in the Indenture, at any time prior to 5:00 p.m., New York City time, on the Business Day immediately preceding the Fundamental Change Purchase Date, and shall deliver the Securities to the Paying Agent as set forth in the Indenture.

Holders have the right to withdraw any Purchase Notice or Fundamental Change Purchase Notice by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

If cash sufficient to pay the Purchase Price or Fundamental Change Purchase Price, as the case may be, of all Securities or portions thereof to be purchased with respect to a Purchase Date or Fundamental Change Purchase Date, as the case may be, is deposited with the Paying Agent, at 10:00 a.m., New York City time, on the Purchase Date or Fundamental Change Purchase Date, as the case may be, then, immediately after the Purchase Date or Fundamental Change Purchase Date, as applicable, such Securities shall cease to be outstanding and interest (including Contingent Interest and Additional Interest, if any) on such Securities shall cease to accrue on such Securities or portion thereof and the Holder thereof shall have no other rights as such other than the right to receive the Purchase Price or Fundamental Change Purchase Price upon surrender of such Security.

7. Conversion.

Subject to and in compliance with the provisions of the Indenture (including, without limitation, the conditions to conversion of this Security set forth in Section 6.1 thereof and the right of the Company to elect to deliver cash or a combination of cash and Common Stock set forth in Section 6.13 thereof), a Holder is entitled, at such Holder's option, to convert the Holder's Security (or any portion of the principal amount thereof that is $1,000 or a multiple

of $1,000), into fully paid and nonassessable shares of Common Stock at the Conversion Rate in effect on the date of conversion.

Upon conversion, the Company shall have the right to deliver, in lieu of shares of Common Stock, cash or a combination of cash and shares of Common Stock.

On the first date the Securities become convertible, the Company shall notify Holders in writing of its Principal Conversion Settlement Election. This notification is irrevocable and legally binding with regard to any subsequent conversion of the Securities.

Until the Securities are surrendered for conversion, the Company shall not be required to notify Holders of its method for settling the Excess Amount of its conversion obligation of the $1,000 principal amount of the Securities.

The Company shall notify Holders of any event triggering the right to convert the Securities in accordance with the Indenture.

A Security in respect of which a Holder has delivered a Purchase Notice or Fundamental Change Purchase Notice, as the case may be, exercising the right of such Holder to require the Company to purchase such Security may be converted only if such Purchase Notice or Fundamental Change Purchase Notice is withdrawn in accordance with the terms of the Indenture.

The initial Conversion Rate is 17.3919 shares of Common Stock per $1,000 principal amount of Securities, subject to adjustment in certain events described in the Indenture.

To surrender a Security for conversion, a Holder must, in the case of Global Securities, comply with the Applicable Procedures of the Depositary in effect at that time, and in the case of Certificated Securities, (1) surrender the Security to the Conversion Agent, (2) complete and manually sign the conversion notice below (or complete and manually sign a facsimile of such notice) and deliver such notice to the Conversion Agent, (3) if required by the Conversion Agent, furnish appropriate endorsements and transfer documents and (4) pay all funds required, if any, relating to interest (including Contingent Interest and Additional Interest, if any), and any transfer or similar tax or duty, if required.

No fractional share of Common Stock shall be issued upon conversion of any Security. Instead, the Company shall pay a cash adjustment as provided in the Indenture.

Except as provided in Section 6.2(a) and Section 6.12 of the Indenture, no separate cash payment or adjustment shall be made for accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) or dividends on the shares of Common Stock, except as provided in the Indenture.

8. Denominations; Transfer; Exchange.

The Securities are in registered form, without coupons, in denominations of $1,000 and integral multiples of $1,000. A Holder may register the transfer of or exchange Securities in accordance with the Indenture. The Registrar may require a Holder, among other

things, to furnish appropriate endorsements and transfer documents and to pay any taxes or other governmental charges that may be imposed in relation thereto by law or permitted by the Indenture.

9. Persons Deemed Owners.

The registered Holder of a Security may be treated as the owner of the Security for all purposes.

10. Unclaimed Money or Securities.

The Trustee and the Paying Agent shall return to the Company upon written request any Cash or securities held by them for the payment of any amount with respect to the Securities that remains unclaimed for two years, subject to applicable unclaimed property law. After return to the Company, Holders entitled to the money or securities must look to the Company for payment as general creditors unless an applicable abandoned property law designates another person.

11. Amendment, Supplement and Waiver.

Subject to certain exceptions, the Securities or the Indenture with respect to the Securities may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Securities then outstanding, and an existing Default or Event of Default with respect to the Securities and its consequence or compliance with any provision of the Securities or the Indenture with respect to the Securities may be waived in a particular instance with the consent of the Holders of a majority in aggregate principal amount of the Securities then outstanding. Without the consent of or notice to any Holder, the Company and the Trustee may amend or supplement the Indenture or the Securities to, among other things, cure any ambiguity, defect or inconsistency or make any other change that does not adversely affect the rights of any Holder.

12. Defaults and Remedies

If any Event of Default other than as a result of certain events of bankruptcy, insolvency or reorganization of the Company or its Significant Subsidiaries occurs and is continuing, the principal of all the Securities plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) may be declared due and payable in the manner and with the effect provided in the Indenture. If an Event of Default occurs as a result of certain events of bankruptcy, insolvency or reorganization of the Company or its Significant Subsidiaries, the principal plus accrued and unpaid interest (including Contingent Interest and Additional Interest, if any) on all the Securities to be immediately due and payable of all the Securities shall become due and payable immediately without any declaration or other act on the part of the Trustee or any Holder, all as and to the extent provided in the Indenture.

13. Trustee Dealings with the Company.

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Securities

and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

14. No Recourse Against Others.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture, or in this Security, or because of any indebtedness evidenced thereby, shall be had against any incorporator, as such, or against any past, present or future stockholder, officer or director, as such, of the Company or of any successor, either directly or through the Company or any successor, under any rule of law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise, all such liability being expressly waived and released by the acceptance of the Securities by the Holders and as part of the consideration for the issue of the Securities.

15. Authentication.

This Security shall not be valid until the Trustee or an authenticating agent manually signs the certificate of authentication on the other side of this Security.

16. Abbreviations.

Customary abbreviations may be used in the name of the Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and UGMA (= Uniform Gifts to Minors Act).

17. Indenture to Control; Governing Law.

To the extent permitted by applicable law, in the case of any conflict between the provisions of this Security and the Indenture, the provisions of the Indenture shall control. This Security shall be governed by, and construed in accordance with, the laws of the State of New York.

18. Copies of Indenture.

The Company will furnish to any Holder, upon written request and without charge, a copy of the Indenture. Requests may be made to: Quanex Corporation, 1900 West Loop South, Suite 1500, Houston, Texas 77027, Fax no.: (713) 626-7549, Attention: General Counsel.

[19. Registration Rights.

The Holders of the Securities are entitled to the benefits of a Registration Rights Agreement, dated as of May 5, 2004, between the Company and the Initial Purchasers named

therein, including, in certain circumstances, the receipt of Additional Interest upon a registration default (as defined in such agreement).](4)

(4) This Section to be included only if the Security is a Restricted Security.

SCHEDULE OF EXCHANGES OF SECURITIES(5)

The following exchanges, redemptions, purchases or conversions of a part of this Global Security have been made:

Date of Exchange (or Increase)	Amount of Principal	Decrease in Principal Amount of this Global Security	Amount of Increase in Principal Amount of this Global Security	Principal Amount of this Global Security Following Such Decrease	Authorized Signatory of Securities Custodian

(5) This schedule should be included only if the Security is a Global Security.

ASSIGNMENT FORM(6)

To assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Insert assignee’s soc. sec. or tax ID no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Your Signature:

Date: _____ _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guaranteed

_____

Participant in a Recognized Signature
Guarantee Medallion Program

By: _____

Authorized Signatory

_____

(6) This Form and the following Forms should be included only if the Security is a Certificated Security.

FORM OF CONVERSION NOTICE

To convert this Security into shares of Common Stock (or cash or a combination of shares of Common Stock and cash, if the Company so elects) of the Company, check the box o

To convert only part of this Security, state the principal amount to be converted (which must be $1,000 or a multiple of $1,000):

If you want the stock certificate made out in another person's name fill in the form below:

(Insert assignee's soc. sec. or tax ID no.)

(Print or type assignee's name, address and zip code)

Your Signature:

Date: _____ _____

(Sign exactly as your name appears on the other side of this Security)

Signature Guaranteed

_____

Participant in a Recognized Signature
Guarantee Medallion Program

By: _____

Authorized Signatory

FORM OF PURCHASE NOTICE

,

Union Bank of California, N.A.
475 Sansome Street, 12th Floor
San Francisco, CA 94111
Attention: Corporate Trust Office

Re: Quanex Corporation (the "**Company**")
2.50% Convertible Senior Debentures due May 15, 2034

This is a Purchase Notice as defined in Section 4.1(c) of the Indenture dated as of May 5, 2004 (the "**Indenture**") between the Company and Union Bank of California, N.A., as Trustee. Terms used but not defined herein shall have the meanings ascribed to them in the Indenture.

Certificate No(s). of Securities:

I intend to deliver the following aggregate principal amount of Securities for purchase by the Company pursuant to Article 4 of the Indenture (in multiples of $1,000):

$

I hereby agree that the Securities will be purchased on the Purchase Date pursuant to the terms and conditions specified in the Securities and the Indenture.

Signed: _____

FORM OF FUNDAMENTAL CHANGE PURCHASE NOTICE

,

Union Bank of California, N.A.
475 Sansome Street, 12th Floor
San Francisco, CA 94111
Attention: Corporate Trust Office

Re: Quanex Corporation (the "**Company**")
2.50% Convertible Senior Debentures due May 15, 2034

This is a Fundamental Change Purchase Notice as defined in Section 5.1(c) of the Indenture dated as of May 5, 2004 (the "**Indenture**") between the Company and Union Bank of California, N.A., as Trustee. Terms used but not defined herein shall have the meanings ascribed to them in the Indenture.

Certificate No(s). of Securities:

I intend to deliver the following aggregate principal amount of Securities for purchase by the Company pursuant to Article 5 of the Indenture (in multiples of $1,000):

$

I hereby agree that the Securities will be purchased on the Fundamental Change Purchase Date pursuant to the terms and conditions specified in the Securities and the Indenture.

