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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): November 21, 2006

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other Jurisdiction of
Incorporation)

1-5725

(Commission File Number)

38-1872178

(IRS Employer Identification No.)

**1900 West Loop South, Suite 1500,
Houston, Texas**

(Address of Principal Executive Offices)

77027

(Zip Code)

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

(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officer; Compensatory Arrangements of Certain Officers.

On November 21, 2006, Quanex Corporation (the “*Company*”), effected certain amendments to the Company’s Long-Term Incentive Plan and Executive Incentive Compensation Plan, and amended and restated the Company’s Deferred Compensation Plan, Supplemental Benefit Plan, Supplemental Salaried Employees’ Pension Plan and Nichols Homeshield Supplemental 401(k) Savings Plan. Concurrently with these changes, the Company also entered into Amended and Restated Change in Control Agreements with certain of its officers, including Raymond A. Jean, Kevin P. Delaney, Michael R. Bayles, Thomas M. Walker, Mark A. Marcucci, Brent L. Korb, John J. Mannion and Paul A. Hammonds.

The various amendments mentioned above are designed to amend the documents to comply with Section 409A of the Internal Revenue Code (“*Section 409A*”) and to address recent guidance issued by the Internal Revenue Service (“*IRS*”) with respect to Section 409A. The Company has effected these amendments in order to ensure that its various plans and compensatory arrangements fully comply with the timing, distribution and other requirements of Section 409A, as interpreted by current IRS guidance. As such, the plan amendments or restatements are generally effective as of January 1, 2005. The Amended and Restated Change in Control Agreements are effective as of January 1, 2005, unless the original Change in Control Agreement was enacted after that date, in which case the Amended and Restated Change in Control Agreement is effective as of the original agreement date.

Attached to this current report on Form 8-K as Exhibits 10.1 through 10.7 are (i) the amendments to the Company’s Long Term Incentive Plan and Executive Incentive Compensation Plan, (ii) the Company’s Amended and Restated Deferred Compensation Plan, Supplemental Benefit Plan, Supplemental Salaried Employees’ Pension Plan and Nichols-Homeshield Supplemental 401(k) Savings Plan, and (iii) the form of Amended and Restated Change in Control Agreements entered into between the Company and each of Raymond A. Jean, Kevin P. Delaney, Michael R. Bayles, Thomas M. Walker, Mark A. Marcucci, Brent L. Korb, John J. Mannion and Paul A. Hammonds.

Item 9.01. Financial Statements and Exhibits.

- (a) Financial Statements of businesses acquired.

Not applicable

- (b) Pro forma financial information.

Not applicable

- (c) Exhibits.

10.1 Amendment to Quanex Corporation Long-Term Incentive Plan.

10.2 Amendment to Quanex Corporation Executive Incentive Compensation Plan.

- 10.3 Quanex Corporation Deferred Compensation Plan (Amended and Restated Effective as of January 1, 2005).
 - 10.4 Quanex Corporation Supplemental Benefit Plan (Amended and Restated Effective as of January 1, 2005).
 - 10.5 Quanex Corporation Supplemental Salaried Employees' Pension Plan (Amended and Restated Effective as of January 1, 2005).
 - 10.6 Nichols-Homeshield Supplemental 401(k) Savings Plan (Amended and Restated Effective as of January 1, 2005).
 - 10.7 Form of Amended and Restated Change in Control Agreement, as entered into by Quanex Corporation and each of Raymond A. Jean, Kevin P. Delaney, Michael R. Bayles, Thomas M. Walker, Mark A. Marcucci, Brent L. Korb, John J. Mannion and Paul A. Hammonds.
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SIGNATURE

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

November 21, 2006

(Date)

QUANEX CORPORATION

(Registrant)

/s/ KEVIN P. DELANEY

Kevin P. Delaney
*Senior Vice President – General Counsel and
Secretary*

Exhibit Index

- 10.1 Amendment to Quanex Corporation Long-Term Incentive Plan.
- 10.2 Amendment to Quanex Corporation Executive Incentive Compensation Plan.
- 10.3 Quanex Corporation Deferred Compensation Plan (Amended and Restated Effective as of January 1, 2005).
- 10.4 Quanex Corporation Supplemental Benefit Plan (Amended and Restated Effective as of January 1, 2005).
- 10.5 Quanex Corporation Supplemental Salaried Employees' Pension Plan (Amended and Restated Effective as of January 1, 2005).
- 10.6 Nichols-Homeshield Supplemental 401(k) Savings Plan (Amended and Restated Effective as of January 1, 2005).
- 10.7 Form of Amended and Restated Change in Control Agreement, as entered into by Quanex Corporation and each of Raymond A. Jean, Kevin P. Delaney, Michael R. Bayles, Thomas M. Walker, Mark A. Marcucci, Brent L. Korb, John J. Mannion and Paul A. Hammonds.

**AMENDMENT TO
QUANEX CORPORATION
LONG-TERM INCENTIVE PLAN**

THIS AGREEMENT entered into by Quanex Corporation (“*Quanex*”) shall be effective as of the 1st day of January 2005.

W I T N E S S E T H :

WHEREAS, Quanex maintains the Quanex Corporation Long-Term Incentive Plan (the “*Plan*”);

WHEREAS, the Plan is not intended to be subject to section 409A of the Internal Revenue Code of 1986, as amended by the American Jobs Creation Act of 2004 (“*Section 409A*”);

WHEREAS, Article VIII of the Plan provides that Quanex may amend the Plan from time to time;

WHEREAS, the Quanex has determined that the Plan should be amended to clarify that it is not subject to Section 409A;

WHEREAS, the Board of Directors of the Quanex approved resolutions to amend the Plan effective as stated above;

NOW, THEREFORE, the Plan is hereby amended, effective as stated above, as follows:

Section 5.5 of the Plan is amended and restated in its entirety to read as follows:

5.5 ***Time of Payment***. Unless a Change of Control occurs during the Performance Period, Quanex shall pay a Grantee the aggregate amount due to the Grantee under the Plan with respect to such Performance Period as soon as administratively practicable after the end of the Performance Period and in no event shall payment of the incentive award be made later than the March 15th following the close of the calendar year in which the participant no longer has a substantial risk of forfeiture with respect to the award within the meaning of section 409A of the Code.

If during a Performance Period a Change of Control occurs either prior to the date of a Grantee’s Separation From Service or within 120 days after the Grantee’s Separation From Service, Quanex shall pay the Grantee the aggregate amount due the Grantee under the Plan with respect to such Performance Period as soon as administratively practicable after the date of the Change of Control and in any event no later than the earlier of 120 days after the date of the Change of Control or 2½ months after the close of the calendar year in which the Change of Control occurs.

Notwithstanding any other provision of the Plan to the contrary, if the Company determines that as a result of the application of section 162(m) of the Code the Company would not be entitled to take a deduction for part or all of the compensation payable to a Grantee under an Award, then, unless a Change of Control has occurred, the payment of the compensation, to the extent not currently deductible, will be delayed until December 1 of the second Fiscal Year that commences after the expiration of the applicable Performance Period.

IN WITNESS WHEREOF, Quanex has executed this Agreement this 21st day of November, 2006 to be effective as stated above.

QUANEX CORPORATION

By: _____ /s/ Kevin P. Delaney
Title: Senior Vice President — General Counsel and Secretary

QUANEX CORPORATION
DEFERRED COMPENSATION PLAN

Amended and Restated
Effective as of January 1, 2005

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QUANEX CORPORATION

DEFERRED COMPENSATION PLAN

WHEREAS, Quanex Corporation originally established the Quanex Deferred Compensation Plan (the "*Plan*") effective October 1, 1981, which provides a mechanism by which certain highly compensated management personnel may defer certain prior to such compensation being earned and directors may defer their director's fees prior to their being earned;

WHEREAS, Quanex Corporation amended and restated the Plan effective October 12, 1995, June 1, 1999, November 1, 2001 and July 1, 2004;

WHEREAS, the Plan is required to be amended to comply with the requirements of new section 409A of the Internal Revenue Code of 1986, as amended by the American Jobs Creation Act of 2004;

WHEREAS, it has been determined that the Plan should now be completely amended, restated and continued without a gap or lapse in coverage, time or effect which would cause any Participant to be entitled to a distribution in order to fundamentally change the purpose and provisions of the Plan;

WHEREAS, it has been determined that the amendment and restatement of the Plan shall apply only to amounts earned and vested on or after January 1, 2005, and that the provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004;

WHEREAS, Quanex Corporation desires to amend and restate the Plan effective as of January 1, 2005.

NOW, THEREFORE, Quanex Corporation amends and restates the Plan as follows:

ARTICLE I

DEFINITIONS

1.1 **“Account”** means a Participant’s account in the Deferred Compensation Ledger maintained by the Committee which reflects the benefits a Participant is entitled to under the Plan.

1.2 **“Affiliate”** means all business organizations which are members of a controlled group of corporations (within the meaning of section 414(b) of the Code), or which are trades or businesses (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), or which are members of an affiliated service group of employers (within the meaning of section 414(m) of the Code), which related group of corporations, businesses or employers includes Quanex.

1.3 **“Applicable Covered Employee”** means any of the following:

(a) a Covered Employee of Quanex;

(b) a Covered Employee of an Affiliate; and

(c) a former employee who was a Covered Employee at the time of termination of employment with Quanex or an Affiliate.

1.4 **“Beneficiary”** means a person or entity designated by the Participant under the terms of the Plan to receive any amounts distributed under the Plan upon the death of the Participant.

1.5 **“Board”** means the Board of Directors of Quanex Corporation.

1.6 **“Cash Fund”** means the Plan balances deemed invested in cash.

1.7 **“Change of Control”** means the occurrence of one or more of the following events after October 1, 2006:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Act) (a **“Covered Person”**) of beneficial ownership (within the meaning of rule 13d-3 promulgated under the Securities Act) of 20 percent (20%) or more of either (i) the then outstanding shares of the common stock of Quanex (the **“Outstanding Quanex Common Stock”**), or (ii) the combined voting power of the then outstanding voting securities of Quanex entitled to vote generally in the election of directors (the **“Outstanding Quanex Voting Securities”**); *provided, however*, that for purposes of this subsection (a) of this Section, the following acquisitions shall not constitute a Change of Control of Quanex: (i) any acquisition directly from Quanex, (ii) any acquisition by Quanex, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Quanex or any entity controlled by Quanex, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section; or

(b) individuals who, as of October 1, 2006, constitute the Board (the “*Incumbent Board*”) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to October 1, 2006, whose election, or nomination for election by Quanex’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Covered Person other than the Board; or

(c) the consummation of (xx) a reorganization, merger or consolidation or sale of Quanex or (yy) a disposition of all or substantially all of the assets of the Company (a “*Business Combination*”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Quanex Common Stock and Outstanding Quanex Voting Securities immediately prior to such Business Combination beneficially own, direct or indirectly, more than 80 percent (80%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns Quanex or all or substantially all of Quanex’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Quanex Common Stock and Outstanding Quanex Voting Securities, as the case may be, (ii) no Covered Person (excluding any employee benefit plan (or related trust) of Quanex or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20 percent (20%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination, were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(d) the approval by the stockholders of Quanex of a complete liquidation or dissolution of Quanex.

Notwithstanding the foregoing, for purposes of a distribution from the Plan, including upon termination of the Plan, the term “Change of Control” means a “change in the ownership or effective control” of the Company, or a “change in the ownership of a substantial portion of the assets” of the Company as described in section 409A of the Code.

1.8 **“Change of Control Value”** means the amount determined in clause (i), (ii) or (iii), whichever is applicable, as follows: (i) the per share price offered to stockholders of Quanex in the merger, consolidation, reorganization, sale of assets or dissolution transaction that constitutes a Change of Control, (ii) the price per share offered to stockholders of Quanex in any tender offer or exchange offer that constitutes a Change of Control, or (iii) if a Change of Control occurs other than a Change of Control specified in clause (i) or (ii), the fair market value per share of the Common Stock on the date of the Change of Control, based on the closing quotation as described in Section 4.2, on that day. If the consideration offered to stockholders of the Company in any transaction described above consists of anything other than cash, the Committee shall determine the cash equivalent of the fair market value of the portion of the consideration offered that is other than cash.

1.9 **“Code”** means the Internal Revenue Code of 1986, as amended from time to time.

1.10 **“Committee”** means the persons who are from time to time serving as members of the committee administering the Plan.

1.11 **“Common Stock”** means Quanex’s common stock, \$.50 par value (or such other par value as may be designated by the vote of Quanex stockholders or such other equity securities of Quanex into which such common stock may be converted, reclassified or exchanged).

1.12 **“Common Stock Fund”** means an Investment Fund which is invested exclusively in Common Stock and which is accounted for as a unitized stock fund.

1.13 **“Company”** means Quanex and any Subsidiary adopting the Plan.

1.14 **“Company Match”** means the 20 percent (20%) match which the Company makes to the amount deferred by a Participant under the Plan for three or more Plan Years and deemed credited in the form of Stock Fund Units during a Plan Year.

1.15 **“Covered Employee”** means an individual (i) described in section 162(m)(3) of the Code or (ii) subject to the requirements of Section 16(a) of the Securities Act.

1.16 **“Deferred Compensation Ledger”** means the ledger maintained by the Committee for each Participant which reflects the amount of compensation deferred for the Participant under the Plan, the Company match, and the amount of income or losses credited on each of these amounts.

1.17 **“Director”** means any person serving as a member of the Board of Directors.

1.18 **“Director Fees”** means any amount paid to a Director for services in such capacity.

1.19 **“Disability”** means the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant’s employer.

1.20 **“Incentive Bonus”** means a bonus awarded or to be awarded to the Participant under the Quanex Corporation Executive Incentive Compensation Plan or the Quanex Corporation Management Incentive Program.

1.21 **“Investment Fund”** means a mutual fund or other investment option that is designated by the Committee for purposes of determining the amount of the Company’s deferred compensation obligation to a Participant under the Plan.

1.22 **“LTIP Compensation”** means compensation earned under the Quanex Corporation Long-Term Incentive Plan.

1.23 **“Normal Retirement Date”** means the first day of the month that coincides with or next follows the date on which the Participant or former Participant attains age 65.

1.24 **“NYSE”** means the New York Stock Exchange.

1.25 **“Omnibus Compensation”** means compensation earned under an annual incentive award, long term incentive award or other cash-based award granted under the Quanex Corporation 2006 Omnibus Incentive Plan (as each are defined under such plan).