Signed: _____

EXHIBIT B

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF RESTRICTED SECURITIES(1)

Re: 2.50% Convertible Senior Debentures due May 15, 2034 (the "**Securities**") of Quanex Corporation

This certificate relates to $ principal amount of Securities owned in (check applicable box):

o book-entry or o definitive form by (the "**Transferor**").

The Transferor has requested a Registrar or the Trustee to exchange or register the transfer of such Securities. In connection with such request and in respect of each such Security, the Transferor does hereby certify that the Transferor is familiar with transfer restrictions relating to the Securities as provided in Section 2.12 of the Indenture dated as of May 5, 2004, between Quanex Corporation and Union Bank of California, N.A., as trustee (the "**Indenture**"), and the transfer of such Security is being made pursuant to an effective registration statement under the Securities Act of 1933, as amended (the "**Securities Act**") (check applicable box) or the transfer or exchange, as the case may be, of such Security does not require registration under the Securities Act because (check applicable box):

o Such Security is being transferred pursuant to an effective registration statement under the Securities Act.

o Such Security is being acquired for the Transferor's own account, without transfer.

o Such Security is being transferred to the Company or a Subsidiary (as defined in the Indenture) of the Company.

o Such Security is being transferred to a person the Transferor reasonably believes is a "qualified institutional buyer" (as defined in Rule 144A or any successor provision thereto ("**Rule 144A**") under the Securities Act) that is purchasing for its own account or for the account of a "qualified institutional buyer", in each case to whom notice has been given that the transfer is being made in reliance on such Rule 144A, and in each case in reliance on Rule 144A.

o Such Security is being transferred pursuant to and in compliance with an exemption from the registration requirements under the Securities Act in accordance with Rule 144 (or any successor thereto) ("**Rule 144**") under the Securities Act.

(1) This certificate should only be included if the Security is a Restricted Security.

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o Such Security is being transferred to a non-U.S. Person in an offshore transaction in compliance with Rule 904 of Regulation S under the Securities Act (or any successor thereto).

o Such Security is being transferred pursuant to and in compliance with an exemption from the registration requirements of the Securities Act (other than an exemption referred to above) and as a result of which such Security will, upon such transfer, cease to be a "restricted security" within the meaning of Rule 144 under the Securities Act.

The Transferor acknowledges and agrees that, if the transferee will hold any such Securities in the form of beneficial interests in a Global Security that is a "restricted security" within the meaning of Rule 144 under the Securities Act, then such transfer can be made only (x) pursuant to Rule 144A under the Securities Act to a transferee that the transferor reasonably believes is a "qualified institutional buyer," as defined in Rule 144A, or (y) pursuant to Regulation S under the Securities Act.

Date:

Signature(s) of Transferor

(If the registered owner is a corporation, partnership or fiduciary, the title of the person signing on behalf of such registered owner must be stated.)

Signature Guaranteed

Participant in a Recognized Signature
Guarantee Medallion Program

By:
Authorized Signatory

Exhibit 4.10

Execution Copy

$125,000,000

QUANEX CORPORATION

2.50% Convertible Senior Debentures due May 15, 2034

REGISTRATION RIGHTS AGREEMENT

May 5, 2004

Credit Suisse First Boston LLC
Bear, Stearns & Co. Inc.
Robert W. Baird & Co. Incorporated
KeyBanc Capital Markets, A Division of McDonald Investments Inc.
c/o Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, New York 10010-3629

Ladies and Gentlemen:

Quanex Corporation, a Delaware corporation (the "**Company**"), proposes to issue and sell to Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated and KeyBanc Capital Markets, A Division of McDonald Investments Inc. (collectively, the "**Initial Purchasers**"), upon the terms set forth in a purchase agreement of even date herewith (the "**Purchase Agreement**"), $100,000,000 aggregate principal amount (plus up to an additional $25,000,000 principal amount pursuant to an option granted thereunder) of its 2.50% Convertible Senior Debentures due May 15, 2034 (the "**Initial Securities**"). The Initial Securities will be convertible into shares of common stock, par value $.50 per share, of the Company (the "**Common Stock**") at the conversion price set forth in the Offering Circular dated April 29, 2004. The Initial Securities will be issued pursuant to an Indenture, dated as of May 5, 2004 (the "**Indenture**"), between the Company and Union Bank of California, N.A., as trustee (the "**Trustee**"). As an inducement to the Initial Purchasers to enter into the Purchase Agreement, the Company agrees with the Initial Purchasers, for the benefit of (i) the Initial Purchasers and (ii) the holders of the Initial Securities and the Common Stock issuable upon conversion of the Initial Securities (collectively, the "**Securities**") from time to time until such time as such Securities have been sold pursuant to a Shelf Registration Statement (as defined below) (each of the foregoing a "**Holder**" and collectively the "**Holders**"), as follows:

1. *Shelf Registration*. (a) The Company shall, at its cost, prepare and, as promptly as practicable (but in no event more than 90 days after so required or requested pursuant to this Section 1) file with the Securities and Exchange Commission (the "**Commission**") and thereafter use its reasonable best efforts to cause to be declared effective as soon as practicable, but not later than 180 days after the first date of original issuance of the Initial Securities, a registration statement on Form S-3 (the "**Shelf Registration Statement**" relating to the offer and sale of the Transfer Restricted Securities (as defined in Section 5 hereof) by the Holders thereof from time to time in accordance with the methods of distribution set forth in the Shelf Registration Statement and Rule 415 under the Securities Act of 1933, as amended (the "**Securities Act**") (hereinafter, the "**Shelf Registration**"); provided, however, that no Holder (other than an

---

Initial Purchaser) shall be entitled to have the Securities held by it covered by such Shelf Registration Statement unless such Holder agrees in writing to be bound by all the provisions of this Agreement applicable to such Holder.

(b) The Company shall use its reasonable best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus included therein (the "**Prospectus**") to be lawfully delivered by the Holders of the relevant Securities, for a period of two years (or for such longer period if extended pursuant to Section 2(h) below) from the date of its effectiveness or such shorter period that will terminate when all the Securities covered by the Shelf Registration Statement (i) have been sold pursuant thereto or (ii) are no longer restricted securities (as defined in Rule 144(k) under the Securities Act, or any successor rule thereof), assuming for this purpose that the Holders thereof are not affiliates of the Company (in any such case, such period being called the "**Shelf Registration Period**"). The Company shall be deemed not to have used its reasonable best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Securities covered thereby not being able to offer and sell such Securities during that period, unless such action is (i) required by applicable law or (ii) taken by the Company in good faith and contemplated by Section 2(b)(v) below, and the Company thereafter complies with the requirements of Section 2(h).

(c) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause the Shelf Registration Statement and the Prospectus and any amendment or supplement thereto, as of the effective date of the Shelf Registration Statement, amendment or supplement, (i) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the Commission and (ii) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading.

2. *Registration Procedures*. In connection with the Shelf Registration contemplated by Section 1 hereof, the following provisions shall apply:

(a) The Company shall (i) furnish to each Initial Purchaser, prior to the filing thereof with the Commission, a copy of the Shelf Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and, in the event that an Initial Purchaser (with respect to any portion of an unsold allotment from the original offering) is participating in the Shelf Registration Statement, shall use its reasonable best efforts to reflect in each such document, when so filed with the Commission, such comments as such Initial Purchaser reasonably may propose; and (ii) include the names of the Holders who propose to sell Securities pursuant to the Shelf Registration Statement as selling securityholders.

(b) The Company shall give written notice to the Initial Purchasers and the Holders of the Securities (which notice pursuant to clauses (ii)-(v) hereof shall be accompanied by an instruction to suspend the use of the Prospectus until the requisite changes have been made):

(i) when the Shelf Registration Statement or any amendment thereto has been filed with the Commission and when the Shelf Registration Statement or any post-effective amendment thereto has become effective;

(ii) of any request by the Commission for amendments or supplements to the Shelf Registration Statement or the prospectus included therein or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of any proceedings for that purpose;

(iv) of the receipt by the Company or its legal counsel of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(v) of the happening of any event that requires the Company to make changes in the Shelf Registration Statement or the Prospectus in order that the Shelf Registration Statement or the Prospectus does not contain an untrue statement of a material fact nor omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(c) The Company shall make every reasonable effort to obtain the withdrawal at the earliest possible time of any order suspending the effectiveness of the Shelf Registration Statement.

(d) Upon request in writing, the Company shall furnish to each Holder of Securities included within the coverage of the Shelf Registration, without charge, at least one copy of the Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests, all exhibits thereto (including those, if any, incorporated by reference).

(e) The Company shall, during the Shelf Registration Period, deliver to each Holder of Securities included within the coverage of the Shelf Registration, without charge, as many copies of the Prospectus (including each preliminary prospectus) included in the Shelf Registration Statement and any amendment or supplement thereto as such person may reasonably request. The Company consents, subject to the provisions of this Agreement, to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of the Securities in connection with the offering and sale of the Securities covered by the Prospectus, or any amendment or supplement thereto, included in the Shelf Registration Statement.

(f) Prior to any public offering of the Securities pursuant to the Shelf Registration Statement, the Company shall register or qualify or cooperate with the Holders of the Securities included therein and their respective counsel in connection with the registration or qualification of the Securities for offer and sale under the securities or "blue sky" laws of such states of the United States as any Holder of the Securities reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Securities covered by such Registration Statement; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction where it is not then so qualified or (ii) take any action which would subject it to general service of process or to taxation in any jurisdiction where it is not then so subject.

(g) The Company shall cooperate with the Holders of the Securities to facilitate the timely preparation and delivery of certificates representing the Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations and registered in such names as the Holders may request a reasonable period of time prior to sales of the Securities pursuant to the Shelf Registration Statement.

(h) Upon the occurrence of any event contemplated by paragraphs (ii) through (v) of Section 2(b) above during the period for which the Company is required to maintain an effective Shelf Registration Statement, the Company shall promptly prepare and file a post-effective amendment to the Shelf Registration Statement or an amendment or supplement to the Prospectus and any other required document so that, as thereafter delivered to Holders or purchasers of the Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. If the Company notifies the Initial Purchasers and the Holders in accordance with paragraphs (ii) through (v) of Section 2(b) above to suspend the use of the Prospectus until the requisite changes to the Prospectus have been made, then the Initial Purchasers and the Holders shall suspend use of such prospectus, and the period of effectiveness of the Shelf Registration

Statement provided for in Section 1(b) above shall be extended by the number of days from and including the date of the giving of such notice to and including the date when the Initial Purchasers and the Holders shall have received such amended or supplemented prospectus pursuant to this Section 2(h).

(i) Not later than the effective date of the Shelf Registration Statement, the Company will provide CUSIP numbers for the Initial Securities and the Common Stock registered under the Shelf Registration Statement, and provide the Trustee with printed certificates for the Initial Securities, in a form eligible for deposit with The Depository Trust Company.

(j) The Company will comply with all rules and regulations of the Commission to the extent and so long as they are applicable to the Shelf Registration and will make generally available to its security holders (or otherwise provide in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder) an earnings statement satisfying the provisions of Section 11(a) of the Securities Act, no later than the date that the next Form 10-K or Form 10-Q is required to be filed after the end of the 12-month period beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Shelf Registration Statement.

(k) The Company shall cause the Indenture to be qualified under the Trust Indenture Act of 1939, as amended, (the "**Trust Indenture Act**") in a timely manner and containing such changes, if any, as shall be necessary for such qualification. In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(l) The Company may require each Holder of Securities to be sold pursuant to the Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of the Securities as the Company may from time to time reasonably require for inclusion in the Shelf Registration Statement, and the Company may exclude from such registration the Securities of any Holder that unreasonably fails to furnish such information

within a reasonable time after receiving such request. After the Shelf Registration Statement has become effective, the Company shall (A) after the date information regarding a Holder whose Securities are not registered is delivered to the Company, prepare and file with the Commission (x) a supplement to the Prospectus as promptly as practicable or, if required by applicable law, a post-effective amendment to the Shelf Registration Statement or an additional Shelf Registration Statement as promptly as practicable after the filing of each Form 10-K or Form 10-Q of the Company and (y) any other document required by applicable law, so that the Holder is named as a selling securityholder in a Shelf Registration Statement and is permitted to deliver the Prospectus to purchasers of such Holder's Securities in accordance with applicable law, and (B) if the Company shall file a post-effective amendment to the Shelf Registration Statement, or an additional Shelf Registration Statement, use its reasonable best efforts to cause such post-effective amendment or such additional Shelf Registration Statement to become effective under the Securities Act as promptly as is practicable.

(m) The Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form) and take all such other actions, if any, as any Holder shall reasonably request in order to facilitate the disposition of the Securities pursuant to the Shelf Registration.

(n) In connection with an underwritten offering for the resale of at least $25 million of Securities (an "**Underwritten Offering**"), the Company shall (i) make reasonably available for inspection by the Holders, any underwriter participating in any disposition pursuant to the Shelf Registration Statement and any attorney, accountant or other agent retained by the Holders or any such underwriter, all relevant financial and other records, pertinent corporate documents and properties of the Company and (ii) cause the Company's officers, directors, employees and use its reasonable best efforts to cause the Company's accountants and auditors to supply all relevant information reasonably requested by the Holders or any such underwriter, attorney, accountant or agent in connection with the Shelf Registration Statement, in each case,

as shall be reasonably necessary to enable such persons, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that (x) the Company and its officers, directors, employees, accountants and auditors shall in no event be required to make available information which the Company believes, in its sole judgment, constitutes material non-public information (including but not limited to proprietary or sensitive business information the disclosure of which the Company believes would be harmful to its business) and (y) the foregoing inspection and information gathering shall be coordinated on behalf of the Initial Purchasers by you and on behalf of the other parties, by one counsel designated by and on behalf of such other parties as described in Section 3 hereof.

(o) In connection with an Underwritten Offering, the Company, if requested by any Holder of Securities covered by the Shelf Registration Statement, shall cause (i) its counsel to deliver an opinion and updates thereof relating to the Securities in customary form addressed to such Holders and the managing underwriters, if any, thereof, and dated, in the case of the initial opinion, the effective date of such Shelf Registration Statement (it being agreed that the matters to be covered by such opinion shall include, without limitation, the due incorporation and good standing of the Company, MACSTEEL Monroe and TruSeal Technologies, Inc. and any other subsidiaries of the Company that meet the definition of "significant subsidiary" as defined in Rule 1-02(w) of Regulation S-X (collectively, the "**Significant Subsidiaries**"); the qualification of the Company and its Significant Subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 2(m) hereof by the Company; the due authorization, execution, authentication and issuance by the Company, and the validity and enforceability against the Company, of the Securities; the absence of material legal or governmental proceedings involving the Company and its subsidiaries; the absence of governmental approvals required to be obtained in connection with the Shelf Registration Statement, the offering and sale of the Securities, or any agreement of the type referred to in Section 2(m) hereof; the compliance as to form of the Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act, respectively; and, as of the date of the opinion and as of the effective date of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from the Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from any documents incorporated by reference therein of an untrue statement of a material fact or the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act of 1934, as amended (the "**Exchange Act**")); (ii) its officers to execute and deliver all customary documents and certificates and updates thereof requested by any underwriters of the Securities and (iii) its independent public accountants and the independent public accountants with respect to any other entity for which financial information is provided in the Shelf Registration Statement to provide to the selling Holders of the applicable Securities and any underwriter therefor a comfort letter in customary form and covering matters of the type customarily covered in comfort letters in connection with primary underwritten offerings, subject to receipt of appropriate documentation as contemplated, and only if permitted, by Statement of Auditing Standards No. 72.

(p) In connection with an Underwritten Offering, the Company will use its reasonable best efforts to (a) if the Initial Securities have been rated prior to the initial sale of such Initial Securities, confirm such ratings will apply to the Securities covered by a Registration Statement, or (b) if the Initial Securities were not previously rated, cause the Securities covered by a Registration Statement to be rated with the appropriate rating agencies, if so requested by holders of a majority in aggregate principal amount of Securities covered by the Shelf Registration Statement, or by the managing underwriters, if any.

(q) In the event that any broker-dealer registered under the Exchange Act shall underwrite any Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Conduct Rules (the "**Rules**") of the National Association of

Securities Dealers, Inc. ("**NASD**")) thereof, whether as a Holder of such Securities or as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, in connection with an Underwritten Offering, the Company will assist such broker-dealer in complying with the requirements of such Rules, including, without limitation, by (i) if such Rules, including Rule 2720, shall so require, engaging a "qualified independent underwriter" (as defined in Rule 2720) to participate in the preparation of the Shelf Registration Statement relating to such Securities, to exercise usual standards of due diligence in respect thereto and, if any portion of the offering contemplated by such Registration Statement is an underwritten offering or is made through a placement or sales agent, to recommend the yield of such Securities, (ii) indemnifying any such qualified independent underwriter to the extent of the indemnification of underwriters provided in Section 5 hereof and (iii) providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules.

(r) The Company shall use its reasonable best efforts to take all other steps necessary to effect the registration of the Securities covered by a Registration Statement contemplated hereby.

3. *Registration Expenses*. (a) All expenses of the Company incident to its performance of and compliance with this Agreement will be borne by the Company, regardless of whether a Registration Statement is ever filed or becomes effective, including without limitation;

(i) all registration and filing fees and expenses;

(ii) all fees and expenses of compliance with federal securities and state "blue sky" or securities laws;

(iii) all expenses of printing (including printing certificates for the Securities to be issued and printing of Prospectuses), messenger and delivery services;

(iv) all fees and disbursements of counsel for the Company;

(v) all application and filing fees in connection with listing the Securities on a national securities exchange or automated quotation system pursuant to the requirements hereof; and

(vi) all fees and disbursements of independent certified public accountants of the Company (including the expenses of any special audit and comfort letters required by or incident to such performance).

The Company will bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit and the fees and expenses of any person, including special experts, retained by the Company.

(b) In connection with the Shelf Registration Statement required by this Agreement, the Company will reimburse the Initial Purchasers and the Holders of Securities covered by the Shelf Registration Statement, for the reasonable fees and disbursements of not more than one counsel, designated by the Holders of a majority in principal amount of the Securities covered by the Shelf Registration Statement (provided that Holders of Common Stock issued upon the conversion of the Initial Securities shall be deemed to be Holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted) to act as counsel for the Holders in connection therewith.

4. *Indemnification*. (a) The Company agrees to indemnify and hold harmless each Holder and each person, if any, who controls such Holder within the meaning of the Securities Act or the Exchange Act (each Holder, and such controlling persons are referred to collectively as the "**Indemnified Parties**") from and against any losses, claims, damages or liabilities, joint or several, or any actions in respect thereof

(including, but not limited to, any losses, claims, damages, liabilities or actions relating to purchases and sales of the Securities) to which each Indemnified Party may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement or prospectus including any document incorporated by reference therein, or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration, or arise out of, or are based upon, the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse, as incurred, the Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; provided, however, that (i) the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in the Shelf Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein and (ii) with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus relating to the Shelf Registration Statement, the indemnity agreement contained in this subsection (a) shall not inure to the benefit of any Holder from whom the person asserting any such losses, claims, damages or liabilities purchased the Securities concerned, to the extent that a prospectus relating to such Securities was required to be delivered by such Holder under the Securities Act in connection with such purchase and any such loss, claim, damage or liability of such Holder results from the fact that there was not sent or given to such person, at or prior to the written confirmation of the sale of such Securities to such person, a copy of the final prospectus; provided further, however, that this indemnity agreement will be in addition to any liability which the Company may otherwise have to such Indemnified Party. The Company shall also indemnify underwriters, their officers and directors and each person who controls such underwriters within the meaning of the Securities Act or the Exchange Act to the same extent as provided above with respect to the indemnification of the Holders of the Securities if requested by such Holders.

(b) Each Holder, severally and not jointly, will indemnify and hold harmless the Company, its officers and directors and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which the Company or any such controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement or prospectus or in any amendment or supplement thereto or in any preliminary prospectus relating to the Shelf Registration, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with written information pertaining to such Holder and furnished to the Company by or on behalf of such Holder specifically for inclusion therein; and, subject to the limitation set forth immediately preceding this clause, shall reimburse, as incurred, the Company for any legal or other expenses reasonably incurred by the Company or any such controlling person in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability that such Holder may otherwise have to the Company or any of its controlling persons.