1.26 **“Participant”** means an employee or director of a Company who is participating in the Plan.

1.27 **“Plan”** means the Quanex Corporation Deferred Compensation Plan set forth in this document, as amended from time to time.

1.28 **“Plan Year”** means a one-year period that coincides with the fiscal year of Quanex, which begins on the first day of November of each calendar year and ends on October 31 of the next ensuing calendar year.

1.29 **“Quanex”** means the Quanex Corporation, a Delaware corporation, the sponsor of the Plan.

1.30 **“Rabbi Trust”** means the Quanex Corporation Deferred Compensation Trust, which agreement was entered into between NBD Bank and Quanex.

1.31 "**Restricted Period**" means, for any qualified defined benefit plan sponsored by Quanex or an Affiliate, any period during which the plan is in at-risk status as described in section 409A of the Code.

1.32 "**Retirement**" means a Participant's Separation From Service that meets the requirements of retirement from any Company covered by the Plan under the terms of the Retirement Plan.

1.33 "**Retirement Plan**" means the Quanex Corporation Employees' Pension Plan, or if the Participant does not participate in that plan, the defined contribution plan maintained by the Company that is intended to satisfy the requirements of section 401(a) of the Code in which the Participant participates.

1.34 "**Securities Act**" means the Securities Exchange Act of 1934, as amended from time to time.

1.35 "**Separation From Service**" means a Participant's complete separation from service with the Company and of its Affiliates. The determination of whether a Participant incurs a Separation From Service will be determined in accordance with section 409A of the Code.

1.36 "**Stock Fund Unit**" means each unit of the Common Stock Fund, which unit shall be equal in value to a share of Common Stock.

1.37 "**Subsidiary**" means any wholly-owned subsidiary of Quanex.

1.38 "**Term of Deferral**" means the period of deferral chosen by the Participant under the election procedure established in Section 3.1 or by the Committee which pertains to that portion of the Incentive Bonus, LTIP Compensation, Omnibus Compensation or Director Fees for each given Plan Year and its accumulated income accrued that has been deferred under an election made prior to the commencement of the period during which it is earned.

1.39 "**Valuation Date**" means the date as of which an Investment Fund is valued for purposes of the Plan. Until the Committee determines otherwise, the Valuation Dates shall be each business day. The Valuation Date for purposes of a distribution shall be determined as set forth in Section 6.6.

1.40 "**Voting Securities**" means any security which ordinarily possesses the power to vote in the election of the Board without the happening of any precondition or contingency.

ARTICLE II

ELIGIBILITY

Except as specified below, all participants in the Quanex Corporation Executive Incentive Compensation Plan, the Quanex Corporation Management Incentive Program, the Quanex Corporation Long-Term Incentive Plan, the Quanex Corporation 2006 Omnibus Incentive Plan, all Directors, and all members of the Quanex Corporation Business Leader's Council will be eligible to participate in the Plan. The Committee retains the right to establish such additional eligibility requirements for participation in the Plan as it may determine are appropriate or necessary from time to time and has the right to determine, in its sole discretion, that any one or more persons who meet the eligibility requirements will not be eligible to participate for one or more Plan Years beginning after the date they are notified of this decision by the Committee.

ARTICLE III

DEFERRALS AND COMPANY CONTRIBUTIONS

3.1 **Deferral Election.** A Participant may elect during the election period established by the Committee prior to the beginning of any Plan Year or calendar year, if applicable, or, in the case of a newly eligible Participant, within 30 days of notification that he is eligible to participate in the Plan:

(1) the percentage of his Incentive Bonus earned during and relating to the ensuing Plan Year which is to be deferred under the Plan;

(2) the percentage of his LTIP Compensation earned during the performance period that begins during the ensuing Plan Year which is to be deferred under the Plan;

(3) the percentage of his Omnibus Compensation earned during the performance period that begins during the ensuing Plan Year which is to be deferred under the Plan;

(4) the percentage of his Director Fees earned during and relating to the ensuing calendar year which is to be deferred under the Plan;

(5) the percentage of the amount deferred, if any, to be deferred and deemed credited in the form of Stock Fund Units and the percentages, if any, to be deferred in the form of cash and deemed credited to the Cash Fund and Investment Funds;

(6) the length of the period of deferral, if any amount has been elected to be deferred (which amount shall include any corresponding matching contributions or any mandatory deferrals for such Plan Year), which deferral shall be:

A. to a date certain,

B. to Separation From Service with the Company or

C. to his Retirement (in the case of a Participant who is an employee of a Company); and

(7) the form of payment of the amount that has been elected to be deferred for such Plan Year (and earnings thereon) — a lump sum, or quarterly or annual installment payments of the principal amount adjusted for earnings and losses accrued after the distribution date, or last installment paid, if later, over no less than three nor more than 20 years.

Notwithstanding the foregoing, in the case of any LTIP Compensation or Omnibus Compensation that is performance-based and based on services performed over a period of at least 12 months, an initial deferral election may be made during the election period established by the Committee which may occur prior to or after the beginning of any Plan Year, *provided*, that such election must be made no later than six months before the end of the performance period.

If a Participant who is an employee of a Company elects a deferral period to Retirement, he shall also specify whether the deferral period shall end at the date of his Separation From Service with the Company or at his Normal Retirement Date, in the event of termination other than as a result of death, Disability or Retirement. If a Participant elects a deferral period to a date certain, the deferral period shall end upon the Participant's death, Disability, Separation From Service or Retirement (as determined in accordance with the preceding sentence, if applicable), if earlier.

In the event a Participant fails to make a time of payment election under Section 3.1(7) with respect to any amounts deferred under the Plan, such amounts shall be distributed upon the earlier of the Participant's death, Disability or Separation from Service and such distribution shall be made in the form of a lump sum payment.

The deferrals deemed credited to the Common Stock Fund in Stock Fund Units as elected by Participants in any Plan Year must not exceed one percent (1%) of the shares of Common Stock outstanding on the first day of the Plan Year. In the event this maximum would be exceeded, each Participant who is an employee of a Company and elected to defer in the form of Stock Fund Units shall have his election reduced on a pro rata basis as compared to all Participants who elected to defer in the form of Stock Fund Units until those deferrals in the aggregate for that Plan Year equal the maximum and the portion of his Incentive Bonus, LTIP Compensation and Omnibus Compensation which would have been deferred in the form of Stock Fund Units shall instead be distributed to the Participant as provided in the Quanex Corporation Executive Incentive Compensation Plan, the Quanex Corporation Management Incentive Program, the Quanex Corporation Long-Term Incentive Plan and the Quanex Corporation 2006 Omnibus Incentive Plan, as applicable.

Once an election has been made it becomes irrevocable for that Plan Year, except that a Participant may change his deemed investment selections in accordance with Section 4.5 and procedures established by the Committee and may change the election of the time and form of payment he previously elected under Section 3.1(6) or (7); *provided* that all changes of election of a Participant's time or form of payment shall be effective only if the election change is received by the Committee or its designee in proper form 12 months prior to the event which would require a distribution under the Plan, such election change does not provide for a payment or commencement of payment that is earlier than five (5) years after the date on which such payment would otherwise have been made, and during the 12-month period prior to the effective date of such election change, the last effective election made by the Participant shall continue to remain in force; *provided further*, that with respect to amounts deferred and vested on or before December 31, 2004, all changes of election of a Participant's time or form of payment with respect to such amounts shall be effective only if the election change is received by the Committee or its designee in proper form during the 30-day period ending 12 months prior to the event which would require a distribution under the Plan.

The election to participate in the Plan for a given Plan Year will be effective only upon receipt by the Committee or its designee of the Participant's properly executed election on such form or in accordance with such procedures as will be determined by the Committee from time to time. If the Participant does not exercise his right to defer, subject to Section 3.3 below, the Participant will be deemed to have elected not to defer any part of his Incentive Bonus, LTIP Compensation, Omnibus Compensation or Director Fees for that Plan Year and all of his Incentive Bonus, LTIP Compensation, Omnibus Compensation and Director Fees will be paid in cash.

3.2 Company Match. The Company will credit to the Account of each Participant who makes an election under the Plan to defer a portion of his Incentive Bonus, Omnibus Compensation or Director Fees in the form of Stock Fund Units for a period of five full years or more from the effective date of the deferral election additional Stock Fund Units equal to 20 percent (20%) of the amount which is deferred in the form of Stock Fund Unit. There shall be no such credit with respect to LTIP Compensation that is deferred under the Plan.

3.3 Mandatory Deferral. If a Participant becomes entitled to a cash payment of part or all of an Incentive Bonus or his LTIP Compensation because the Participant did not elect to defer all of the Incentive Bonus or LTIP Compensation and the Company determines that section 162(m) of the Code may not allow the Company to take a deduction for part or all of the Incentive Bonus or LTIP Compensation, then, unless a Change of Control has occurred after October 1, 2006, the payment of the Incentive Bonus or LTIP Compensation otherwise payable hereunder will be delayed to the extent any such payment would not be deductible by the Company by reason of section 162(m) of the Code. The Committee may waive the mandatory deferral required by this Section 3.3 with respect to a Participant who is not a member of the Committee but such waiver shall only be made on an individual basis. In accordance with procedures established by the Committee, a Participant whose Incentive Bonus or LTIP Compensation is in whole or in part mandatorily deferred pursuant to this Section 3.3 shall be permitted to have the amount of such mandatory deferral deemed invested in the Common Stock Fund, the Cash Fund or the Investment Funds in such proportions as he shall designate.

ARTICLE IV

ACCOUNT

4.1 Establishing a Participant's Account. The Committee will establish an Account for each Participant in a special Deferred Compensation Ledger which will be maintained by the Company. The Account will reflect the amount of the Company's obligation to the Participant at any given time.

4.2 Credit of the Participant's Deferral and the Company's Match. Upon completion of the Plan Year or quarter, as applicable, the Committee will determine, as soon as administratively practicable, the amount of a Participant's Incentive Bonus, LTIP Compensation, Omnibus Compensation or Director Fees that has been deferred for that Plan Year or quarter, as applicable, and the amount of the Company Match, if any, and will credit that or those amounts to the Participant's Account as of the end of the Plan Year or quarter, as applicable, during which the Incentive Bonus, LTIP Compensation, Omnibus Compensation or Director Fees were earned. If the Participant elected his deferral to be in Stock Fund Units, the number of full and fractional Stock Fund Units credited to his Account shall be the number of full and fractional shares of Common Stock that could have been purchased with the dollar amount deferred and the related Company Match, if any, without taking into account any brokerage fees, taxes or other expenses which might be incurred in such a transaction, based upon the closing quotation on the NYSE, or if not traded on the NYSE, the principal market in which the Common Stock is traded on the date the amount would have been paid had it not been deferred pursuant to Article III.

4.3 Crediting of Dividends and Distributions on Common Stock. When dividends are declared and paid, or other distributions, whether stock, property, cash or other rights, are made with respect to the Common Stock, those dividends and other distributions shall be accrued in a Participant's Account based upon the number of Stock Fund Units credited to his Account. The dividends or other distributions on shares of Common Stock shall be credited to the Participant's Account as additional Stock Fund Units. The number of additional Stock Fund Units credited to the Participant's Account shall be the number of full and fractional shares of Common Stock that could have been purchased with the dollar amount of the dividend or other distribution, without taking into account any brokerage fees, taxes or other expenses which might be incurred in such a transaction, based upon the closing quotation at the NYSE or if not traded on the NYSE, the principal market in which the Common Stock is traded, on the date of the dividend or other distribution.

4.4 Crediting of Earnings and Losses. Each Participant shall be awarded by the Committee earnings and losses on his deferred compensation as part of his total deferred compensation under the Plan equal to the amount which is deemed to be earned and lost on his bookkeeping Account established to enable the Company to determine its obligations under the Plan. For the purpose of determining the earnings and losses to be credited to the Participant's Account under the Plan, the Committee shall assume that the Participant's Account is invested in units or shares of the Investment Funds and the Cash Fund in the proportions selected by the Participant in accordance with procedures established by the Committee. This amount accrued by the Committee as deferred compensation shall be a part of the Company's obligation to the Participant and payment of it shall be a general obligation of the Company. The determination of earnings and losses based on the income and appreciation of the Participant's Account shall in no way

affect the ability of the general creditors of the Company to reach the assets of the Company or the Rabbi Trust in the event of the insolvency or bankruptcy of the Company or place the Participants in a secured position ahead of the general creditors of the Company. Although a Participant's investment selections made in accordance with the terms of the Plan and such procedures as may be established by the Committee shall be relevant for purposes of determining the Company's obligation to the Participant under the Plan, there is no requirement that any assets of the Company (including those held in the Rabbi Trust) shall be invested in accordance with the Participant's investment selections.

Earnings and losses will be accrued on each Valuation Date on each portion of a Participant's Account deemed invested in an Investment Fund from the later of (a) the time the amount is deemed credited to the Investment Fund or (b) the last previous Valuation Date.

Interest will be accrued on the last day of each calendar month on each portion of a Participant's Account deemed invested in the Cash Fund from the later of (a) the time it is deemed credited to the Cash Fund or (b) the last previous calendar month end at a rate equal to (x) the rate of interest announced by Chase Manhattan Bank, N.A., or its successor, if applicable as its prime rate of interest on the last business day of the calendar quarter preceding the calendar quarter in which the month falls divided by (y) four. Interest so accrued on the last day of each calendar month shall be deemed credited to the Participant's Account and shall thereafter accrue interest. Interest will continue to be credited to the Participant's Account deemed invested in the Cash Fund until the entire balance in the Participant's Account deemed credited to the Cash Fund has been distributed.

4.5 Common Stock Conversion Election. At any time during a period of three years prior to the earliest time a Participant who is an employee of a Company could retire under the Retirement Plan and ending on that Participant's Normal Retirement Date, a Participant who is an employee of a Company may elect a Retirement date under the Retirement Plan and may elect to have all or a portion of the Stock Fund Units in his Account converted to cash and deemed to be invested in the Cash Fund and/or any Investment Fund(s) selected by him. In that event, all such Stock Fund Units shall be converted on the date notice is received by the Company based upon the closing quotation as described in Section 4.2, on that day, unless the Participant has specified no more than five different dates after the date of the notice on which the Participant desires all or a portion of the Stock Fund Units to be converted and the percentage of units to be converted on each date. If the Participant has specified dates for and the percentage of units to be converted, then the designated percentage of Stock Fund Units to be converted on each date shall be converted on the specified date based on the closing quotation as described in Section 4.2 on such specified dates.