(c) Promptly after receipt by an indemnified party under this Section 4 of notice of the commencement of any action or proceeding (including a governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 4, notify the indemnifying party of the commencement thereof; but the failure to notify the indemnifying party shall not relieve it from any liability that it may have under subsection (a) or (b) above except to the extent

that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof the indemnifying party will not be liable to such indemnified party under this Section 4 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action, and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 4 is unavailable or insufficient to hold harmless an indemnified party under subsections (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in subsection (a) or (b) above in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or such Holder or such other indemnified party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding any other provision of this Section 4(d), the Holders shall not be required to contribute any amount in excess of the amount by which the net proceeds received by such Holders from the sale of the Securities pursuant to the Shelf Registration Statement exceeds the amount of damages which such Holders have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls such indemnified party within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as such indemnified party and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act shall have the same rights to contribution as the Company.

(e) The agreements contained in this Section 4 shall survive the sale of the Securities pursuant to the Shelf Registration Statement and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any indemnified party.

5. *Additional Interest and Additional Amounts Under Certain Circumstances*. (a) Additional interest as specified in this Section 5 (the "**Additional Interest**") with respect to the Initial Securities and additional amounts as specified in this Section 5 (the "**Additional Amounts**") with respect to Common

Stock issued upon conversion of Initial Securities shall be assessed as follows if any of the following events occur (each such event in clauses (i) through (iv) below being herein called a "**Registration Default**"):

(i) the Shelf Registration Statement has not been filed with the Commission by the 90th day after the first date of original issuance of the Initial Securities;

(ii) the Shelf Registration Statement has not been declared effective by the Commission by the 180th day after the first date of original issue of the Initial Securities;

(iii) the Shelf Registration Statement is declared effective by the Commission but (A) the Shelf Registration Statement thereafter ceases to be effective or (B) the Shelf Registration Statement or the Prospectus ceases to be usable in connection with resales of Transfer Restricted Securities (as defined below) during the periods specified herein because either (1) any event occurs as a result of which the Prospectus forming part of such Shelf Registration Statement would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or (2) it shall be necessary to amend such Shelf Registration Statement or supplement the related prospectus, to comply with the Securities Act or the Exchange Act or the respective rules thereunder; or

(iv) the Company has failed to timely comply with any of its obligations set forth in Section 2(l) hereof.

Each of the foregoing will constitute a Registration Default whatever the reason for any such event and whether it is voluntary or involuntary or is beyond the control of the Company or pursuant to operation of law or as a result of any action or inaction by the Commission.

Additional Interest shall accrue on the Initial Securities over and above the interest set forth in the title of the Initial Securities from and including the date on which any such Registration Default shall occur to but excluding the date on which all such Registration Defaults have been cured, at a rate of 0.50% per annum (the "**Additional Interest Rate**") and Additional Amounts shall accumulate on any Common Stock issued upon conversion of Initial Securities at an equivalent rate (the "**Additional Amounts Rate**").

(b) After the effectiveness of the initial Shelf Registration Statement, the Company may suspend the availability of any Shelf Registration Statement and the use of any prospectus by written notice to the Holders for a period or periods not to exceed an aggregate of 45 calendar days in any 90-calendar day period, and not to exceed 90 calendar days in any twelve-month period (each such period, a "**Deferral Period**") without incurring Additional Interest or Additional Amounts if:

(i) an event has occurred and is continuing as a result of which the Shelf Registration Statement would, in the Company's reasonable judgment, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and

(ii) the Company determines in good faith that the disclosure of such event at such time would have a material adverse effect on the Company and its subsidiaries taken as a whole and is not otherwise then required by law to be disclosed;

provided, that in the event the disclosure relates to a proposed or pending material business transaction that is previously not disclosed publicly, the disclosure of which would, in the Company's judgment, impede the Company's ability to consummate such transaction, the Company may extend a Deferral Period from 45 calendar days to 60 calendar days in any 90-day calendar day period without incurring Additional Interest

or Additional Amounts; provided, however, that any such extension of a Deferral Period shall be included in calculating the 90 calendar days referred to above.

(c) Any amounts of Additional Interest due on the Initial Securities pursuant to Section 5(a) will be payable in cash on the regular interest payment dates with respect to the Initial Securities. Any Additional Amounts due on Common Stock issued upon conversion of Initial Securities pursuant to Section 5(a) will be payable in cash on any regular dividend payment date or if no dividend is otherwise payable on Common Stock, on the regular interest payment dates with respect to the Initial Securities. With respect to the Initial Securities, the amount of Additional Interest will be determined by multiplying the applicable Additional Interest Rate by the principal amount of the Initial Securities, further multiplied by a fraction, the numerator of which is the number of days such Additional Interest Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360. With respect to Common Stock issued upon conversion of Initial Securities, the Additional Amounts payable per share of Common Stock will be determined by multiplying the applicable Additional Amounts Rate by the Applicable Conversion Price, further multiplied by a fraction, the numerator of which is the number of days such Additional Amounts Rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360.

(d) "**Transfer Restricted Securities**" means each Security until (i) the date on which the resale of such Security has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement or (ii) the date on which such Security is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

(e) "**Applicable Conversion Price**" means, as of any date of determination, $1,000 divided by the Conversion Rate (as defined in the Indenture) then in effect as of the date of determination or, if no Initial Securities are then outstanding, the Conversion Rate that would have been in effect were the Initial Securities then outstanding.

6. *Rules 144 and 144A*. The Company shall use its reasonable best efforts to file the reports required to be filed by it under the Securities Act and the Exchange Act in a timely manner and, if at any time the Company is not required to file such reports, it will, upon the request of any Holder, make publicly available other information so long as necessary to permit sales of their securities pursuant to Rules 144 and 144A. The Company covenants that it will take such further action as any Holder may reasonably request, all to the extent required from time to time to enable such Holder to sell Transfer Restricted Securities without registration under the Securities Act within the limitation of the exemptions provided by Rules 144 and 144A (including the requirements of Rule 144A(d)(4)). The Company will provide a copy of this Agreement to prospective purchasers of Securities identified to the Company by the Initial Purchasers upon request. Upon the request of any Holder, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements. Notwithstanding the foregoing, nothing in this Section 6 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

7. *Underwritten Registrations*. If any of the Transfer Restricted Securities covered by the Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will administer the offering ("**Managing Underwriters**") will be selected by the holders of a majority in aggregate principal amount of such Transfer Restricted Securities to be included in such offering (provided that holders of Common Stock issued upon conversion of the Initial Securities shall not be deemed holders of Common Stock, but shall be deemed to be holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted).

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes

and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

8. *Miscellaneous*.

(a) *Remedies*. The Company acknowledges and agrees that any failure by the Company to comply with its obligations under Section 1 hereof may result in material irreparable injury to the Initial Purchasers or the Holders for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of any such failure, the Initial Purchasers or any Holder may obtain such relief as may be required to specifically enforce the Company's obligations under Sections 1 hereof. The Company further agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) *No Inconsistent Agreements*. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any agreement in effect on the date hereof.

(c) *Amendments and Waivers*. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, except by the Company and the written consent of the holders of a majority in principal amount of

the Securities affected by such amendment, modification, supplement, waiver or consents (provided that holders of Common Stock issued upon conversion of Initial Securities shall not be deemed holders of Common Stock, but shall be deemed to be holders of the aggregate principal amount of Initial Securities from which such Common Stock was converted). Without the consent of the Holder of each Security, however, no modification may change the provisions relating to the payment of Additional Interest.

(d) *Notices*. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, first-class mail, facsimile transmission, or air courier which guarantees overnight delivery:

(1) if to a Holder of the Securities, at the most current address given by such Holder to the Company.

(2) if to the Initial Purchasers;

Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, NY 10010-3629
Fax No.: (212) 325-8278
Attention: Transactions Advisory Group

with a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, NY 10017
Fax No.: (212) 455-2502
Attention: Andrew R. Keller, Esq.

(3) if to the Company, at its address as follows:

Quanex Corporation
1900 West Loop South
Suite 1500
Houston, TX 77027
Fax No.: (713) 626-7549
Attention: Kevin P. Delaney, Esq.
General Counsel

with a copy to:

Fulbright & Jaworksi LLP
1301 McKinney
Suite 5100
Houston, TX 77010
Fax No.: (713) 651-5246
Attention: Harva Dockery, Esq.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if mailed; when receipt is acknowledged by recipient's facsimile machine operator, if sent by facsimile transmission; and on the day delivered, if sent by overnight air courier guaranteeing next day delivery.

(e) *Third Party Beneficiaries.* The Holders shall be third party beneficiaries to the agreements made hereunder between the Company, on the one hand, and the Initial Purchasers, on the other hand, and shall have the right to enforce such agreements directly to the extent they may deem such enforcement necessary or advisable to protect their rights or the rights of Holders hereunder.

(f) *Successors and Assigns*. This Agreement shall be binding upon the Company and its successors and assigns.

(g) *Counterparts*. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) *Headings*. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(i) *Governing* Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

By the execution and delivery of this Agreement, the Company submits to the nonexclusive jurisdiction of any federal or state court in the State of New York.

(j) *Severability*. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(k) *Securities Held by the Company*. Whenever the consent or approval of Holders of a specified percentage of principal amount of Securities is required hereunder, Securities held by the Company or its affiliates (other than subsequent Holders of Securities if such subsequent Holders are deemed to be affiliates solely by reason of their holdings of such Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement among the several Initial Purchasers and the Company in accordance with its terms.

Very truly yours,

QUANEX CORPORATION

by

Name:
Title:

The foregoing Registration
Rights Agreement is hereby confirmed
and accepted as of the date first
above written.

CREDIT SUISSE FIRST BOSTON LLC
BEAR, STEARNS & CO. INC.
ROBERT W. BAIRD & CO. INCORPORATED
KEYBANC CAPITAL MARKETS, A DIVISION OF MCDONALD INVESTMENTS INC.

By: CREDIT SUISSE FIRST BOSTON LLC

by

Name:
Title:

Exhibit 10.1

Execution Copy

$100,000,000

QUANEX CORPORATION

2.50% Convertible Senior Debentures due May 15, 2034

PURCHASE AGREEMENT

April 29, 2004

CREDIT SUISSE FIRST BOSTON LLC
BEAR, STEARNS & CO. INC.
As Representatives of the Several Purchasers,
c/o Credit Suisse First Boston LLC,
Eleven Madison Avenue,
New York, N.Y. 10010-3629

Ladies and Gentlemen:

1. *Introductory.* Quanex Corporation, a Delaware corporation (the "**Company**"), proposes, subject to the terms and conditions stated herein, to issue and sell to the several initial purchasers named in Schedule A hereto (the "**Purchasers**") U.S.$100,000,000 aggregate principal amount of its 2.50% Convertible Senior Debentures due May 15, 2034 (the "**Firm Securities**") and also proposes to grant to the Purchasers an option, exercisable by Credit Suisse First Boston LLC as set forth in Section 3 hereof to purchase an aggregate of up to an additional $25,000,000 aggregate principal amount ("**Optional Securities**") of its 2.50% Convertible Senior Debentures due May 15, 2034, each to be issued under an indenture dated as of May 5, 2004 (the "**Indenture**"), between the Company and Union Bank of California, N.A., as Trustee. The Firm Securities and the Optional Securities which the Purchasers may elect to purchase pursuant to Section 3 hereof are herein collectively called the "**Offered Securities**". The United States Securities Act of 1933, as amended, is herein referred to as the "**Securities Act**."

The holders of the Offered Securities will be entitled to the benefits of a Registration Rights Agreement dated as of May 5, 2004, among the Company and the Purchasers (the "**Registration Rights Agreement**"), pursuant to which the Company agrees to file a registration statement with the Securities and Exchange Commission (the "**Commission**") registering the resale of the Offered Securities and the Underlying Shares, as hereinafter defined, under the Securities Act.

The Company hereby agrees with the several Purchasers as follows:

2. *Representations and Warranties of the Company.* The Company represents and warrants to, and agrees with, the several Purchasers that:

(a) A preliminary offering circular and an offering circular relating to the Offered Securities to be offered by the Purchasers have been prepared by the Company. Such preliminary offering

circular, including all documents incorporated by reference therein (the "**Preliminary Offering Circular**"), and offering circular, including all documents incorporated by reference therein (the "**Offering Circular**"), are hereinafter collectively referred to as the "**Offering Document**". On the date of this Agreement, the Offering Document does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from the Offering Document based upon written information furnished to the Company by any Purchaser through Credit Suisse First Boston LLC ("**CSFB**") specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 7(b) hereof. The Company's Annual Report on Form 10-K most recently filed with the Commission and all subsequent reports (collectively, the "**Exchange Act Reports**") which have been filed by the Company with the Commission or sent to stockholders pursuant to the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), when they were filed with the Commission, conformed in all material respects to the requirements of the Exchange Act and the rules and regulations of the Commission thereunder.

(b) The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Offering Document; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a material adverse effect on the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole ("**Material Adverse Effect**").

(c) Each subsidiary of the Company has been duly incorporated and is an existing corporation in good standing under the laws of the jurisdiction of its incorporation, with corporate power and authority (to own its properties and conduct its business as described in the Offering Document; and each subsidiary of the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect; all of the issued and outstanding capital stock of each subsidiary of the Company has been duly authorized and validly issued and is fully paid and nonassessable; and the capital stock of each subsidiary owned by the Company, directly or through subsidiaries, is owned free from liens, encumbrances and defects.

(d) The Indenture has been duly authorized by the Company; the Offered Securities have been duly authorized by the Company; and when the Offered Securities are delivered and paid for pursuant to this Agreement on each Closing Date (as defined below), the Indenture will have been duly executed and delivered by the Company, such Offered Securities will have been duly executed, authenticated, issued and delivered and will conform to the description thereof contained in the Offering Document and to the terms thereof contained in the Indenture, and such Offered Securities will constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(e) The outstanding shares of Common Stock, $.50 par value (the "**Common Stock**"), of the Company have been duly authorized and validly issued, are fully paid and nonassessable and conform to the description thereof contained in the Offering Document; when the Offered Securities are delivered and paid for pursuant to this Agreement on each Closing Date, such Offered Securities will

be convertible into shares of Common Stock ("**Underlying Shares**") of the Company in accordance with the terms of the Indenture; the Underlying Shares initially issuable upon conversion of such Offered Securities have been duly authorized and reserved for issuance upon such conversion and, when issued upon such conversion, will be validly issued, fully paid and nonassessable; and the stockholders of the Company have no preemptive rights with respect to the Offered Securities or the Common Stock (including the Underlying Shares).

(f) Except as disclosed in the Offering Document, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Purchaser for a brokerage commission, finder's fee or other like payment in connection with the Offered Securities.

(g) No consent, approval, authorization, order, registration or qualification of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by this Agreement and the Registration Rights Agreement in connection with the issuance and sale of the Offered Securities by the Company and the issuance of the Underlying Shares by the Company upon conversion of the Offered Securities in accordance with the terms of the Indenture and the compliance by the Company with all of the provisions of this Agreement, the Registration Rights Agreement and the Indenture, except as may be required under state securities or Blue Sky laws and except for the order of the Commission declaring the Shelf Registration Statement (as defined in the Registration Rights Agreement) effective.

(h) The execution, delivery and performance by the Company of the Indenture, this Agreement and the Registration Rights Agreement, and the issuance and sale of the Offered Securities and compliance with the terms and provisions thereof and the issuance of the Underlying Shares by the Company upon conversion of the Offered Securities in accordance with the terms of the Indenture will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, or the charter or by-laws of the Company or any such subsidiary, and the Company has full power and authority to authorize, issue and sell the Offered Securities as contemplated by this Agreement.

(i) This Agreement has been duly authorized, executed and delivered by the Company.

(j) The Registration Rights Agreement has been duly authorized by the Company, and when duly executed and delivered by the parties thereto, will constitute the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(k) Except as disclosed in the Offering Document (including liens and encumbrances pursuant to the Revolving Credit Agreement dated as of November 26, 2002, as amended, by and among the Company, the financial institutions party thereto and Comerica Bank, as agent), the Company and its subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by them; and except as disclosed in the Offering Document, the Company and its subsidiaries

hold any leased real or personal property under valid and enforceable leases with no exceptions that would materially interfere with the use made or to be made thereof by them.

(l) The Company and its subsidiaries possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by them and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect.

(m) No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company, is imminent that might have a Material Adverse Effect.

(n) The Company and its subsidiaries own, possess or can acquire on reasonable terms, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "**intellectual property rights**") necessary to conduct the business now operated by them, or presently employed by them, and have not received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect.

(o) Except as disclosed in the Offering Document, neither the Company nor any of its subsidiaries is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "**environmental laws**"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any claim relating to any environmental laws, which violation, contamination, liability or claim would individually or in the aggregate have a Material Adverse Effect; and the Company is not aware of any pending investigation which might lead to such a claim.

(p) Except as disclosed in the Offering Document, there are no pending actions, suits or proceedings against or affecting the Company, any of its subsidiaries or any of their respective properties that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under the Indenture, this Agreement or the Registration Rights Agreement; and no such actions, suits or proceedings are threatened or, to the Company's knowledge, contemplated.

(q) The financial statements included in the Offering Document present fairly the financial position of the Company and its consolidated subsidiaries as of the dates shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with the generally accepted accounting principles in the United States applied on a consistent basis.

(r) Except as disclosed in the Offering Document, since the date of the latest audited financial statements included in the Offering Document there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole, and, except as disclosed in or contemplated by the Offering Document, there has

been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(s) The Company is subject to the reporting requirements of Section 13 of the Exchange Act and files reports with the Commission on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

(t) The Company is not an open-end investment company, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the United States Investment Company Act of 1940 (the "**Investment Company Act**"); and the Company is not and, after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the Offering Document, will not be an "investment company" as defined in the Investment Company Act.

(u) No securities of the same class (within the meaning of Rule 144A(d)(3) under the Securities Act) as the Offered Securities are listed on any national securities exchange registered under Section 6 of the Exchange Act or quoted in a U.S. automated inter-dealer quotation system.

(v) The offer and sale of the Offered Securities in the manner contemplated by this Agreement will be exempt from the registration requirements of the Securities Act by reason of Section 4(2) thereof and it is not necessary to qualify an indenture in respect of the Offered Securities under the United States Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**").

(w) Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf (i) has, within the six-month period prior to the date hereof, offered or sold the Offered Securities or any security of the same class or series as the Offered Securities or (ii) has offered or will offer or sell the Offered Securities in the United States by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act. The Company has not entered and will not enter into any contractual arrangement with respect to the distribution of the Offered Securities except for this Agreement.

3. *Purchase, Sale and Delivery of Offered Securities.* On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Purchasers, and the Purchasers agree, severally and not jointly, to purchase from the Company, at a purchase price of 97.25% of the principal amount thereof plus accrued interest from May 5, 2004 to the First Closing Date (as hereinafter defined), the respective principal amounts of Firm Securities as set forth opposite the names of the several Purchasers in Schedule A hereto.

The Company will deliver against payment of the purchase price the Firm Securities in the form of one or more permanent global Securities in definitive form (the "**Firm Global Securities**") deposited with the Trustee as custodian for The Depository Trust Company ("**DTC**") and registered in the name of Cede & Co., as nominee for DTC. Interests in any permanent global Securities will be held only in book-entry form through DTC, except in the limited circumstances described in the Offering Document. Payment for the Firm Securities shall be made by the Purchasers in Federal (same day) funds by wire transfer to an account at a bank acceptable to CSFB drawn to the order of Quanex Corporation at 10:00 A.M. (New York time), on May 5, 2004, or at such other time not later than seven full business days thereafter as CSFB and the Company determine, such time being herein referred to as the "**First Closing Date**", against delivery to the Trustee as custodian for DTC of the Firm Global Securities representing all of the Firm Securities. The Firm Global Securities will be made available for checking at the office of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017 at least 24 hours prior to the First Closing Date.