At any time that is at least five years after a Stock Fund Unit is credited to his Account pursuant to Section 4.2, a Participant may elect to have such Stock Fund Unit converted to cash and deemed to be invested in the Cash Fund and/or any Investment Fund(s) selected by him. In that event, all such Stock Fund Units specified by the Participant in a written notice to the Company which have been credited to the Participant's Account for at least five years prior to the giving of such notice shall be converted on the date notice is received by the Company based upon the closing quotation as described in Section 4.2, on that day.

A Participant may elect at any time to have each Stock Fund Unit that is credited to his Account pursuant to Section 4.3 converted to cash and deemed to be invested in the Cash Fund and/or any Investment Fund(s) selected by him. In that event, all such Stock Fund Units specified by the Participant in a written notice to the Company which were credited to the Participant's Account pursuant to Section 4.3 shall be converted on the date notice is received by the Company based upon the closing quotation as described in Section 4.2, on that day.

4.6 Conversion and Cash-Out Upon a Change of Control. Notwithstanding any other provision of the Plan, including but not limited to Section 6.6, immediately upon the occurrence of a Change of Control, all Stock Fund Units credited to a current or former Participant's Account shall be converted to cash based on the Change of Control Value of such Stock Fund Units. If such Change of Control meets the requirements of a "change of control" as defined by section 409A of the Code, within five days after the date on which such Change of Control occurs, all current and former Participants shall be paid in cash lump sum payments the balances credited to their Accounts. If such Change of Control does not meet the requirements of a "change of control" as defined by section 409A of the Code, no payments shall be made to the current and former Participants in the Plan as a result of such Change of Control.

ARTICLE V

VESTING AND EVENTS CAUSING FORFEITURE

5.1 Vesting.

(a) *Deferrals.* All deferrals of the Incentive Bonus, LTIP Compensation, Omnibus Compensation and Director Fees and all income accrued on the deferrals will be 100 percent (100%) vested except for the events of forfeiture described in Sections 5.2 and 5.3.

(b) *Company Match and Dividends.* Except as provided in Sections 5.2 and 5.3, each Stock Fund Unit accrued under Section 3.2 as a Company Match and credited to the Participant's account pursuant to Section 4.2 (including any dividends or other property or rights accumulated because of such Unit and credited on such Stock Fund Unit under Section 4.3) shall vest on the third anniversary of the date on which such Stock Fund Unit was credited to the Participant's account. If a Participant ceases to be an employee within three years after a Company Matching accrual of Stock Fund Units is credited to the Participant's account, such Company Matching accruals (including any dividends or other property or rights accumulated because of those Stock Fund Units) shall be immediately forfeited.

5.2 Forfeiture for Cause. If the Committee finds, after full consideration of the facts presented on behalf of both the Company and a former Participant, that the Participant was discharged by the Company for fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment by the Company which damaged the Company, or for disclosing trade secrets of the Company, the entire amount credited to his Account, exclusive of an amount equal to the total balance of deferrals of the Participant, will be forfeited. The decision of the Committee as to the cause of a former Participant's discharge and the damage done to the Company will be final. No decision of the Committee will affect the finality of the discharge of the Participant by the Company in any manner.

5.3 Forfeiture for Competition. If at the time a distribution is being made or is to be made to a Participant or former Participant, the Committee finds after full consideration of the facts presented on behalf of the Company and the Participant or former Participant, that the Participant or former Participant at any time within two years from his Separation From Service from the Company, and without written consent of the Company, directly or indirectly owns, operates, manages, controls or participates in the ownership, management, operation or control of or is employed by, or is paid as a consultant or other independent contractor by a business which competes or at any time did compete with the Company by which he was formerly employed in a trade area served by the Company at the time distributions are being made or to be made and in which the Participant or former Participant had represented the Company while employed by it; and, if the Participant or former Participant continues to be so engaged 60 days after written notice has been given to him, the Committee will forfeit all amounts otherwise due the Participant or former Participant, exclusive of an amount equal to the total balance of deferrals of the Participant or former Participant.

5.4 Full Vesting in the Event of a Change of Control. The forfeitures created by Sections 5.1(b), 5.2 and 5.3 shall not apply with respect to any amounts credited to the Accounts of current or former Participants after the occurrence of a Change of Control.

ARTICLE VI

DISTRIBUTIONS

6.1 Form of Distributions or Withdrawals. Upon a distribution or withdrawal, the number of Stock Fund Units credited to the Participant's Account, if any, and the amounts credited to the Participant's Account and deemed invested in the Cash Fund and/or Investment Funds, if any, required to be distributed shall be distributed in cash, whether the distribution or withdrawal is in a lump sum or in installments. For this purpose, the amount per unit in the Company Stock Fund deemed credited to Participant's Account shall equal the closing quotation for the Common Stock on the NYSE (or if not traded on the NYSE, the principal market in which the Common Stock is traded) on the third business day prior to the date of distribution. If the distribution is in installments, all dividends and other property or rights accumulating on the shares still undistributed will be credited as provided in Section 4.3 and distributed with the next installment. If there are periodic installments to be made of the portion, if any, deferred as cash and deemed credited to the Cash Fund, income shall accumulate on that portion of the Account as described in Section 4.6 until the balance credited to the cash portion of the Participant's Account has been distributed. In that event, income accumulating on the cash portion of the Account shall be distributed with the next installment to be distributed. A lump sum or installment distribution of amounts deemed invested in an Investment Fund shall be based upon the value of the Investment Fund as of the close of the Valuation Date immediately preceding such distribution.

6.2 Death. Upon the death of a Participant prior to the expiration of the Term of Deferral, the Participant's Beneficiary or Beneficiaries will receive in cash as required by Section 6.1 the balance then credited to the Participant's Account in the Deferred Compensation Ledger. The lump sum distribution or the first installment of the periodic distribution will be made 90 days after the Participant's death, or, if later, as soon as administratively practicable following the Participant's death.

Each Participant, upon making his initial deferral election, will file with the Committee or its designee a designation of one or more Beneficiaries to whom distributions otherwise due the Participant will be made in the event of his death prior to the complete distribution of the amount credited to his Account in the Deferred Compensation Ledger. The designation will be effective upon receipt by the Committee or its designee of a form which the Committee has approved for that purpose and which has been completed in accordance with procedures approved by the Committee. The Participant may from time to time revoke or change any designation of Beneficiary by filing another approved Beneficiary designation form with the Committee or its designee. If there is no valid designation of Beneficiary on file with the Committee or its designee at the time of the Participant's death, or if all of the Beneficiaries designated in the last Beneficiary designation have predeceased the Participant or otherwise ceased to exist, the Beneficiary will be the Participant's spouse, if the spouse survives the Participant, or otherwise the Participant's estate. A Beneficiary must survive the Participant by 60 days in order to be considered to be living on the date of the Participant's death. If any Beneficiary survives the Participant but dies or otherwise ceases to exist before receiving all amounts due the Beneficiary from the Participant's Account, the balance of the amount which would have been paid to that Beneficiary will, unless the Participant's designation provides otherwise, be distributed to the individual deceased Beneficiary's estate or to the Participant's estate in the case of a Beneficiary which is not an individual. Any Beneficiary designation which designates any person or entity other than the Participant's spouse must be consented to in a form and in accordance with procedures acceptable to the Committee in order to be effective.

6.3 Disability. Upon the Disability of a Participant prior to the expiration of the Term of Deferral, the Participant will receive in cash as required by Section 6.1 the balance then credited to the Participant's Account. The lump sum distribution or the first installment of the periodic distribution will be made 90 days after the Participant is determined to be disabled, or, if later, as soon as administratively practicable following such date.

6.4 Expiration of Term of Deferral. Upon the expiration of the Term of Deferral, the Participant shall be entitled to receive in cash as required by Section 6.1 the balance credited to the Participant's Account. Except as provided below, the lump sum distribution or the first installment of the periodic distribution will be made 90 days after the expiration of the Term of Deferral, or, if later, as soon as administratively practicable following such expiration, without regard to whether the Participant is still employed by the Company or not. Payments due to the Separation From Service of a Participant who is an employee of a Company, excluding a Separation From Service due to death or Disability but including due to Retirement, shall be made on the first business day following the six-month anniversary of the Participant's Separation From Service or as soon as administratively practicable thereafter.

6.5 Unforeseeable Emergency Withdrawals. Any Participant who is in the employ of a Company and is not entitled to a distribution from the Plan may request an unforeseeable emergency withdrawal. No unforeseeable emergency withdrawal can exceed the lesser of the amount credited to the Participant's Account or the amount reasonably needed to satisfy the unforeseeable emergency need. Whether an unforeseeable emergency exists and the amount reasonably needed to satisfy the unforeseeable emergency need will be determined by the Committee based upon the evidence presented by the Participant and the rules established in this Section. If a hardship withdrawal is approved by the Committee it will be made in cash as required in Section 6.1 within ten days of the Committee's determination. An unforeseeable emergency for this purpose is a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment under this Section shall not be made to the extent that such emergency is or may be relieved: (i) through reimbursement or compensation by insurance; (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause a severe financial hardship; or (iii) by cessation of deferrals under this Plan and any other plan in which the Participant participates. Such foreseeable needs for funds as the need to send a Participant's child to college or the desire to purchase a home will not be considered to be an unforeseeable emergency.

6.6 Valuation.

(a) For purposes of a distribution under Sections 6.2, 6.3 or 6.5, the Valuation Date shall be the first business day coincident with or immediately preceding the date of the distribution.

(b) For purposes of a distribution under Section 6.4, the Valuation Date shall be as follows:

(1) the first business day following the date which is 90 days following the expiration of the Term of Deferral or

(2) in the case of a distribution due to a Separation From Service, the date which is the six-month anniversary of such Separation From Service or

(3) in the case of a distribution due to a Separation From Service that occurs within three years after a Change of Control, which Change of Control did not meet the requirements of a "change of control" as defined by section 409A of the Code, the first business day coincident with or following the date of the closing of such Change of Control, but only if the value of the Participant's account on such Valuation Date would be greater than the value as determined under clause (2) above.

6.7 Mandatory Immediate Lump Sum Payment. Notwithstanding any other provisions of the Plan, if the balance then credited to the Participant's Account on the date the Participant would commence payment of his benefits under Sections 6.2, 6.3. or 6.4 is less than or equal to \$10,000.00, the benefit shall be paid in the form of a lump sum payment.

6.8 Payment Restrictions on Any Portion of a Benefit Determined Not to Be Deductible. Except for hardship withdrawals under Section 6.5, if a Participant has a benefit that is due during a Plan Year and the Committee determines that section 162(m) of the Code could affect the Company's deduction on the amount paid, the distribution of his benefit will be delayed until December 1 following the end of the Plan Year. Then on December 1 if the Company's deduction is determined by the Committee not to be affected, the benefit in total will be distributed immediately; however, if the Committee determines that some portion of the benefit is affected, then only that portion of the benefit which is deductible by the Company shall be distributed on December 1st and the distribution of the remaining portion of the benefit will be delayed to the first day of the first complete month of the Plan Year or Years on which a portion or all of the remaining distribution can be made and deducted by the Company on its federal income tax return. The Committee may waive the mandatory deferral required by this Section 6.8 with respect to a Participant who is not a member of the Committee, but such waiver shall only be made on an individual basis and at the time the distribution is to be made.

6.9 Responsibility for Distributions and Withholding of Taxes. The Committee will furnish information to the Company last employing the Participant, concerning the amount and form of distribution to any Participant entitled to a distribution so that the Company may make or cause the Rabbi Trust to make the distribution required. It will also calculate the deductions from the amount of the benefit paid under the Plan for any taxes required to be withheld by federal, state or local government and will cause them to be withheld. If a Participant has deferred compensation under the Plan while in the service of more than one Company, each Company for which the Participant was working will reimburse the disbursing agent for the amount attributable to compensation deferred while the Participant was in the service of that Company if it has not already provided that funding to the disbursing agent.

ARTICLE VII

ADMINISTRATION

7.1 Committee Appointment. The Committee will be appointed by the Board. The initial Committee members will be Compensation Committee of the Board. Each Committee member will serve until his or her resignation or removal. The Board will have the sole discretion to remove any one or more Committee members and appoint one or more replacement or additional Committee members from time to time.

7.2 Committee Organization and Voting. The Committee will select from among its members a chairman who will preside at all of its meetings and will elect a secretary without regard to whether that person is a member of the Committee. The secretary will keep all records, documents and data pertaining to the Committee's supervision and administration of the Plan. A majority of the members of the Committee will constitute a quorum for the transaction of business and the vote of a majority of the members present at any meeting will decide any question brought before the meeting. In addition, the Committee may decide any question by vote, taken without a meeting, of a majority of its members. If a member of the Committee is ever appointed who is or becomes a Participant, that Committee member will not vote or act on any matter relating solely to himself.

7.3 Powers of the Committee. The Committee will have the exclusive responsibility for the general administration of the Plan according to the terms and provisions of the Plan and will have all powers necessary to accomplish those purposes, including but not by way of limitation the right, power and authority:

- (a) to make rules and regulations for the administration of the Plan;
- (b) to construe all terms, provisions, conditions and limitations of the Plan;
- (c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect for the greatest benefit of all parties at interest;
- (d) to designate the persons eligible to become Participants and to establish the maximum and minimum amounts that may be elected to be deferred;
- (e) to determine all controversies relating to the administration of the Plan, including but not limited to:
 - (1) differences of opinion arising between the Company and a Participant except when the difference of opinion relates to the entitlement to, the amount of or the method or timing of a distribution of a benefit affected by a Change of Control, in which event it shall be decided by judicial action; and
 - (2) any question it deems advisable to determine in order to promote the uniform administration of the Plan for the benefit of all parties at interest;
- (f) to select the menu of Investment Funds available for purposes of determining the amount of the Company's obligation to any Participant under the Plan; and
- (g) to delegate by written notice those duties of the Committee, as it deems necessary or advisable for the proper and efficient administration of the Plan.

7.4 Committee Discretion. The Committee, in exercising any power or authority granted under the Plan or in making any determination under the Plan, shall perform or refrain from performing those acts using its sole discretion and judgment. Any decision made by the Committee or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decision shall never be subject to de novo review. Notwithstanding the foregoing, the Committee's decision, refraining to act or acting is to be subject to judicial review for those incidents occurring during the Plan Year in which a Change of Control occurs and during the next three succeeding Plan Years.