In addition, upon written notice from CSFB given to the Company from time to time, the Purchasers may purchase, not more than 13 days after the First Closing Date, all or less than all of the Optional Securities at the purchase price per principal amount of Offered Securities (including any accrued interest thereon to the related Optional Closing Date) to be paid for the Firm Securities. The Company agrees to sell to the Purchasers the principal amount of Optional Securities specified in such notice and the Purchasers agree, severally and not jointly, to purchase such Optional Securities. Such Optional Securities shall be purchased from the Company for the account of each Purchaser in the same proportion as the principal amount of Firm Securities set forth opposite such Purchaser's name in Schedule A hereto bears to the total principal amount of Firm Securities (subject to adjustment by CSFB to eliminate fractions). No Optional Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The

right to purchase the Optional Securities or any portion thereof may be exercised from time to time and to the extent not previously exercised may be surrendered and terminated at any time upon notice by CSFB to the Company.

Each time for the delivery of and payment for the Optional Securities, being herein referred to as the "**Optional Closing Date**", which may be the First Closing Date (the First Closing Date and each Optional Closing Date, if any, being sometimes referred to as a "**Closing Date**"), shall be determined by CSFB on behalf of the several Purchasers but shall not be later than seven full business days after written notice of election to purchase Optional Securities is given. The Company will deliver against payment of the purchase price the Optional Securities being purchased on each Optional Closing Date in the form of one or more permanent global Securities in definitive form (each, an "**Optional Global Security**") deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee for DTC. Payment for such Optional Securities shall be made by the Purchasers in Federal (same day) funds by wire transfer to an account at a bank acceptable to CSFB drawn to the order of Quanex Corporation at the above office of Simpson Thacher & Bartlett LLP, against delivery to the Trustee as custodian for DTC of the Optional Global Securities representing all of the Optional Securities being purchased on such Optional Closing Date.

4. *Representations by Purchasers; Resale by Purchasers.*

(a) Each Purchaser severally represents and warrants to the Company that it is an "accredited investor" within the meaning of Regulation D under the Securities Act.

(b) Each Purchaser severally acknowledges that the Offered Securities have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act. Each Purchaser severally represents and agrees that it has offered and sold the Offered Securities, and will offer and sell the Offered Securities only in accordance with Rule 144A under the Securities Act ("**Rule 144A**"). Accordingly, such Purchaser, its affiliates and all persons acting on its or their behalf, have complied and will comply with the offering restrictions requirement of Rule 144A.

(c) Each Purchaser severally agrees that it and each of its affiliates has not entered and will not enter into any contractual arrangement with respect to the distribution of the Offered Securities except for any such arrangements with the other Purchasers or affiliates of the other Purchasers or with the prior written consent of the Company.

(d) Each Purchaser severally agrees that it and each of its affiliates will not offer or sell the Offered Securities in the United States by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act, including, but not limited to (i) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, or (ii) any seminar or meeting whose attendees have been invited by any general solicitation or general advertising. Each Purchaser severally agrees,

with respect to resales made in reliance on Rule 144A of any of the Offered Securities, to deliver either with the confirmation of such resale or otherwise prior to settlement of such resale a notice to the effect that the resale of such Offered Securities has been made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

5. *Certain Agreements of the Company.* The Company agrees with the several Purchasers that:

(a) The Company will advise CSFB promptly of any proposal to amend or supplement the Offering Document and will not effect such amendment or supplementation without CSFB's consent. If, at any time prior to the completion of the resale of the Offered Securities by the Purchasers, any event occurs as a result of which the Offering Document as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Company promptly will notify CSFB of such event and promptly will prepare, at its own expense, an amendment or supplement which will correct such statement or omission. Neither CSFB's consent to, nor the Purchasers' delivery to offerees or investors of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 6.

(b) The Company will furnish to CSFB copies of the Preliminary Offering Circular, the Offering Circular and all amendments and supplements to such documents, in each case as soon as available and in such quantities as CSFB requests. At any time when the Company is not subject to Section 13 or 15(d) of the Exchange Act, the Company will promptly furnish or cause to be furnished to CSFB (and, upon request, to each of the other Purchasers) and, upon request of holders and prospective purchasers of the Offered Securities, to such holders and purchasers, copies of the information required to be delivered to holders and prospective purchasers of the Offered Securities pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto) in order to permit compliance with Rule 144A in connection with resales by such holders of the Offered Securities. The Company will pay the expenses of printing and distributing to the Purchasers all such documents.

(c) The Company will arrange for the qualification of the Offered Securities for sale and the determination of their eligibility for investment under the laws of such jurisdictions in the United States and Canada as CSFB designates and will continue such qualifications in effect so long as required for the resale of the Offered Securities by the Purchasers, provided that the Company will not be required to qualify as a foreign corporation or to file a general consent to service of process in any such jurisdiction.

(d) During the period of two years after the later of the First Closing Date and the last Optional Closing Date, the Company will, upon request, furnish to CSFB, each of the other Purchasers and any holder of Offered Securities a copy of the restrictions on transfer applicable to the Offered Securities.

(e) During the period of two years after the later of the First Closing Date and the last Optional Closing Date, the Company will not, and will not permit any of its officers, directors or controlled affiliates (as defined in Rule 144 under the Securities Act) to, resell any of the Offered Securities that have been reacquired by any of them.

(f) During the period of two years after the later of the First Closing Date and the last Optional Closing Date, the Company will not be or become, an open-end investment company, unit investment trust or face-amount certificate company that is or is required to be registered under Section 8 of the Investment Company Act.

(g) The Company will pay all expenses incidental to the performance of its obligations under this Agreement, the Indenture and the Registration Rights Agreement, including (i) the fees and expenses of the Trustee and its professional advisers; (ii) all expenses in connection with the execution, issue, authentication, packaging and initial delivery of the Offered Securities, the preparation and printing of this Agreement, the Registration Rights Agreement, the Offered Securities, the Indenture, the Offering Document and amendments and supplements thereto, and any other document relating to the issuance, offer, sale and delivery of the Offered Securities; (iii) the cost of qualifying the Offered Securities for trading in The Portal[SM] Market ("**PORTAL**") and any expenses incidental thereto; (iv) the cost of any advertising approved by the Company in connection with the issue of the Offered Securities; (v) any expenses (including reasonable fees and disbursements of counsel) incurred in connection with qualification of the Offered Securities for sale under the laws of such jurisdictions in the United States and Canada as CSFB designates and the printing of memoranda relating thereto; and (vi) expenses incurred in distributing preliminary offering circulars and the Offering Document (including any amendments and supplements thereto) to the Purchasers.

(h) In connection with the offering, until CSFB shall have notified the Company and the other Purchasers of the completion of the resale of the Offered Securities, neither the Company nor any of its officers, directors or controlled affiliates has or will, either alone or with one or more other persons, bid for or purchase for any account in which it or any of its affiliates has a beneficial interest any Offered Securities or attempt to induce any person to purchase any Offered Securities, and neither it nor any of its officers, directors or controlled affiliates will make bids or purchases for the purpose of creating actual, or apparent, active trading in, or of raising the price of, the Offered Securities.

(i) For a period of 90 days after the date of the Offering Circular of the Offered Securities by the Purchasers, the Company will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Commission a registration statement under the Securities Act relating to, any debt securities issued or guaranteed by the Company and having a maturity of more than one year from the date of issue, or any shares of Common Stock of the Company or securities convertible into or exchangeable or exercisable for shares of Common Stock of the Company, including the Offered Securities, or warrants or other rights to purchase shares of Common Stock of the Company, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of CSFB and Bear, Stearns & Co. Inc. except (i) the filing of the shelf registration statement covering resales of the Offered Securities or the Common Stock of the Company issuable upon conversion of the Offered Securities, (ii) issuances of shares of Common Stock of the Company pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date hereof, (iii) grants of employee stock options pursuant to the terms of a plan in effect on the date hereof or (iv) issuances of shares of Common Stock of the Company pursuant to the exercise of such options. The Company will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(2) of the Securities Act to cease to be applicable to the offer and sale of the Offered Securities.

6. *Conditions of the Obligations of the Purchasers.* The obligations of the several Purchasers to purchase and pay for the Firm Securities on the First Closing Date and for the Optional Securities on each Optional Closing Date will be subject to the accuracy of the representations and warranties on the part of the Company herein, to the accuracy of the statements of officers of the Company made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions precedent:

(a) The Purchasers shall have received a letter, dated the date of this Agreement, of Deloitte & Touche LLP confirming that they are independent public accountants under Rule 101 of the AICPA's Code of Professional Conduct and its interpretations and rulings to the effect that:

(i) in their opinion the financial statements examined by them and included in the Exchange Act Reports comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the applicable published rules and regulations thereunder (the "**Rules and Regulations**");

(ii) they have performed the procedures specified by the American Institute of Certified Public Accountants for a review of interim financial information as described in Statement of Auditing Standards No. 100, Interim Financial Information, on the unaudited financial statements included in the Exchange Act Reports;

(iii) on the basis of the review referred to in clause (ii) above, a reading of the latest available interim financial statements of the Company, inquiries of officials of the Company who have responsibility for financial and accounting matters and other specified procedures, nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements included in the Exchange Act Reports do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the related published Rules and Regulations or any material modifications should be made to such unaudited financial statements for them to be in conformity with generally accepted accounting principles;

(B) at the date of the latest available balance sheet read by such accountants, or at a subsequent specified date not more than three business days prior to the date of this Agreement, there was any change in the capital stock or any increase in short-term indebtedness or long-term debt of the Company and its consolidated subsidiaries or, at the date of the latest available balance sheet read by such accountants, there was any decrease in consolidated net current assets or net assets, as compared with amounts shown on the latest balance sheet included in the Exchange Act Reports; or

(C) for the period from the closing date of the latest income statement included in the Exchange Act Reports to the closing date of the latest available income statement read by such accountants there were any decreases, as compared with the corresponding period of the previous year, in consolidated net sales, net operating income or in the total or per share amounts of consolidated income before extraordinary items or net income or in the ratio of earnings to fixed charges;

except in all cases set forth in clauses (B) and (C) above for changes, increases or decreases which the Offering Document discloses have occurred or may occur or which are described in such letter; and

(iv) they have compared specified dollar amounts (or percentages derived from such dollar amounts) and other financial information contained in the Offering Document and the Exchange Act Reports (in each case to the extent that such dollar amounts, percentages and other financial information are derived from the general accounting records

of the Company and its subsidiaries subject to the internal controls of the Company's accounting system or are derived directly from such records by analysis or computation) with the results obtained from inquiries, a reading of such general accounting records and other procedures specified in such letter and have found such dollar amounts, percentages and other financial information to be in agreement with such results, except as otherwise specified in such letter.