7.5 Annual Statements. The Committee will cause each Participant to receive an annual statement as soon as administratively possible after the conclusion of each Plan Year containing the amounts deferred, the Company match, if any, and the income accrued on the deferred and matched amounts.

7.6 Reimbursement of Expenses. The Committee will serve without compensation for their services but will be reimbursed by Quanex for all expenses properly and actually incurred in the performance of their duties under the Plan.

7.7 Limitation on Liability. Neither the Committee nor its designees will be liable for any decision or action taken in good faith in connection with the administration of the Plan. Without limiting the generality of the foregoing, any decision or action taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's independent accountants or other advisors in connection with the administration of the Plan will be deemed to have been taken in good faith. None of the Company, the Committee or any designee of the Committee shall bear any liability with respect to the investment performance of any of the Investment Funds and none of them are under any obligation to furnish the Participants any financial information concerning the Investment Funds. Each Participant is solely responsible for the results of any investment selections and none of the Company, the Committee or any designee of the Committee makes any representations concerning the advisability of investing or refraining from investing in any particular Investment Fund.

ARTICLE VIII

ADOPTION BY SUBSIDIARIES

8.1 Procedure for and Status After Adoption. Any Subsidiary may, with the approval of the Committee, adopt the Plan by appropriate action of its board. The terms of the Plan will apply separately to each Subsidiary adopting the Plan and its Participants in the same manner as is expressly provided for Quanex and its Participants except that the powers of the Board and the Committee under the Plan will be exercised by the Board alone. Quanex and each Subsidiary adopting the Plan will bear the cost of providing plan benefits for its own Participants. It is intended that the obligation of Quanex and each Subsidiary with respect to its Participants will be the sole obligation of the Company that is employing the Participant and will not bind any other Company.

8.2 Termination of Participation by Adopting Subsidiary. Any Subsidiary adopting the Plan may, by appropriate action of its board of directors, terminate its participation in the Plan. The Committee may, in its discretion, also terminate a Subsidiary's participation in the Plan at any time. The termination of the participation in the Plan by a Subsidiary will not, however, affect the rights of any Participant who is working or has worked for the Subsidiary as to amounts or Stock Fund Units previously standing to his credit in his Account or reduce the income accrued on amounts deferred by him or matched by the Company and credited to his Account whether in cash or in Stock Fund Units, prior to the distribution of the benefit to the Participant without his consent.

ARTICLE IX

AMENDMENT AND/OR TERMINATION

9.1 Amendment or Termination of the Plan. The Board may amend or terminate the Plan at any time by an instrument in writing without the consent of any adopting Company; *provided, however*, that no amendment of the Plan shall apply to amounts deferred and vested on or before December 31, 2004, unless the instrument explicitly states that the amendment shall apply to such amounts.

9.2 No Retroactive Effect on Awarded Benefits. No amendment will affect the rights of any Participant to the amounts, whether deemed invested in the Company Stock Fund, the Cash Fund or the Investment Funds, then standing to his credit in his Account, to change the method of calculating the income already accrued or to accrue in the future on amounts already deferred by him or matched by the Company prior to the date of the amendment or to change a Participant's right under any provision relating to a Change of Control after a Change of Control has occurred, without the Participant's consent. However, the Board shall retain the right at any time to change in any manner the method of calculating the match by the Company and the income to accrue on all amounts to be deferred in the future by a Participant and/or to be matched in the future by the Company after the date of the amendment if it has been announced to the Participants.

9.3 Effect of Termination. If the Plan is terminated, all amounts, whether deemed invested in the Company Stock Fund, the Cash Fund or the Investment Funds, deferred by Participants and matched by the Company will continue to be held under the terms of the Plan until all amounts have been distributed according to the elections made by the Participants or the directives made by the Committee prior to the deferrals. The forfeiture provisions of Sections 5.1(b), 5.2 and 5.3 and the restriction set out in Section 6.8 would continue to apply throughout the period after the termination of the Plan but prior to the completed distribution of all benefits. The Board may terminate the Plan within the 30 days preceding or the 12 months following a Change of Control, as defined by section 409A of the Code, or as otherwise permitted under section 409A of the Code, and distribute the value of the Participants' Accounts to Participants in the manner and at the time determined by the Committee, in its sole discretion, subject to Section 9.2 and as permitted by section 409A of the Code.

ARTICLE X

FUNDING

10.1 Payments Under This Agreement Are the Obligation of the Company. The Company will distribute the benefits due the Participants under the Plan; however, should it fail to do so when a benefit is due and the funding trust contemplated by Section 10.2 exists, the benefit will be distributed by the trustee of that funding trust. In any event, if the trust fails to distribute a benefit for any reason, the Company still remains liable for all benefits provided by the Plan.

10.2 Agreement May Be Funded Through Rabbi Trust. It is specifically recognized by both the Company and the Participants that the Company may, but is not required to transfer any funds, shares of Common Stock or other assets that it finds desirable to a trust established to accumulate assets sufficient to fund the obligations of all of the Companies signatory to the Plan. However, under all circumstances, the Participants will have no rights to any of those assets; and likewise, under all circumstances, the rights of the Participants to the assets held in the trust will be no greater than the rights expressed in this agreement. Nothing contained in the trust agreement which creates the funding trust will constitute a guarantee by any Company that assets of the Company transferred to the trust will be sufficient to fund all benefits under the Plan or would place the Participant in a secured position ahead of general creditors should the Company become insolvent or bankrupt. Any trust agreement prepared to fund the Company's obligations under this agreement must specifically set out these principles so it is clear in that trust agreement that the Participants in the Plan are only unsecured general creditors of the Company in relation to their benefits under the Plan.

Notwithstanding the foregoing, no assets shall be set aside or reserved (directly or indirectly) in a trust (or other arrangement as determined by the Internal Revenue Service), or transferred to a trust or other arrangement established to fund the Company's obligations under the Plan during any Restricted Period for purposes of paying benefits to an Applicable Covered Employee. The rule contained in the preceding sentence does not apply to assets set aside, reserved or transferred before or after a Restricted Period.

10.3 Reversion of Excess Assets. Any adopting Company may, at any time, request the actuary, who last performed the annual actuarial valuation of the Quanex Corporation Employees' Pension Plan, to determine the present Account balance, assuming the accrual rate for income not to be reduced (whether it actually is or not), as of the month end coincident with or next preceding the request, of all Participants and Beneficiaries of deceased Participants for which all Companies are or will be obligated to make benefit distributions under the Plan. If the fair market value of the assets held in the trust, as determined by the Trustee as of that same date, exceeds the total of the Account balances of all Participants and Beneficiaries by 25 percent (25%), any Company may direct the trustee to return to each Company its proportionate part of the assets which are in excess of 125 percent (125%) of the Account balances. Each Company's share of the excess assets will be the Participants' Accounts accrued while in the employ of that Company as compared to the total of the Account balances accrued by all Participants under the Plan times the excess assets. If there has been a Change of Control, for the purpose of determining if there are excess funds, all contributions made prior to the Change of Control will be subtracted from the fair market value of the assets held in the trust as of the determination date but before the determination is made.

10.4 Participants Must Rely Only on General Credit of the Company. It is also specifically recognized by both the Company and the Participants that the Plan is only a general corporate commitment and that each Participant must rely upon the general credit of the Company for the fulfillment of its obligations under the Plan. Under all circumstances the rights of Participants to any asset held by the Company will be no greater than the rights expressed in this agreement. Nothing contained in this agreement will constitute a guarantee by the Company that the assets of the Company will be sufficient to distribute any benefits under the Plan or would place the Participant in a secured position ahead of general creditors of the Company. Though the Company may establish or become a signatory to a Rabbi Trust, as indicated in Section 10.1, to accumulate assets to fulfill its obligations, the Plan and any such trust will not create any lien, claim, encumbrance, right, title or other interest of any kind in any Participant in any asset held by the Company, contributed to any such trust or otherwise designated to be used in fulfillment of any of its obligations created in this agreement. No specific assets of the Company have been or will be set aside, or will in any way be transferred to the trust or will be pledged in any way for the performance of the Company's obligations under the Plan which would remove such assets from being subject to the general creditors of the Company.

ARTICLE XI

MISCELLANEOUS

11.1 **Limitation of Rights.** Nothing in the Plan will be construed:

- (a) to give any employee of any Company any right to be designated a Participant in the Plan;
- (b) to give a Participant any right with respect to the compensation deferred, the Company match or the income accrued and credited in the Deferred Compensation Ledger except in accordance with the terms of the Plan;
- (c) to limit in any way the right of the Company to terminate a Participant's employment with the Company at any time;
- (d) to evidence any agreement or understanding, expressed or implied, that the Company will employ a Participant in any particular position or for any particular remuneration; or
- (e) to give a Participant or any other person claiming through him any interest or right under the Plan other than that of any unsecured general creditor of the Company.

11.2 **Distributions to Incompetents or Minors.** Should a Participant become incompetent or should a Participant designate a Beneficiary who is a minor or incompetent, the Committee is authorized to distribute the benefit due to the parent of the minor or to the guardian of the minor or incompetent or directly to the minor or to apply those assets for the benefit of the minor or incompetent in any manner the Committee determines in its sole discretion.

11.3 **Nonalienation of Benefits.** No right or benefit provided in the Plan will be transferable by the Participant except, upon his death, to a named Beneficiary as provided in the Plan. No right or benefit under the Plan will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit under the Plan will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If any Participant or any Beneficiary becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit under the Plan, that right or benefit will, in the discretion of the Committee, cease. In that event, the Committee may have the Company hold or apply the right or benefit or any part of it to the benefit of the Participant or Beneficiary, his or her spouse, children or other dependents or any of them in any manner and in any proportion the Committee believes to be proper in its sole and absolute discretion, but is not required to do so.

11.4 **Expenses Incurred in Enforcing the Plan.** The Company will, in addition, pay a Participant for all legal fees and expenses incurred by him in contesting or disputing his termination or in seeking to obtain or enforce any benefit provided by the Plan if the termination occurs in the Plan Year in which a Change of Control occurs or during the next three succeeding Plan Years following the Plan Year in which a Change of Control occurs except to the extent that the payment of those fees or expenses are restricted under Section 6.8.

11.5 Reliance Upon Information. The Committee will not be liable for any decision or action taken or not taken in good faith in connection with the administration of the Plan. Without limiting the generality of the foregoing, any decision or action taken or not taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's independent accountants or other advisors in connection with the administration of the Plan will be deemed to have been taken in good faith.

11.6 Severability. If any term, provision, covenant or condition of the Plan is held to be invalid, void or otherwise unenforceable, the rest of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated.

11.7 Notice. Any notice or filing required or permitted to be given to the Committee or a Participant will be sufficient if in writing and hand-delivered or sent by U.S. mail to the principal office of the Company or to the residential mailing address of the Participant. Notice will be deemed to be given as of the date of hand-delivery or if delivery is by mail, as of the date shown on the postmark.

11.8 Gender and Number. If the context requires it, words of one gender when used in the Plan will include the other genders, and words used in the singular or plural will include the other.

11.9 Governing Law. The Plan will be construed, administered and governed in all respects by the laws of the State of Texas.

11.10 Section 409A. The Plan is intended to be a nonqualified deferred compensation arrangement and is not intended to meet the requirements of section 401(a) of the Code. The Plan is intended to meet the requirements of section 409A of the Code and may be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that a deferral, accrual, vesting or payment of an amount under the Plan is subject to section 409A of the Code, except as the Committee otherwise determines in writing, the amount will be deferred, accrued, vested or paid in a manner that will meet the requirements of section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the deferral, accrual, vesting or payment shall not be subject to the excise tax applicable under section 409A of the Code. Any provision of the Plan that would cause the deferral, accrual, vesting or payment of an amount under the Plan to fail to satisfy section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of the Plan) to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code. In the event additional regulations or other guidance is issued under section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of section 409A of the Code with respect to the distributions under the Plan, then the provisions of the Plan regarding distributions shall be automatically amended to permit such distributions to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the intent of the Plan prior to its amendment to comply with section 409A of the Code.

11.11 Amendment and Restatement of the Plan. The amendment and restatement of the Plan effective as of January 1, 2005, shall apply only to amounts deferred and vested on or after January 1, 2005. The provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004. The amendment and restatement of the Plan is not intended to be a material modification of the Plan with respect to amounts deferred and vested on or before December 31, 2004, and, any provision of the Plan that is considered to be a material modification of the Plan shall be retroactively amended to the extent required to prevent such provision from being considered a material modification of the Plan with respect to such amounts.

**QUANEX CORPORATION
SUPPLEMENTAL BENEFIT PLAN**

*Amended and Restated
Effective as of January 1, 2005*

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ARTICLE I

NAME AND PURPOSE

This plan, as adopted effective February 28, 1980 and amended and restated October 22, 1981, November 1, 1988, June 1, 1999, January 1, 2004 and January 1, 2005, shall be known as the Quanex Corporation Supplemental Benefit Plan (the "*Plan*").

The Plan provides retirement benefits for certain designated management employees in addition to those provided under the benefit plans for salaried employees of Quanex Corporation, as in effect from time to time.

The purpose of the Plan is to supplement those retirement benefits that a Participant may be entitled to receive as a salaried employee of Quanex Corporation. Except as may be otherwise provided herein, the terms used in the Plan shall have the meanings specified in the Quanex Corporation Employees' Pension Plan.

ARTICLE II

DEFINITIONS AND DESIGNATIONS

2.01 "**Actuarial Equivalent**" means equality in value of the aggregate amounts expected to be received under different forms of payment calculated utilizing the mortality and interest rate assumptions specified in the Qualified Plan at the time of the calculation.

2.02 "**Affiliate**" means all business organizations which are members of a controlled group of corporations (within the meaning of section 414(b) of the Code), or which are trades or businesses (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), or which are members of an affiliated service group of employers (within the meaning of section 414(m) of the Code), which related group of corporations, businesses or employers includes Quanex.

2.03 "**Applicable Covered Employee**" means any of the following:

- (a) a Covered Employee of Quanex;
- (b) a Covered Employee of an Affiliate; and
- (c) a former employee who was a Covered Employee at the time of termination of employment with Quanex or an Affiliate.

2.04 "**Board**" means the Board of Directors of the Company.