(b) Subsequent to the execution and delivery of this Agreement, there shall not have occurred (i) any change, or any development or event involving a prospective change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as one enterprise which, in the judgment of a majority in interest of the Purchasers including CSFB, is material and adverse and makes it impractical or inadvisable to proceed with completion of the offering or the sale of and payment for the Offered Securities; (ii) any change in U.S. or international financial, political or economic conditions or currency exchange rates or exchange controls as would, in the judgment of a majority in interest of the Purchasers including CSFB, be likely to prejudice materially the success of the proposed issue, sale or distribution of the Offered Securities, whether in the primary market or in respect of dealings in the secondary market; (iii) any material suspension or material limitation of trading in securities generally on the New York Stock Exchange, or any setting of minimum prices for trading on such exchange; (iv) or any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (v) any banking moratorium declared by U.S. Federal or, New York authorities; (vi) any major disruption of settlements of securities or clearance services in the United States or (vii) any attack on, outbreak or escalation of hostilities or act of terrorism involving the United States, any declaration of war by Congress or any other national or international calamity or emergency if, in the judgment of a majority in interest of the Purchasers including CSFB, the effect of any such attack, outbreak, escalation, act, declaration, calamity or emergency makes it impractical or inadvisable to proceed with completion of the offering or sale of and payment for the Offered Securities.

(c) The Purchasers shall have received an opinion, dated such Closing Date, of Fulbright & Jaworski L.L.P., counsel for the Company, that:

(i) The Company has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as described in the Offering Circular;

(ii) The Indenture has been duly authorized, executed and delivered by the Company; the Offered Securities delivered on such Closing Date have been duly authorized, executed, authenticated, issued and delivered and conform to the description thereof contained in the Offering Circular; and the Indenture and the Offered Securities delivered on such Closing Date constitute valid and legally binding obligations of the Company enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iii) The Registration Rights Agreement has been duly authorized, executed and delivered by the Company; and the Registration Rights Agreement constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(iv) The Offered Securities delivered on such Closing Date are convertible into Common Stock of the Company in accordance with the terms of the Indenture; and the shares of such Common Stock initially issuable upon conversion of the Offered Securities delivered on such Closing Date have been duly authorized and reserved for issuance upon such conversion and, when issued upon such conversion, will be validly issued, fully paid and nonassessable; and the stockholders of the Company have no preemptive rights with respect to the Offered Securities or the Common Stock (including the Underlying Shares); and the outstanding shares of Common Stock of the Company conform to the description thereof contained in the Offering Circular;

(v) No consent, approval, authorization, order, registration or qualification of, or filing with, any governmental agency or body or any court is required for the consummation of the transactions contemplated by this Agreement and the Registration Rights Agreement in connection with the issuance or sale of the Offered Securities by the Company and the issuance of the Underlying Shares by the Company upon conversion of the Offered Securities in accordance with the terms of the Indenture and the compliance by the Company with all of the provisions of this Agreement, the Registration Rights Agreement and the Indenture, except such as may be required under state securities or Blue Sky laws and except for the order of the Commission declaring the Shelf Registration Statement effective;

(vi) The execution, delivery and performance of the Indenture, this Agreement and the Registration Rights Agreement and the issuance and sale of the Offered Securities and compliance with the terms and provisions thereof and the issuance of the Underlying Shares by the Company upon conversion of the Offered Securities in accordance with the terms of the Indenture will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any rule, regulation or order of any governmental agency or body or any court having jurisdiction over the Company or any subsidiary of the Company or any of their properties, or any agreement or instrument to which the Company or any such subsidiary is a party or by which the Company or any such subsidiary is bound or to which any of the properties of the Company or any such subsidiary is subject, or the charter or by-laws of the Company or any such subsidiary, and the Company has full power and authority to authorize, issue and sell the Offered Securities as contemplated by this Agreement;

(vii) This Agreement has each been duly authorized, executed and delivered by the Company;

(viii) The statements in the Offering Circular under the caption "Material U.S. Federal Income Tax Considerations" insofar as they purport to constitute summaries of matters of United States federal tax law as applied to the Offered Securities, constitute accurate summaries of the matters described therein as applied to the Offered Securities in all material respects, assuming the Offered Securities are treated as indebtedness subject to the Treasury regulations governing contingent payment debt instruments;

(ix) It is not necessary in connection with (i) the offer, sale and delivery of the Offered Securities by the Company to the several Purchasers pursuant to this Agreement or (ii) the resales of the Offered Securities by the several Purchasers in the manner contemplated by this Agreement, to register the Offered Securities under the Securities Act or to qualify an indenture in respect thereof under the Trust Indenture Act; and

(x) In addition to such counsel's participation in the preparation of the Offering Circular, such counsel has participated in conferences with officers and other representatives of the Company, counsel to the Purchasers, representatives of the independent public accountants for the Company and representatives of the Purchasers at which the contents of the Offering Circular and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the factual statements contained in the Offering Circular and such counsel has not checked the accuracy or completeness of, or otherwise verified any information, including statistical information, contained in the Offering Circular, no facts have come to such counsel's attention that lead such counsel to believe that the Offering Circular (including the documents incorporated by reference therein), as of its date and as of the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except with respect to the financial statements, schedules and other financial data included in the Offering Circular as to which such counsel expresses no opinion).

(d) The Purchasers shall have received an opinion, dated such Closing Date, of Kevin P. Delaney, General Counsel for the Company, that:

(i) The Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect;

(ii) Each of MACSTEEL Monroe ("**MACSTEEL**") and TruSeal Technologies, Inc. ("**TruSeal**") has been duly incorporated and is an existing corporation in good standing under the laws of the jurisdiction of its incorporation, with power and authority (corporate and other) to own its properties and conduct its business as described in the Offering Circular; and each of MACSTEEL and TruSeal is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect; all of the issued and outstanding capital stock of each of MACSTEEL and TruSeal has been duly authorized and validly issued and is fully paid and nonassessable; and the capital stock of each of MACSTEEL and TruSeal is owned free from liens, encumbrances and defects;

(iii) There are no pending actions, suits or proceedings against or affecting the Company, any of its subsidiaries or any of their respective properties that, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under the Indenture, this Agreement or the Registration Rights Agreement; and no such actions, suits or proceedings are, to such counsel's knowledge, threatened or contemplated;

(iv) To such counsel's knowledge, there are no statutes or regulations, or agreements, contracts, leases or other documents to which the Company is a party of a character that would be required to be disclosed in or filed as an exhibit to a report under the Exchange Act (if such report were filed on and as of the date hereof) that are not described or incorporated in the Offering Circular; and

(v) In addition to such counsel's participation in the preparation of the Offering Circular, such counsel has participated in conferences with counsel to the Company, counsel to the Purchasers, representatives of the independent public accountants for the Company and representatives of the Purchasers at which the contents of the Offering Circular and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the factual statements contained in the Offering Circular and such counsel has not checked the accuracy or completeness of, or otherwise verified any information, including statistical information, contained in the Offering Circular, no facts have come to such counsel's attention that lead such counsel to believe that the Offering Circular (including the documents incorporated by reference therein), as of its date and as of the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except with respect to the financial statements, schedules and other financial data included in the Offering Circular as to which such counsel expresses no opinion).

(e) The Purchasers shall have received from Simpson Thacher & Bartlett LLP, counsel for the Purchasers, such opinion or opinions, dated such Closing Date, with respect to the incorporation of the Company, the validity of the Offered Securities, the Offering Circular, the exemption from registration for the offer and sale of the Offered Securities by the Company to the several Purchasers and the resales by the several Purchasers as contemplated hereby and other related matters as CSFB may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(f) The Purchasers shall have received a certificate, dated such Closing Date, of the President or any Vice President and a principal financial or accounting officer of the Company in which such officers, to the best of their knowledge after reasonable investigation, shall state that the representations and warranties of the Company in this Agreement are true and correct, that the Company has complied with all agreements and satisfied in all material respects all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date, and that, subsequent to the dates of the most recent financial statements in the Offering Document there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or other), business, properties or results of operations of the Company and its subsidiaries taken as a whole except as set forth in the Offering Document or as described in such certificate.

(g) The Purchasers shall have received a letter, dated such Closing Date, of Deloitte & Touche LLP which meets the requirements of subsection (a) of this Section, except that the specified date referred to in such subsection will be a date not more than three days prior to such Closing Date for the purposes of this subsection.

(h) On or prior to the date of this Agreement, the Purchasers shall have received lockup letters in the form of Schedule B from each of the officers and directors of the Company listed on Schedule C attached hereto.

(i) The Company and the Purchasers shall have entered into the Registration Rights Agreement, in form and substance satisfactory to the Purchasers.

The Company will furnish the Purchasers with such conformed copies of such opinions, certificates, letters and documents as the Purchasers reasonably request. CSFB may in its sole discretion waive on behalf of

the Purchasers compliance with any conditions to the obligations of the Purchasers hereunder, whether in respect of an Optional Closing Date or otherwise.

7. *Indemnification and Contribution*. (a) The Company will indemnify and hold harmless each Purchaser, its officers, partners, members, directors and each person, if any, who controls such Purchaser within the meaning of Section 15 of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such Purchaser may become subject, under the Securities Act or the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Offering Document, or any amendment or supplement thereto, or any related preliminary offering circular, or arise out of or are based upon the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, including any losses, claims, damages or liabilities arising out of or based upon the Company's failure to perform its obligations under Section 5(a) of this Agreement, and will reimburse each Purchaser for any legal or other expenses reasonably incurred by such Purchaser in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Purchaser through CSFB specifically for use therein, it being understood and agreed that the only such information consists of the information described as such in subsection (b) below; *provided further*, that with respect to any such untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Offering Circular, the indemnity agreement contained in this Section 7(a) shall not inure to the benefit of such Purchaser from whom the person asserting any such loss, claim, damage or liability purchased the Offered Securities concerned if, to the extent that such sale was an initial sale by such Purchaser and any such loss, claim, damage or liability of that Purchaser is a result of the fact that both (A) a copy of the Offering Circular was not sent or given to such person at or prior to written confirmation of the sale of such Offered Securities to such person and (B) the untrue statement or omission in the Preliminary Offering Circular was corrected in the Offering Circular unless, in either case, such failure to deliver the Offering Circular was a result of (x) of noncompliance by the Company with Section 5(b) hereof or (y) the Company not previously furnishing copies of the Offering Circular to such Purchaser on a timely basis to permit the Offering Circular to be sent or given to such person at or prior to written confirmation of the sale of such Offered Securities to such person.