2.05 "**Change of Control**" means the occurrence of one or more of the following events:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Covered Person") of beneficial ownership (within the meaning of rule 13d-3 promulgated under the Exchange Act) of 20 percent or more of either (i) the then outstanding shares of the common stock of (the "Outstanding Company Common Stock"), or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); *provided, however*, that for purposes of this subsection (a) of this Section, the following acquisitions shall not constitute a Change of Control of the Company: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section; or

(b) individuals who, as of June 1, 1999, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to June 1, 1999 whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Covered Person other than the Board; or

(c) the consummation of (xx) a reorganization, merger or consolidation or sale of the Company or (yy) a disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, direct or indirectly, more than 80 percent of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Covered Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20 percent or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination, were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) the approval by the stockholders of Quanex of a complete liquidation or dissolution of Quanex.

Notwithstanding the foregoing, for purposes of a distribution from the Plan, including upon a termination of the Plan, the term "Change of Control" shall mean a change in the ownership or effective control of the Company, or a change in the ownership of a substantial portion of the assets of the Company as described in Section 409A of the Code.

2.06 “**Code**” means the Internal Revenue Code of 1986, as amended from time to time.

2.07 “**Committee**” means the Committee established under Article IX to administer the Plan.

2.08 “**Company**” means Quanex Corporation, a Delaware corporation.

2.09 “**Covered Employee**” means an individual (i) described in section 162(m)(3) of the Code or (ii) subject to the requirements of Section 16(a) of the Securities Act.

2.10 “**Disability**” shall mean the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant’s employer.

2.11 “**Early Retirement Date**” means the first day of any month after a Participant’s attainment of age 55 and the completion of five years of Service.

2.12 “**Earnings**” means all wages as defined in section 3401 of the Code (for purposes of income tax withholding) for services rendered in the course of employment with the Company; modified by excluding reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, welfare benefits, BeneFlex dollars under the Quanex Corporation Medical Reimbursement Plan, Incentive Bonuses and restricted stock awards and stock options; and modified further by including elective contributions under a cafeteria plan maintained by the Company that is governed by section 125 of the Code and elective contributions to any plan maintained by the Company that contains a qualified cash or deferred arrangement under section 401(k) of the Code.

2.13 “**Employee**” means any person hired by the Company who is receiving remuneration in the form of a salary for personal services rendered to the Company.

2.14 “**Final Average Earnings**” means the highest monthly average of a Participant’s Earnings which is produced by averaging his Earnings and Incentive Bonuses over any 36 consecutive month period during the 60 consecutive month period immediately preceding the date of the Participant’s Separation From Service. However, for the purposes of this definition, no more than three Incentive Bonuses shall be taken into account in calculating a Participant’s earnings over any 36 consecutive month period.

2.15 “**Forfeiting Act**” means the Participant’s fraud, dishonesty, willful destruction of Company property, committing of a felony, revealing Company trade secrets, acts of competition against the Company or acts in aid of a competitor of the Company.

2.16 “**Incentive Bonus**” or “**Incentive Bonuses**” means compensation earned under the Quanex Corporation Executive Incentive Compensation Plan or the Quanex Corporation Omnibus Incentive Plan, whether or not deferred under the Quanex Corporation Deferred Compensation Plan.

2.17 “**Normal Retirement Date**” means the first day of the month coincident with or next following a Participant’s 65th birthday.

2.18 “**Participant**” means an Employee designated by the Board as eligible for participation in the Plan, and who meets the requirements of Article III.

2.19 “**Plan**” means the Quanex Corporation Supplemental Benefit Plan.

2.20 “**Plan Year**” means the period commencing on November 1 and ending on October 31.

2.21 “**Qualified Plan**” means the Quanex Corporation Employees’ Pension Plan maintained by the Company.

2.22 “**Qualified Plan Benefit**” means the aggregate of all benefits which would be payable to the Participant from the Qualified Plan payable on or after his Normal Retirement Date. In calculating the amount of the Qualified Plan Benefit, for the purposes of the Plan the following shall apply:

(a) If the normal form of benefit of the Qualified Plan is other than a straight life annuity, the benefit shall be expressed in the form of a straight life annuity by using the actuarial assumptions contained in the Qualified Plan.

(b) If benefits under the Qualified Plan are paid or are payable to the Participant prior to the date his benefits commence under the Plan, the Actuarial Equivalent of such benefits as of his Normal Retirement Date (as defined in the Qualified Plan) shall be used.

(c) The amount of a Participant’s Qualified Plan Benefit shall be determined based on the provisions of the Qualified Plan as in effect on the date his benefits under the Plan are determined.

(d) The amount of a Participant’s Qualified Plan Benefit shall be determined by disregarding any offset for benefits payable under a terminated retirement plan that was previously maintained by the Company or one of its Affiliates.

2.23 “**Restricted Period**” means, for any qualified defined benefit plan sponsored by Quanex or an Affiliate, any period during which the plan is in at-risk status as described in section 409A of the Code.

2.24 **“Service”** means service for purposes of the Qualified Plan. In determining a Participant’s Service, all years of Service after the Participant’s date of hire shall be taken into account.

2.25 **“Social Security Benefit”** means, for all purposes other than determining the Disability benefit, the monthly amount payable commencing on the later of the Participant’s 65th birthday or the date of his Separation From Service under the provisions of Title II of the Social Security Act. Such benefit shall be determined based on (1) the Participant’s average monthly wage or indexed earnings (as defined in the Social Security Act, as amended) on the date of his Separation From Service, computed under the Social Security Act as in effect on the January 1 of the calendar year in which benefits are determined and using the Participant’s annual total wages from the Company for the prior calendar year, as defined in section 3121(b), assuming his wages increased prior thereto at the rate of increase in the average per worker total wages reported by the Social Security Administration, and assuming continuation of such wages without increase thereafter until his Separation From Service (with no wages thereafter); and (2) the Table of Primary Social Security Benefits under the Social Security Act as in effect on the January 1 of the calendar year in which his Separation From Service actually occurs. “Social Security Benefit” means, for purposes of determining a Disability benefit, any actual disability benefit for which the Participant is eligible under Title II of the Social Security Act.

2.26 **“Separation From Service”** means a Participant’s complete separation from service with the Company and all of its Affiliates. The determination of whether an Participant incurs a Separation From Service will be determined in accordance with section 409A of the Code.

ARTICLE III

PARTICIPATION

3.01 **Eligibility to Participate.** An Employee shall become eligible to become a Participant in the Plan by designation of the Board. The Committee shall notify each Participant of his eligibility. Each designated Employee shall furnish such information and perform such acts as the Committee may require prior to becoming a Participant.

3.02 **Reemployment.** Any person who Separates From Service with the Company shall not be eligible to participate in the Plan upon his reemployment by the Company unless the Board so determines. In such event, the Board shall specify whether and under what conditions the person shall receive credit for all or any of his Service completed prior to reemployment.

ARTICLE IV

RETIREMENT BENEFITS

4.01 Normal Retirement Benefit. Subject to Article VIII, if a Participant Separates From Service with the Company on or after his Normal Retirement Date, he will be entitled to a monthly benefit payable to the Participant for life only in an amount equal to:

(a) 2.75 percent of his Final Average Earnings multiplied by his years of Service (not in excess of 20 years), less

(b) the sum of:

(1) the Participant's Qualified Plan Benefit, and

(2) one-half of the Participant's Social Security Benefit multiplied by a fraction (which shall not exceed one) the numerator of which is the Participant's number of years of Service and the denominator of which is 20.

Notwithstanding any other provision of the Plan, a Participant's monthly benefit under this Section 4.01 shall not be less than his monthly benefit accrued as of the date of the execution of this Agreement.

4.02 Deferred Retirement Benefit. If a Participant Separates From Service with the Company on or after his Normal Retirement Date, he will be entitled to a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01. The benefit will not be actuarially increased to reflect the later benefit payment date or his shorter life expectancy. In determining a Participant's deferred retirement benefit, his Service subsequent to his Normal Retirement Date and the computation of his Final Average Earnings shall take into account his Service after his Normal Retirement Date.

4.03 Early Retirement Benefit. If a Participant Separates From Service with the Company on or after his Early Retirement Date but before age 65, he shall be entitled to a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01 based upon his years of Service and Final Average Earnings on the date of his Separation From Service. The monthly amount shall be reduced by five percent for each year (and fractional year) that the Participant's benefit commencement precedes the Participant's 65th birthday.

4.04 Disability Benefit. If a Participant who has completed six months of Service Separates From Service with the Company prior to his Early Retirement Date due to his Disability, he shall receive a monthly Disability benefit, for so long as he has a Disability but no longer than his Normal Retirement Date (on which date the Participant shall be treated as a retiree entitled to benefits under Section 4.01), in an amount equal to:

(a) 50 percent of the sum of his monthly Earnings in effect at the date of his Disability and the monthly equivalent of the average of his Incentive Bonuses for the prior three Plan Years, less

(b) the sum of:

- (1) the Participant's Qualified Plan Benefit;
- (2) the Participant's Social Security Benefit;
- (3) the Participant's benefit under the Company's group long-term disability insurance plan;
- (4) the Participant's benefit under an individual disability policy provided by the Company, and;
- (5) the Participant's benefit under the Company's wage continuation policy plan.

Upon the occurrence of the Normal Retirement Date of a former Participant with a Disability, he will be entitled to a monthly benefit payable to him for life only determined in accordance with the provisions of Section 4.01. In determining his benefit payable upon the occurrence of his Normal Retirement Date, his Final Average Earnings and his years of Service shall be determined as of the date of his Disability.

4.05 Deferred Vested Benefit. If a Participant Separates From Service with the Company prior to his Early Retirement Date but has five or more years of Service, he will upon attaining age 55 be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01 based upon his years of Service and Final Average Earnings at his Separation From Service. The benefit calculated under Section 4.01 however, shall be reduced, using the factors described in Section 4.03. If the Participant has fewer than five years of Service when he Separates From Service prior to his Early Retirement Date, he shall not be entitled to any benefits under the Plan.

4.06 Change of Control Benefit. Notwithstanding any other provisions of the Plan, if a Participant's Separation From Service occurs after a Change of Control, he will be entitled to the lump-sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 4.01 based upon his years of Service and Final Average Earnings at his Separation From Service. The benefit calculated under Section 4.01 shall not be reduced because of the Participant's age or early payment of his benefit under the Plan. Any benefit paid pursuant to this Section 4.06 shall be in lieu of any other benefit otherwise payable to the Participant under the Plan.

4.07 Forms of Payment. Subject to the provisions of Section 4.09, a Participant who is entitled to a benefit under Section 4.01, 4.02, or 4.03 may elect, in accordance with procedures established by the Committee, to have his benefit paid in one of the following forms, each of which shall be the Actuarial Equivalent of the Participant's benefit accrued under Section 4.01, 4.02, or 4.03, as applicable:

(a) A lump sum payment.

(b) An optional form of payment permitted under the Qualified Plan.

(c) Monthly, quarterly, or annual installment payments for a specified number of years (not in excess of 20). Such payments shall be made to the Participant while he is alive, and the balance of the payments shall be paid on an installment basis to his designated beneficiary if he dies prior to the payment of all the installment payments.

If a Participant fails to make a valid election concerning the form of his payment as required under Section 4.08, his benefit shall be paid in the form of a lump sum.

All payments under the Plan shall be made in cash.

4.08 Forms of Payment Elections. Except as provided below, any election under Sections 4.07 with respect to the form of payment of Plan benefits (an "Initial Payment Election") by a Participant who became a Participant on or before December 31, 2006 must be made in accordance with procedures established by the Committee and must be received by the Committee no later than December 31, 2006. A newly eligible Participant may make an Initial Payment Election within the 30-day period after he becomes eligible to participate in the Plan. The last timely Initial Payment Election received by the Committee shall be irrevocable, unless changed in accordance with this Section. Any Initial Payment Election that is not timely received shall be treated as not having been made and the Participant shall be deemed to have elected a lump sum payment of his or her benefit under the Plan.

A Participant may elect to change the form of payment of his or her Plan benefits if such election is received by the Committee at least 12 months prior to the date payment of the benefit will be made or commence. Such an election change shall not take effect until at least 12 months after the date on which the change in payment election is received by the Committee and the payment may not be made or commence no earlier than five years following the date on which the payments would otherwise have been made or commenced. A change from one form of an annuity to another form of annuity that is Actuarially Equivalent shall not constitute a change in form of payment and may be made at any time before the payment is to be made or commence.

4.09 Lump Sum Payment Of Small Amounts. Notwithstanding any other provision of the Plan, if the present value of a benefit payable under Section 4.01, 4.02, or 4.03 of the Plan is less than or equal to \$20,000, such benefit shall be paid in the form of a lump sum in cash.

4.10 Time of Payment of Benefit. The payments provided for Normal Retirement, Deferred Retirement, and Early Retirement shall be paid or commence to be paid on the 90th day after the Participant's Separation From Service. The monthly Disability benefit shall commence being paid on the first day of the month coincident with or next following the Participant's Separation From Service due to Disability and shall cease with the last payment prior to his recovery or attainment of his Normal Retirement Date. If a former Participant who terminated employment with the Company due to Disability continues to have a Disability until his Normal Retirement Date, the lump sum payment then due shall be paid on his Normal Retirement Date. A Participant's Change of Control benefit shall be payable on the 90th day after the later of his attainment of age 55 or the date of his Separation From Service. A Participant's deferred vested benefit shall be payable on the 90th day after the Participant's Separation From Service.

Notwithstanding anything to the contrary in this Plan, payments due to the Separation From Service of an Employee, excluding due to death or Disability but including due to Retirement, may not be made before the date which is six (6) months after the date of such Employee's Separation From Service (a "Six-Month Delay"). In the event of a Six-Month Delay, the benefits that would have been paid during such delay if the delay had not been imposed, shall be paid in a lump sum as soon as is administratively practicable following the expiration of the Six-Month Delay and any other benefits to be paid after the end of the Six Month Delay shall be paid in accordance with the terms of the Plan.

ARTICLE V

DEATH BENEFITS

5.01 **In General.** The benefits under the Plan payable subsequent to a Participant's or former Participant's death shall be limited to those contained in this Article, and shall in any case be subject to Article VII.

5.02 **Death During Employment.** If a Participant's death occurs while he is in the employ of the Company, no death benefit shall be payable under the Plan with respect to the Participant.

5.03 **Death After Separation From Service.**

(a) *In General.* Except as provided in this Section, no benefits shall be payable to or on behalf of a Participant or former Participant whose death occurs subsequent to his Separation From Service.