(b) Each Purchaser will severally and not jointly indemnify and hold harmless the Company, its directors and officers and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, against any losses, claims, damages or liabilities to which the Company may become subject, under the Securities Act or the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Offering Document, or any amendment or supplement thereto, or any related preliminary offering circular, or arise out of or are based upon the omission or the alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Purchaser through CSFB specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred, it being understood and agreed that the only such information furnished by any Purchaser consists of the following information in the Offering Document: the third and fourth sentences under the ninth paragraph with respect to market-making and the tenth paragraph with respect to penalty bids, stabilizing and covering under the caption "Plan of Distribution" in the Offering Circular; provided, however, that the

Purchasers shall not be liable for any losses, claims, damages or liabilities arising out of or based upon the Company's failure to perform its obligations under Section 5(a) of this Agreement.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a) or (b) above, notify the indemnifying party of the commencement thereof; but the failure to notify the indemnifying party shall not relieve it from any liability that it may have under subsection (a) or (b) above except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than under subsection (a) or (b) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly

notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement includes (i) an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to or an admission of fault, culpability or failure to act by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Purchasers on the other from the offering of the Offered Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Purchasers on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Purchasers on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total discounts and commissions received by the Purchasers from the Company under this Agreement. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Purchasers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Purchaser shall be required to contribute any amount in excess of the amount by which the total price at which the Offered Securities purchased by it were resold exceeds the amount of any damages which such Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. The Purchasers' obligations in this subsection (d) to contribute are several in proportion to their respective purchase obligations and not joint.

(e) The obligations of the Company under this Section shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Purchaser within the meaning of the Securities Act or the Exchange Act; and the obligations of the Purchasers under this Section shall be in addition to any liability which the respective Purchasers may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act.

8. *Default of Purchasers.* If any Purchaser or Purchasers default in their obligations to purchase Offered Securities hereunder on either the First Closing Date or any Optional Closing Date and the aggregate principal amount of Offered Securities that such defaulting Purchaser or Purchasers agreed but failed to purchase does not exceed 10% of the total principal amount of Offered Securities that the Purchasers are obligated to purchase on such Closing Date, CSFB may make arrangements satisfactory to the Company for the purchase of such Offered Securities by other persons, including any of the Purchasers, but if no such arrangements are made by such Closing Date, the non-defaulting Purchasers shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Offered Securities that such defaulting Purchasers agreed but failed to purchase on such Closing Date. If any Purchaser or Purchasers so default and the aggregate principal amount of Offered Securities with respect to which such default or defaults occur exceeds 10% of the total principal amount of Offered Securities that the Purchasers are obligated to purchase on such Closing Date and arrangements satisfactory to CSFB and the Company for the purchase of such Offered Securities by other persons are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Purchaser or the Company, except as provided in Section 9 (provided that if such default occurs with respect to Optional Securities after the First Closing Date, this Agreement shall not terminate as to the Firm Securities or any Optional Securities purchased prior to such termination). As used in this Agreement, the term "Purchaser" includes any person substituted for a Purchaser under this Section. Nothing herein will relieve a defaulting Purchaser from liability for its default.

9. *Survival of Certain Representations and Obligations.* The respective indemnities, agreements, representations, warranties and other statements of the Company or its officers and of the several Purchasers set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Purchaser, the Company or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Offered Securities. If this Agreement is terminated pursuant to Section 8 or if for any reason the purchase of the Offered Securities by the Purchasers is not consummated, the Company shall remain responsible for the expenses to be paid or reimbursed by it pursuant to Section 5 and the respective obligations of the Company and the Purchasers pursuant to Section 7 shall remain in effect and if any Offered Securities have been purchased hereunder the representations and warranties in Section 2 and all obligations under Section 5 shall also remain in effect. If the purchase of the Offered Securities by the Purchasers is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 8 or the occurrence of any event specified in clause (ii), (iii), (v), (vi) or (vii) of Section 6(b), the Company will reimburse the Purchasers for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Offered Securities.

10. *Notices.* All communications hereunder will be in writing and, if sent to the Purchasers will be mailed, delivered or faxed and confirmed to the Purchasers c/o Credit Suisse First Boston LLC, Eleven Madison Avenue, New York, NY 10010-3629, Attention: Transactions Advisory Group, (fax: (212) 325-4296) or, if sent to the Company, will be mailed, delivered or faxed and confirmed to it at 1900 West Loop South, Suite 1500, Houston, TX 77027, Attention: Chief Financial Officer (fax : (713) 522-1630), with a copy to the General Counsel at the same address (fax: (713) 626-7549); provided, however, that any notice to a Purchaser pursuant to Section 7 will be mailed, delivered or faxed and confirmed to such Purchaser.

11. *Successors.* This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the controlling persons referred to in Section 7, and no other person will have any right or obligation hereunder, except that holders of Offered Securities shall be

entitled to enforce the agreements for their benefit contained in the second and third sentences of Section 5(b) hereof against the Company as if such holders were parties hereto.

12. *Representation of Purchasers.* You will act for the several Purchasers in connection with this purchase, and any action under this Agreement taken by you jointly or by CSFB will be binding upon all the Purchasers.

13. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

14. *Applicable Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

The Company hereby submits to the non-exclusive jurisdiction of the Federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

If the foregoing is in accordance with the Purchasers' understanding of our agreement, kindly sign and return to the Company one of the counterparts hereof, whereupon it will become a binding agreement between the Company and the several Purchasers in accordance with its terms.

Very truly yours,

QUANEX CORPORATION

By _____
Name:
Title:

CREDIT SUISSE FIRST BOSTON LLC
BEAR, STEARNS & CO. INC.

Acting on behalf of itself
and as the Representative of
the several Purchasers

By CREDIT SUISSE FIRST BOSTON LLC

By _____
Name:
Title:

SCHEDULE A

Purchaser	Principal Amount of Firm Securities
Credit Suisse First Boston LLC	$ 45,000,000
Bear, Stearns & Co. Inc.	45,000,000
KeyBanc Capital Markets, A Division of McDonald Investments Inc.	5,000,000
Robert W. Baird & Co. Incorporated	5,000,000
Total	$ 100,000,000

SCHEDULE B

, 2004

Quanex Corporation
1900 West Loop South
Suite 1500
Houston, Texas 77027

Credit Suisse First Boston LLC
Bear, Stearns & Co. Inc.
as Representatives of the several Purchasers
c/o Credit Suisse First Boston LLC
Eleven Madison Avenue
New York, NY 10010-3629

Ladies and Gentlemen:

As an inducement to the Purchasers to execute the Purchase Agreement, pursuant to which an offering will be made that is intended to result in an orderly market for $100,000,000 in aggregate principal amount of Senior Convertible Debentures due 2034 (the "**Debentures**") of Quanex Corporation, and any successor (by merger or otherwise) thereto (the "**Company**"), the undersigned hereby agrees that from the date hereof and until 60 days after the offering date set forth on the final offering circular used to sell the Debentures (the "**Offering Date**") pursuant to the Purchase Agreement, to which you are or expect to become parties, the undersigned will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of Common Stock, $.50 par value, of the Company (the "**Common Stock**") or securities convertible into or exchangeable or exercisable for any shares of Common Stock (the "**Securities**"), or enter into any transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of Common Stock, whether any such aforementioned transaction is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC and Bear, Stearns & Co. Inc. In addition, the undersigned agrees that, without the prior written consent of Credit Suisse First Boston LLC and Bear, Stearns & Co. Inc., he or she will not, during the period commencing on the date hereof and ending 60 days after the Offering Date, make any demand for or exercise any right with respect to, the registration of any Common Stock or any Securities.

Any Common Stock or Securities received upon exercise of options granted to the undersigned will also be subject to this Agreement. Any Common Stock or Securities acquired by the undersigned in the open market after the date of this Agreement will not be subject to this Agreement. A transfer of Common Stock or Securities to a family member or trust may be made, provided the transferee agrees to be bound in writing by the terms of this Agreement prior to such transfer and such transfer shall not involve a disposition for value.

In furtherance of the foregoing, the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of shares of Common Stock or Securities if such transfer would constitute a violation or breach of this Agreement.

This Agreement shall be binding on the undersigned and the successors, heirs, personal representatives and assigns of the undersigned. This Agreement shall lapse and become null and void if the Offering Date shall not have occurred on or before April 30, 2004.

Very truly yours,

_____
Name:

SCHEDULE C

List of Officers and Directors to be Locked Up

Officers:
Raymond A. Jean
Terry M. Murphy
Michael R. Bayles
Robert C. Ballou
Kevin P. Delaney
Ricardo Arredondo
Jeffrey A. Pugh
Geoffrey G. Galow

Directors:
Vincent R. Scorsone
Joseph J. Ross
Richard L. Wellek
Donald G. Barger, Jr.
Susan F. Davis
Russell M. Flaum
Michael J. Sebastian

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Raymond A. Jean, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

June 9, 2004

/s/ RAYMOND A. JEAN

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

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Terry M. Murphy, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

June 9, 2004

/s/ TERRY M. MURPHY

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

Exhibit 32.1

Certification Pursuant To Section 906
of the Sarbanes-Oxley Act of 2002

We hereby certify that the accompanying Report of Quanex Corporation on Form 10-Q for the quarter ended April 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Corporation.

June 9, 2004

/s/ Raymond A. Jean	/s/ Terry M. Murphy
Raymond A. Jean	Terry M. Murphy
Chairman of the Board, President and Chief Executive Officer	*Vice President—Finance and Chief Financial Officer*