(b) *Before Benefits Commence.* If a former Participant dies before his benefit is paid or commences to be paid but after his Separation From Service on or after his Normal Retirement Date, his Early Retirement Date or a Change of Control, or after he has become entitled to a deferred vested benefit under Section 4.05, his designated beneficiary, if any, shall be entitled to receive a lump sum benefit equal to the benefit which he would have received had he lived to the date his benefit would have been paid out. If a former Participant dies before his benefit commences to be paid and he was eligible for a Disability benefit, his designated beneficiary, if any, shall be entitled to receive a lump sum benefit which is Actuarially Equivalent to a survivor annuity equal to the survivor portion of a qualified joint and 50 percent survivor annuity as if the former Participant had been entitled to elect and had elected such survivor annuity on the day before his death. The survivor lump sum death benefit shall be payable on the 90th day following the date of the Former Participant's death. In calculating the survivor portion for the survivor lump sum benefit, the benefit shall be reduced in the same manner it is reduced under Section 4.03, 4.04, or 4.05, whichever is applicable, for payment earlier than Normal Retirement Date. In the event of a Participant's Separation From Service after a Change of Control, the death benefits payable under this Section 5.03 on his behalf will not be reduced for payment before the Participant's Normal Retirement Date.

(c) *After Disability Benefits Commence.* If a former Participant who is receiving a Disability benefit dies prior to reaching his Normal Retirement Date but while he still has a Disability, his designated beneficiary shall receive a lump sum benefit which is Actuarially Equivalent to the survivor portion of a qualified joint and 50 percent survivor annuity as if the former Participant had been entitled to elect and had elected such survivor annuity on the day before his death. Such benefit shall be payable on the 90th day after his death.

(d) *After Benefits Under Section 4.01, 4.02 or 4.03 Commence.* If a former Participant dies after receiving payments pursuant to Section 4.01, 4.02, or 4.03 of the Plan, his designated beneficiary shall be entitled to receive any death benefit payable under the optional form of payment selected by the former Participant.

ARTICLE VI

BENEFICIARIES

6.01 Designation of Beneficiary. Each Participant or former Participant shall designate as his beneficiary the person or persons who shall, upon his death, receive the death benefits, if any, payable pursuant to Article V. The designation shall be in such form as the Committee requires and may include contingent beneficiaries. A beneficiary designation shall be effective when filed with the Committee during the Participant's or former Participant's life, and shall cancel and revoke all prior designations.

6.02 Payment of Benefits Upon Death. If a Participant's or former Participant's death occurs prior to payment of his benefit, the benefit payable upon his death, if any, shall be paid to the persons or persons designated as his primary beneficiary, but if the primary beneficiary does not survive him, then to the person or persons designated as the contingent beneficiary. If no primary or contingent beneficiary survives him or if no beneficiary designation is in effect upon his death, then the benefit under Article V shall be paid to his spouse. If his spouse does not survive him, then the benefit shall be paid to his descendants who survive him by right of representation, and if no descendants of the Participant or former Participant survive him, then to his estate.

6.03 Minors and Persons Under Legal Disability. Payments to a minor or a person under a legal disability shall be made by the Company at the direction of the Committee as follows:

- (a) to the natural or adoptive parents or legal guardian or conservator of such person, or to any other person *in loco parentis*;
- (b) to a custodian for such person under the Uniform Gifts to Minors Act or Gifts of Securities to Minors Act; or
- (c) by expending amounts directly for the education and support of such person.

ARTICLE VII

FORFEITURE FOR CAUSE

Except with respect to persons whose Separations From Service with the Company occur after a Change of Control, notwithstanding any other provision of the Plan to the contrary, in all cases where a written document is executed by the Company expressly making acts of competition against the Company or acts in aid of a competitor of the Company by the Participant or former Participant a Forfeiting Act, if the Participant commits one or more Forfeiting Acts during his employment with the Company or following his Separation From Service, any and all unpaid benefits due the Participant or his designated beneficiary shall be forfeited. This provision shall apply regardless of the date the Company first learns of the occurrence of a Forfeiting Act.

ARTICLE VIII

AGREEMENT FUNDED THROUGH RABBI TRUST

The Company shall pay the benefits due the Participants and former Participants under the Plan; however, should it fail to do so when a benefit is due, such benefit shall be paid by the trustee of that certain Trust Agreement entered into, by and between the Company and Fleet National Bank (the "Trust"). In any event, if the Trust fails to pay for any reason, the Company still remains liable for the payment of all benefits provided by the Plan. The Company may contribute at any time and from time to time such assets to the Trust as it, in its sole discretion, shall determine and shall have the right at any time and from time to time to borrow from the Trust the fair market value of assets held in the Trust which are in excess of the net present value of the largest benefit all Participants and former Participants are entitled to under the Plan as of the beginning of the Plan Year during which the loan is made (exclusive of any Disability or death benefit). Any such loan shall be evidenced by an instrument in writing, shall bear interest at such rate as the Company would be required to pay to its prime lender under the same terms (except for the security), shall provide a repayment schedule which would repay but only to the extent of the funds so borrowed, such amount as is necessary to maintain at the beginning of each Plan Year during the existence of the loan, non-borrowed funds in the Trust at a level at least equal to the net present value of all benefits calculated under the preceding sentence and shall provide for prepayment at the Company's election, without penalty. The above calculations shall use the same actuarial factors set out in the definition of Actuarial Equivalent under Section 2.01. All assets contributed shall be held in and administered according to the terms of the Trust which are incorporated by reference in the Plan for all purposes. However, in no event shall the rights of Participants and former Participants in the assets held by the Trust be greater than the rights of unsecured creditors of the Company. Nothing contained in the Plan or the Trust constitutes a secured promise by the Company that the assets of the Company will be sufficient to pay any benefit to any person.

Notwithstanding the foregoing, no assets shall be set aside or reserved (directly or indirectly) in a trust (or other arrangement as determined by the Internal Revenue Service), or transferred to a trust or other arrangement established to fund the Company's obligations under the Plan during any Restricted Period for purposes of paying benefits to an Applicable Covered Employee. The rule contained in the preceding sentence does not apply to assets set aside, reserved or transferred before or after a Restricted Period.

ARTICLE IX

PLAN COMMITTEE

9.01 **Committee.** The Plan shall be administered by the Committee, which shall have three members designated in writing by the Company. Any person may resign from the Committee upon 30 days' prior notice to the Company and to any other member of the Committee. The Company may remove any member of the Committee by written notice to him and to any other member of the Plan Committee. The Company shall fill any vacancy and shall give written notice thereof to the other members of the Committee. In the interim, the other member(s) of the Committee shall have full authority to act. If, at any time, there are no members of the Committee, then the Board shall serve as the Committee.

9.02 **General Rights, Powers and Duties of Plan Committee.** The Committee shall be responsible for the management, operation and administration of the Plan. In addition to any powers, rights and duties set forth elsewhere in the Plan, it shall have the following powers and duties:

- (a) to adopt such rules and regulations consistent with the provisions of the Plan as it deems necessary for the proper and efficient administration of the Plan;
- (b) to enforce the Plan in accordance with its terms and any rules and regulations it establishes;
- (c) to maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;
- (d) to construe and interpret the Plan and to resolve all questions arising under the Plan;
- (e) to direct the Company to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan;
- (f) to employ or retain agents, attorneys, actuaries, accountants or other persons, who may also be employed by or represent the Company, and
- (g) to be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable federal or state law.

The Committee shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided by the Plan, or to waive or fail to apply any requirements of eligibility for benefits under the Plan.

9.03 **Rules and Decisions.** The Committee may adopt such rules and actuarial tables as it deems necessary, desirable or appropriate. All rules and decisions of the Committee shall be uniformly and consistently applied to all Participants in similar circumstances. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished to it by a Participant or beneficiary, the Company, and the legal counsel, actuary and accountant for the Company.

9.04 Committee Procedures. The Committee may act at a meeting or in writing without a meeting. The Committee shall elect one of its members as chairman and appoint a secretary, who may or may not be a Committee member. The Secretary shall keep a record of all meetings and forward all necessary communications to the Company. The Committee may adopt such bylaws and regulations as it deems desirable for the conduct of its affairs. All decisions of the Committee shall be made by the vote of the majority, including actions in writing taken without a meeting. A dissenting Committee member who, within a reasonable time after he has knowledge of any action or failure to act by the majority, registers his dissent in writing delivered to the other Committee members and the Company, shall not, to the extent permitted by law, be responsible for any such action or failure to act.

9.05 Authorization of Benefit Payments. The Committee shall issue directions to the Company concerning all benefits which are to be paid pursuant to the provisions of the Plan. The Company shall furnish the Committee such data and information as it may require. The records of the Company shall be determinative of each Participant's period of employment, Separation From Service and the reason therefor, leave of absence, reemployment, years of Service, Earnings, and Final Average Earnings. Participants and their beneficiaries shall furnish to the Committee such evidence, data, or information, and execute such documents, as the Committee requests.

9.06 Application and Forms of Benefits. The Committee may require a Participant or former Participant to complete and file with the Committee an application for retirement benefits and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information so furnished it, including the Participant's or former Participant's current mailing address.

9.07 Facility of Payment. Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit or installment thereof hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Company to make payments to such person or to his legal representative or to a relative or friend of such person for his benefit, or the Committee may direct the Company to apply the payment for the benefit of such person in such manner as the Committee considers advisable. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liabilities for the making of such payment under the provisions of the Plan.

9.08 Claims Procedure. The Committee shall make all determinations as to the right of any person to receive benefits under the Plan. Any denial by the Committee of a claim for benefits under the Plan by a Participant, former Participant beneficiary of a former Participant (collectively referred to herein as "Claimant") shall be stated in writing by the Committee and

delivered or mailed to the Claimant on the 90th day after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant on the 90th day after receipt of the claim and the claim shall thereafter be paid on the 180th day after the date of receipt of the initial claim. Such notice shall set forth the specific reasons for the denial, specific reference to pertinent provisions of the Plan upon which the denial is based, a description of any additional material or information necessary for the Claimant to perfect his claim with an explanation of why such material or information is necessary, and an explanation of claim review procedures under the Plan written to the best of the Committee's ability in a manner that may be understood without legal or actuarial counsel. A Claimant whose claim for benefits has been wholly or partially denied by the Committee may, within 90 days following the date of such denial, request a review of such denial in writing addressed to the Committee. The Claimant shall be entitled to submit such issues or comments, in writing or otherwise, as he shall consider relevant to a determination of his claim, and he may request a hearing in person before the Committee. Prior to submitting his request, the Claimant shall be entitled to review such documents as the Committee shall agree are pertinent to his claim. The Claimant may, at all stages of review, be represented by counsel, legal or otherwise, of his choice, provided that the fees and expenses of such counsel shall be borne by the Claimant. All requests for review shall be promptly resolved. The Committee's decisions with respect to any such review shall be set forth in writing and shall be mailed to the Claimant on the 60th day following receipt by the Committee of the Claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Committee's decision shall be so mailed on the 120th day after receipt of such request.

9.09 **Responsibility.** No member of the Committee or of the Board shall be liable to any person for any action taken or omitted in connection with the administration of the Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

ARTICLE X

AMENDMENT AND TERMINATION

10.01 **Amendment.** The Plan may be amended in whole or in part by the Company at any time. Notice of any such amendment shall be given in writing to the Committee and to each Participant, former Participant, and beneficiary of a deceased former Participant; *provided, however*, that no such amendment shall have the effect of reducing that portion of the benefit the Participant or former Participant ultimately becomes entitled to below that amount he would have received for Service to the date of the amendment under the formula set out in the Plan prior to the amendment.

10.02 **Right to Terminate Plan.** The Company reserves the right to terminate the accrual or vesting of additional benefits under the Plan by any or all Participants at any time by written notice to the Committee. The Committee shall notify any Participant affected by such termination of such action and its effective date within 30 days after it receives notice from the Company. A Participant whose accrual of additional benefits is terminated shall not lose any previously accrued and vested benefits, and, subject to Article VII, any such vested benefits shall be payable at the time and in the manner provided hereunder. The Board may terminate the Plan within the 30 days preceding or 12 months following a Change of Control, as defined by section 409A of the Code, or as otherwise permitted under section 409A of the Code, and distribute the accrued vested benefits of the Participants' to Participants in the manner and the time as determined by the Committee, in its sole discretion, subject to the preceding sentence and as permitted by section 409A of the Code.

ARTICLE XI

MISCELLANEOUS

11.01 **Inalienability of Benefits.** The right of any Participant, former Participant or beneficiary to any benefit or payment under the Plan shall not be subject to voluntary or involuntary transfer, alienation, pledge, assignment, garnishment, sequestration or other legal or equitable process. Any attempt to transfer, alienate, pledge, assign or otherwise dispose of such right or any attempt to subject such right to attachment, execution, garnishment, sequestration or other legal or equitable process shall be null and void.

11.02 **No Implied Rights.** Neither the establishment of the Plan nor any modification thereof shall be construed as giving any Participant, former Participant beneficiary or other person any legal or equitable right unless such right shall be specifically provided for in the Plan or conferred by affirmative action of the Company in accordance with the terms and provisions of the Plan.

11.03 **Actions By Company.** All actions by the Company under the Plan shall be taken by the Board or by a person or persons designated by the Board.

11.04 **Binding Effect.** The provisions of the Plan shall be binding on the Company, the Committee, and all persons entitled to benefits under the Plan, together with their respective heirs, legal representatives and successors in interest.

11.05 **Number and Gender.** Wherever appropriate, the singular shall include the plural, the plural shall include the singular, and the masculine shall include the feminine or neuter.

11.06 **Governing Law.** The Plan shall be construed and administered according to the laws of the State of Texas.

11.07 **Section 409A.** The Plan is intended to be a nonqualified deferred compensation arrangement and is not intended to meet the requirements of section 401(a) of the Code. The Plan is intended to meet the requirements of section 409A of the Code and may be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that a deferral, accrual, vesting or payment of an amount under the Plan is subject to section 409A of the Code, except as the Committee otherwise determines in writing, the amount will be deferred, accrued, vested or paid in a manner that will meet the requirements of section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the deferral, accrual, vesting or payment shall not be subject to the excise tax applicable under section 409A of the Code. Any provision of the Plan that would cause the deferral, accrual, vesting or payment of an amount under the Plan to fail to satisfy section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of the Plan) to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code. In the event additional regulations or other guidance is issued under section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of section 409A of the Code with respect to the distributions under the Plan, then the provisions of the Plan regarding distributions shall be automatically amended to permit such distributions to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the intent of the Plan prior to its amendment to comply with section 409A of the Code.

QUANEX CORPORATION
SUPPLEMENTAL SALARIED EMPLOYEES' PENSION PLAN
Amended and Restated
Effective as of January 1, 2005

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QUANEX CORPORATION

SUPPLEMENTAL SALARIED EMPLOYEES' PENSION PLAN

WHEREAS, Quanex Corporation established the Quanex Corporation Supplemental Salaried Employees' Pension Plan (the "Plan") to provide a retirement pay supplement for a select group of management or highly compensated employees so as to retain their loyalty and to offer a further incentive to them to maintain and increase their standard of performance;

WHEREAS, the Plan is required to be amended to comply with the requirements of new section 409A of the Internal Revenue Code of 1986, as amended by the American Jobs Creation Act of 2004;

WHEREAS, it has been determined that the Plan should now be completely amended, restated and continued without a gap or lapse in coverage, time or effect which would cause any Participant to be entitled to a distribution in order to fundamentally change the purpose and provisions of the Plan;

WHEREAS, it has been determined that the amendment and restatement of the Plan shall apply only to amounts earned and vested on or after January 1, 2005, and that the provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004;

WHEREAS, Quanex Corporation desires to amend and restate the Plan effective as of January 1, 2005.

NOW, THEREFORE, Quanex Corporation amends and restates the Plan as follows:

ARTICLE I

DEFINITIONS AND DESIGNATIONS

1.01 **“Actuarial Equivalent”** shall mean a benefit of equivalent value computed on the basis of the mortality assumptions and interest rate assumptions in effect under the Qualified Plan immediately prior to the Participant’s Separation From Service with the Company.

1.02 **“Affiliate”** means all business organizations which are members of a controlled group of corporations (within the meaning of section 414(b) of the Code), or which are trades or businesses (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), or which are members of an affiliated service group of employers (within the meaning of section 414(m) of the Code), which related group of corporations, businesses or employers includes Quanex.

1.03 **“Applicable Covered Employee”** means any of the following:

- (a) a Covered Employee of Quanex;
- (b) a Covered Employee of an Affiliate; and
- (c) a former employee who was a Covered Employee at the time of termination of employment with Quanex or an Affiliate.

1.04 **“Beneficiary”** shall mean a person or entity designated by the Participant under the terms of this Plan to receive any amounts distributed under the Plan upon the death of the Participant.

1.05 **“Board of Directors”** shall mean the Board of Directors of the Company.

1.06 **“Cash Balance Participant”** shall mean a Participant who is a Cash Balance Member in the Qualified Plan.

1.07 **“Code”** shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.08 **“Committee”** shall mean the Committee established under Article VI to administer the Plan.

1.09 **“Company”** shall mean Quanex Corporation, a Delaware corporation.

1.10 **“Covered Employee”** means an individual (i) described in section 162(m)(3) of the Code or (ii) subject to the requirements of Section 16(a) of the Securities Act.

1.11 **“Deferred Compensation Ledger”** shall mean the ledger maintained by the Committee for each Participant which reflects the amounts credited by the Company under this Plan to the account of each Participant.

1.12 **“Deferred Retirement Date”** shall mean the first day of the month following the month in which a Participant retires pursuant to the provisions of Section 3.02.

1.13 **“Early Retirement Date”** shall mean the first day of any month after a Participant’s attainment of age 55 and the completion of five years of Service.

1.14 **“Employee”** shall mean a person who is in a select group of management or a highly compensated employee of the Company.

1.15 **“Normal Retirement Date”** shall mean the first day of the month coincident or next following a Participant’s 65th birthday.

1.16 **“Participant”** shall mean an Employee of the Company designated by the Board of Directors as eligible for participation in the Plan, and who meets the requirements of Article II.

1.17 **“Plan”** shall mean the Quanex Corporation Supplemental Salaried Employees’ Pension Plan.

1.18 **“Plan Year”** shall mean the 12-month period commencing on November 1 and ending on the following October 31.

1.19 **“Qualified Plan”** shall mean the Quanex Corporation Salaried Employees Pension Plan maintained by the Company which is intended to qualify under section 401 of the Code.

1.20 **“Qualified Plan Benefit”** shall mean the actuarial equivalent of the Participant’s benefit under the Qualified Plan assuming that the Participant’s entire benefit under the Qualified Plan will be paid in a lump sum cash payment. The amount of a Participant’s Qualified Plan Benefit shall be determined based on the provisions of the Qualified Plan (including provisions relating to interest and mortality assumptions) as in effect on the date his benefits under this Plan are determined.

1.21 **“Restricted Period”** means, for any qualified defined benefit plan sponsored by Quanex or an Affiliate, any period during which the plan is in at-risk status as described in section 409A of the Code.

1.22 **“Retirement Date”** shall mean a Participant’s Normal Retirement Date, Early Retirement Date, or Deferred Retirement Date, as the case may be.

1.23 **“Separates From Service”** shall mean a Participant incurs a Separation From Service.

1.24 **“Separation From Service”** shall mean a Participant’s complete separation from service with the Company and all of its Affiliates. The determination of whether an Participant Separates From Service will be determined in accordance with section 409A of the Code.

1.25 **“Service”** shall have the same meaning as given that term under the Qualified Plan. All Service taken into account under the Qualified Plan will be taken into account under this Plan.

ARTICLE II

ELIGIBILITY

The Employees who shall be eligible to participate in the Plan shall be those Employees as the Committee shall determine from time to time. An Employee will become a Participant effective as of the date specified in writing by the Committee.

ARTICLE III

RETIREMENT BENEFITS

3.01 Normal Retirement Benefit. If a Participant other than a Cash Balance Participant Separates From Service on or after his Normal Retirement Date, he will be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only in an amount equal to:

(a) the amount of the Participant's Qualified Plan Benefit that would be payable if the applicable limitation under section 401(a)(17) of the Code for each fiscal year of the Qualified Plan commencing on or after November 1, 1994, was \$235,840 (not indexed for increases in the cost of living), less

(b) the Participant's Qualified Plan Benefit.

3.02 Deferred Retirement Benefit. If a Participant other than a Cash Balance Participant Separates From Service after his Normal Retirement Date, he will be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 3.01. The benefit will not be actuarially increased to reflect the later benefit payment date or his shorter life expectancy.

3.03 Early Retirement Benefit. If a Participant other than a Cash Balance Participant Separates From Service on or after his Early Retirement Date but before age 65, he shall be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life only determined in accordance with the provisions of Section 3.01 as of his Early Retirement Date.

3.04 Deferred Vested Benefit. If a Participant other than a Cash Balance Participant Separates From Service prior to his Early Retirement Date but has five or more years of Service, he will upon attaining age 55 be entitled to the lump sum Actuarial Equivalent of a monthly benefit payable to the Participant for life, commencing on his Normal Retirement Date, determined in accordance with the provisions of Section 3.01.

3.05 Cash Balance Participant Benefit. If a Cash Balance Participant Separates From Service, he will be entitled to:

(a) the amount of the Participant's Qualified Plan Benefit that would be payable if the applicable limitation under section 401(a)(17) of the Code for each fiscal year of the Qualified Plan commencing on or after November 1, 1994, was \$235,840 (not indexed for increases in the cost of living), less

(b) the Participant's Qualified Plan Benefit.

3.06 Time of Payment of Benefit. Upon a Participant's Normal Retirement, Deferred Retirement, Early Retirement or other Separation From Service, the Participant shall be paid a lump sum cash payment of his Plan benefit as determined under Section 3.01, 3.02, 3.03 or 3.05 on the first business which is at least six (6) months after the date of such Employee's Separation From Service, or as soon as is administratively practicable thereafter. A terminated Participant's deferred vested benefit as determined under Section 3.04 shall be paid on the 90th day after his attainment of age 55 or as soon as administratively practicable thereafter in a lump sum cash payment but not earlier than the first business which is at least six (6) months after the date of such Employee's Separation From Service.

ARTICLE IV

DEATH BENEFITS

4.01 Death Prior to Payment of Plan Benefit. If a Participant's death occurs before his Plan benefit has begun to be paid to him, the following rules shall apply:

(a) **Participants Other Than Cash Balance Participants.** The Beneficiary of a Participant other than a Cash Balance Participant shall be entitled to receive a lump sum benefit Actuarially Equivalent to the Plan benefit payable at the time of death, determined in accordance with the provisions of Section 3.01. In calculating the lump sum death benefit under this Section, the benefit shall be reduced in the same manner it is reduced in Section 3.03 or 3.04, whichever is applicable, for payment earlier than Normal Retirement Date. Such lump sum payment shall be made on the 90th day after the death of the Participant or as soon as administratively practicable thereafter.

(b) **Cash Balance Participants.** The Beneficiary of a Cash Balance Participant shall be entitled to receive a lump sum benefit of such Participant's benefit payable at the time of death, determined in accordance with the provisions of Section 3.05. Such lump sum payment shall be made on the 90th day after the death of the Participant or as soon as administratively practicable thereafter.

4.02 Designation of Beneficiary. Each Participant, upon becoming eligible to participate in the Plan, shall file with the Committee a designation of one or more Beneficiaries to whom the distribution otherwise due the Participant shall be made in the event of his death prior to the distribution of the amount credited on his behalf in the Deferred Compensation Ledger. The designation will be effective upon receipt by the Committee of a properly executed form which the Committee has approved for that purpose. The Participant may from time to time revoke or change any designation of Beneficiary by filing another approved Beneficiary designation form with the Committee. If there is no valid designation of Beneficiary on file with the Committee at the time of the Participant's death, or if all of the Beneficiaries designated in the last Beneficiary designation have predeceased the Participant or otherwise ceased to exist, the Beneficiary shall be the Participant's spouse, if the spouse survives the Participant, or otherwise the Participant's estate. If any Beneficiary survives the Participant but dies or otherwise ceases to exist before receiving all amounts due the Beneficiary under the Plan, the balance of the amount which would have been paid to that Beneficiary shall, unless the Participant's designation provides otherwise, be distributed to the individual deceased Beneficiary's estate or to the Participant's estate in the case of a Beneficiary which is not an individual. Any Beneficiary designation which designates any person or entity other than the Participant's spouse must be consented to in writing by the spouse in a form acceptable to the Committee to be effective.

ARTICLE V

FORFEITURE FOR CAUSE

If the Committee finds, after full consideration of the facts presented on behalf of both the Company and a former Participant, that the Participant was discharged by the Company for fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment by the Company which damaged the Company, or for disclosing trade secrets of the Company, the entire amount credited on his behalf in the Deferred Compensation Ledger shall be forfeited. The decision of the Committee as to the cause of a former Participant's discharge and the damage done to the Company will be final. No decision of the Committee will affect the finality of the discharge of the Participant by the Company in any manner.

ARTICLE VI

PLAN COMMITTEE

6.01 **Committee.** The Plan shall be administered by a Committee which shall have at least three members appointed by the Board of Directors. Any person may resign from the Committee upon 30 days' prior notice to the Board of Directors. The Board of Directors may remove any member of the Committee at any time.

6.02 **General Rights, Powers and Duties of Plan Committee.** The Committee shall be responsible for the management, operation and administration of the Plan. In addition to any powers, rights and duties set forth elsewhere in the Plan, it shall have the following powers and duties:

- (a) to adopt such rules and regulations consistent with the provisions of the Plan as it deems necessary for the proper and efficient administration of the Plan;
- (b) to enforce the Plan in accordance with its terms and any rules and regulations it establishes;
- (c) to maintain records concerning the Plan sufficient to prepare reports, returns and other information required by the Plan or by law;
- (d) to construe and interpret the Plan and to resolve all questions arising under the Plan;
- (e) to direct the Company to pay benefits under the Plan, and to give such other directions and instructions as may be necessary for the proper administration of the Plan;
- (f) to employ or retain agents, attorneys, actuaries, accounts or other persons, who may also be employed by or represent the Company, and
- (g) to be responsible for the preparation, filing and disclosure on behalf of the Plan of such documents and reports as are required by any applicable Federal or State law.

The Committee shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided by the Plan, or to waive or fail to apply any requirements of eligibility for benefits under the Plan.

6.03 **Rules and Decisions.** The Committee may adopt such rules and actuarial tables as it deems necessary, desirable or appropriate. All rules and decisions of the Committee shall be uniformly and consistently applied to all Participants in similar circumstances. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished to it by a Participant or beneficiary, the Company, and the legal counsel, actuary and accountant for the Company.

6.04 Committee Organization and Voting. The Committee shall select from among its members a chairman who shall preside at all of its meetings and shall elect a secretary without regard to whether that person is a member of the Committee. The secretary shall keep all records, documents and data pertaining to the Committee's supervision and administration of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business and the vote of a majority of the members present at any meeting shall decide any question brought before the meeting. In addition, the Committee may decide any question by vote, taken without a meeting, of a majority of its members. A member of the Committee who is also a Participant shall not vote or act on any matter relating solely to himself.

6.05 Committee Discretion. The Committee in exercising any power or authority granted under this Plan or in making any determination under this Plan shall perform or refrain from performing those acts using its sole discretion and judgment. Any decision made by the Committee or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decision shall never be subject to de novo review.

6.06 Authorization of Benefit Payments. The Committee shall issue directions to the Company concerning all benefits which are to be paid pursuant to the provisions of the Plan. The Company shall furnish the Committee such data and information as it may require. The records of the Company shall be determinative of each Participant's period of employment, Separation From Service and the reason therefor, leave of absence, reemployment, years of Service, Earnings, and Final Average Earnings. Participants and their beneficiaries shall furnish to the Committee such evidence, data, or information, and execute such documents, as the Committee requests.

6.07 Application and Forms of Benefits. The Committee may require a Participant to complete and file with the Committee an application for retirement benefits and all other forms approved by the Committee, and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information so furnished it, including the Participant's current mailing address.

6.08 Facility of Payment. Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit or installment thereof hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Company to make payments to such person or to his legal representative or to a relative or friend of such person for his benefit, or the Committee may direct the Company to apply the payment for the benefit of such person in such manner as the Committee considers advisable. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liabilities for the making of such payment under the provisions of the Plan.

6.09 Claims Procedure. The Committee shall make all determinations as to the right of any person to receive benefits under the Plan. Any denial by the Committee of a claim for benefits under the Plan by a Participant, spouse or retired Participant (collectively referred to herein as "Claimant") shall be stated in writing by the Committee and delivered or mailed to the Claimant on the 90th day after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant on the 90th day after receipt of the claim and the claim shall thereafter be paid on the 180th day after the date of receipt of the initial claim. Such notice shall set forth the specific reasons for the denial, specific reference to pertinent provisions of the Plan upon which the denial is based, a description of any additional material or information necessary for the Claimant to perfect his claim with an explanation of why such material or information is necessary, and an explanation of claim review procedures under the Plan written to the best of the Committee's ability in a manner that may be understood without legal or actuarial counsel. A Claimant whose claim for benefits has been wholly or partially denied by the Committee may, within 90 days following the date of such denial, request a review of such denial in a writing addressed to the Committee. The Claimant shall be entitled to submit such issues or comments, in writing or otherwise, as he shall consider relevant to a determination of his claim, and may include in his request a request for a hearing in person before the Committee. Prior to submitting his request, the Claimant shall be entitled to review such documents as the Committee shall agree are pertinent to his claim. The Claimant may, at all stages of review, be represented by counsel, legal or otherwise, of his choice, provided that the fees and expenses of such counsel shall be borne by the Claimant. All requests for review shall be promptly resolved. The Committee's decisions with respect to any such review shall be set forth in writing and shall be mailed to the Claimant on the 60th day following receipt by the Committee of the Claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Committee's decision shall be so mailed on the 120th day after receipt of such request.

ARTICLE VII

AMENDMENT AND TERMINATION

7.01 **Amendment.** The Plan may be amended in whole or in part by the Company at any time. Notice of any such amendment shall be given in writing to the Committee and to each Participant and each beneficiary of a deceased Participant. No such amendment however shall have the effect of reducing that portion of the benefit the Participant ultimately becomes entitled to below that amount he would have received to the date of the amendment under the formula set out in the Plan prior to the amendment . In addition, no such amendment shall apply to amounts accrued and vested on or before December 31, 2004, unless the amendment instrument explicitly states that the amendment shall apply to such amounts.. An amendment to the Plan shall be made by a written instrument executed by an officer of the Company. The Board of Directors of the Company must authorize the amendment in order for the amendment to be effective.

7.02 **Right to Terminate Plan.** The Company intends to maintain the Plan for an indefinite period of time, but necessarily must, and hereby does, reserve the right to terminate the Plan at any time. The Company shall not have any further financial obligations under the Plan from and after such termination of the Plan except those that have accrued up to the date of termination and have not been satisfied. Upon termination of the Plan, any benefits vested under the Plan shall be payable at the time and in the manner provided hereunder; *provided, however*, that the Board may terminate the Plan within the 30 days preceding or 12 months following a change in control, as defined by section 409A of the Code, or as otherwise permitted under section 409A of the Code, and distribute the Participants' accrued vested benefits to Participants in the manner and the time as determined by the Committee, in its sole discretion, as permitted by section 409A of the Code. The termination of the Plan shall be accomplished by a resolution of the Board of Directors of the Company and shall be evidenced by a written instrument executed by an officer of the Company.

ARTICLE VIII

FUNDING

8.01 Unfunded Arrangement. It is intended that this Plan shall be unfunded for tax purposes and for purposes of Title 1 of the Employee Retirement Income Security Act of 1974, as amended. The Committee will establish a bookkeeping account for each Participant in a special Deferred Compensation Ledger which shall be maintained by the Company.

8.02 Participants Must Rely Only on General Credit of the Company. It is specifically recognized by both the Company and the Participants that this Plan is only a general corporate commitment and that each Participant must rely upon the general credit of the Company for the fulfillment of its obligations hereunder. Under all circumstances the rights of Participants to any asset held by the Company will be no greater than the rights expressed in this agreement. Nothing contained in this agreement shall constitute a guarantee by the Company that the assets of the Company will be sufficient to pay any benefits under this Plan or would place the Participant in a secured position ahead of general creditors of the Company; the Participants are only unsecured creditors of the Company with respect to their Plan benefits and the Plan constitutes a mere promise by the Company to make benefit payments in the future. No specific assets of the Company have been or shall be set aside, or shall in any way be transferred to the trust or shall be pledged in any way for the performance of the Company's obligations under this Plan which would remove such assets from being subject to the general creditors of the Company.

In addition, no assets shall be set aside or reserved (directly or indirectly) in a trust (or other arrangement as determined by the Internal Revenue Service), or transferred to a trust or other arrangement established to fund the Company's obligations under the Plan during any Restricted Period for purposes of paying benefits to an Applicable Covered Employee. The rule contained in the preceding sentence does not apply to assets set aside, reserved or transferred before or after a Restricted Period.

ARTICLE IX

MISCELLANEOUS

9.01 **Limitation of Rights.** Nothing in this Plan shall be construed:

- (a) to give any employee of the Company any right to be designated a Participant in the Plan;
- (b) to give a Participant any right with respect to the amounts and interest credited in the Deferred Compensation Ledger on behalf of the Participant, except in accordance with the terms of this Plan;
- (c) to limit in any way the right of the Company to terminate a Participant's employment with the Company at any time;
- (d) to evidence any agreement or understanding, expressed or implied, that the Company will employ a Participant in any particular position or for any particular remuneration; or
- (e) to give a Participant or any other person claiming through him any interest or right under this Plan other than that of an unsecured general creditor of the Company.

9.02 **Distributions to Incompetents or Minors.** Should a Participant become incompetent or should a Participant designate a Beneficiary who is a minor or incompetent, the Committee is authorized to pay the funds due to the parent of the minor or to the guardian of the minor or incompetent or directly to the minor or to apply those funds for the benefit of the minor or incompetent in any manner the Committee determines in its sole discretion.

9.03 **Nonalienation of Benefits.** No right or benefit provided in this Plan shall be transferable by the Participant except, upon his death, to a named Beneficiary as provided in this Plan. No right or benefit under this Plan shall be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary. Any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same shall be void. No right or benefit under this Plan shall in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If any Participant or any Beneficiary becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit under this Plan, that right or benefit shall, in the discretion of the Committee, cease. In that event, the Committee may have the Company hold or apply the right or benefit or any part of it to the benefit of the Participant or Beneficiary, his or her spouse, children or other dependents or any of them in any manner and in any proportion the Committee believes to be proper in its sole and absolute discretion, but is not required to do so.

9.04 **Reliance Upon Information.** The Committee shall not be liable for any decision or action taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any decision or action taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's independent accountants or other advisors in connection with the administration of this Plan shall be deemed to have been taken in good faith.

9.05 **Severability.** If any term, provision, covenant or condition of the Plan is held to be invalid, void or otherwise unenforceable, the rest of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

9.06 **Notice.** Any notice or filing required or permitted to be given to the Committee or a Participant shall be sufficient if in writing and hand delivered or sent by U.S. mail to the principal office of the Company or to the residential mailing address of the Participant. Notice will be deemed to be given as of the date of hand delivery or if delivery is by mail, as of the date shown on the postmark.

9.07 **Gender and Number.** If the context requires it, words of one gender when used in this Plan will include the other genders, and words used in the singular or plural will include the other.

9.08 **Governing Law.** The Plan will be construed, administered and governed in all respects by the laws of the State of Texas.

9.09 **Effect of Amendment and Restatement Effective As of January 1, 2005.** Unless otherwise explicitly provided herein, the amendment and restatement of the Plan effective as of January 1, 2005 shall apply only to amounts earned and vested on or after January 1, 2005. The provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004. The amendment and restatement of the Plan is not intended to be a material modification of the Plan with respect to amounts accrued and vested on or before December 31, 2004, and any provision of the Plan that is considered to be a material modification of the Plan shall be retroactively amended to the extent required to prevent such provision from being considered a material modification of the Plan with respect to such amounts.

9.10 **Section 409A.** The Plan is intended to be a nonqualified deferred compensation arrangement and is not intended to meet the requirements of section 401(a) of the Code. The Plan is intended to meet the requirements of section 409A of the Code and may be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that a deferral, accrual, vesting or payment of an amount under the Plan is subject to section 409A of the Code, except as the Committee otherwise determines in writing, the amount will be deferred, accrued, vested or paid in a manner that will meet the requirements of section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the deferral, accrual, vesting or payment shall not be subject to the excise tax applicable under section 409A of the Code. Any provision of the Plan that would cause the deferral, accrual, vesting or payment of an amount under the Plan to fail to satisfy section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of the Plan) to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code. In the event additional regulations or other guidance is issued under section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of section 409A of the Code with respect to the distributions under the Plan, then the provisions of the Plan regarding distributions shall be automatically amended to permit such distributions to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the intent of the Plan prior to its amendment to comply with section 409A of the Code.

**NICHOLS-HOMESHIELD
SUPPLEMENTAL 401(k) SAVINGS PLAN**

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NICHOLS-HOMESHIELD

SUPPLEMENTAL 401(k) SAVINGS PLAN

WHEREAS, Quanex Corporation established the Nichols-Homesfield Supplemental 401(k) Savings Plan (the "Plan") to provide a retirement pay supplement for a select group of management or highly compensated employees so as to retain their loyalty and to offer a further incentive to them to maintain and increase their standard of performance;

WHEREAS, the Plan is required to be amended to comply with the requirements of new section 409A of the Internal Revenue Code of 1986, as amended by the American Jobs Creation Act of 2004;

WHEREAS, it has been determined that the Plan should now be completely amended, restated and continued without a gap or lapse in coverage, time or effect which would cause any Participant to be entitled to a distribution in order to fundamentally change the purpose and provisions of the Plan;

WHEREAS, it has been determined that the amendment and restatement of the Plan shall apply only to amounts earned and vested on or after January 1, 2005, and that the provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004;

WHEREAS, Quanex Corporation desires to amend and restate the Plan effective as of January 1, 2005.

NOW, THEREFORE, Quanex Corporation amends and restates the Plan as follows:

ARTICLE I

DEFINITIONS

1.1 **Account.** "Account" means a Participant's Account in the Deferred Compensation Ledger maintained by the Committee which reflects the benefits a Participant is entitled to under this Plan.

1.2 **Affiliate.** "Affiliate" means all business organizations which are members of a controlled group of corporations (within the meaning of section 414(b) of the Code), or which are trades or businesses (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), or which are members of an affiliated service group of employers (within the meaning of section 414(m) of the Code), which related group of corporations, businesses or employers includes Quanex.

1.3 **Applicable Covered Employee.** "Applicable Covered Employee" means any of the following:

(a) a Covered Employee of Quanex;

(b) a Covered Employee of an Affiliate; and

(c) a former employee who was a Covered Employee at the time of termination of employment with Quanex or an Affiliate.

1.4 **Beneficiary.** "Beneficiary" means a person or entity designated by the Participant under the terms of this Plan to receive any amounts distributed under the Plan upon the death of the Participant.

1.5 **Board of Directors.** "Board of Directors" means the Board of Directors of the Company.

1.6 **Code.** "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.7 **Committee.** "Committee" means the persons who are serving as members of the Committee administering this Plan.

1.8 **Company.** "Company" means Quanex Corporation.

1.9 **Covered Employee.** "Covered Employee" means an individual (i) described in section 162(m)(3) of the Code or (ii) subject to the requirements of Section 16(a) of the Securities Act.

1.10 **Deferred Compensation Ledger.** "Deferred Compensation Ledger" means the ledger maintained by the Committee for each Participant which reflects the amounts credited by the Company under this Plan to the account of each Participant.

1.11 **Disability.** “Disability” means the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Participant’s employer.

1.12 **Participant.** “Participant” means an employee of the Company who has been designated by the Committee as participating in the Plan.

1.13 **Plan.** “Plan” means the Nichols-Homesfield Supplemental 401(k) Savings Plan set forth in this document, as amended from time to time.

1.14 **Plan Year.** “Plan Year” means the twelve-month period which ends on December 31.

1.15 **Restricted Period.** “Restricted Period” means, for any qualified defined benefit plan sponsored by Quanex or an Affiliate, any period during which the plan is in at-risk status as described in section 409A of the Code.

1.16 **Separation From Service.** “Separation From Service” shall mean a Participant’s complete separation from service with the Company and all of its Affiliates. The determination of whether an Participant incurs a Separation From Service will be determined in accordance with section 409A of the Code.

1.17 **Valuation Date.** “Valuation Date” means the last day of each Plan Year, or, if earlier, the date on which the Participant terminates employment, incurs a Disability or dies. Effective January 1, 2007, “Valuation Date” means the last day of the Plan Year, the last day of the month in which the Participant’s or former Participant’s Separation From Service occurs or the last day of the month immediately preceding the date of a lump sum distribution of a former Participant’s Plan benefit, as applicable.

ARTICLE II

ELIGIBILITY

The individuals who shall be eligible to participate in the Plan shall be those individuals as the Committee shall determine from time to time. The Board of Directors may designate one or more individuals who shall not be eligible to participate in the Plan. An individual will become a Participant effective as of the date specified in writing by the Committee.

Each individual who was participating in the Plan on December 31, 2006 shall be eligible to participate in the Plan on or after January 1, 2007. No other individual shall be eligible to participate in the Plan on or after January 1, 2007.

Once an individual has become a Participant, he will continue to participate in the Plan until he is no longer a common law employee of the Company or the Committee determines that he is no longer in a select group of management or a highly compensated employee of the Company.

ARTICLE III

CREDITS TO PARTICIPANTS' ACCOUNTS

3.1 Establishing a Participant's Account. The Committee shall establish a bookkeeping Account for each Participant in a special Deferred Compensation Ledger which shall be maintained by the Company. The Account shall reflect the amount of the Company's obligation to the Participant as of each Valuation Date.

3.2 Crediting of Deferred Compensation. For each Plan Year, the Board of Directors shall determine the amount, if any, to be allocated to a Participant's Plan Account and will credit that amount to the Participant's Account in the Deferred Compensation Ledger as of the end of the Plan Year. The amount, if any, credited by the Company on behalf of a Participant need not be the same as the amount credited by the Company on behalf of any other Participant. The fact that a Participant receives a credit to his Account in the Deferred Compensation Ledger for deferred compensation in one Plan Year does not mean that he shall receive a credit for deferred compensation in a subsequent Plan Year. Until the Board of Directors determines otherwise, the amount that shall be credited to a Participant's Account as of the end of the Plan Year is the amount equal to (A) minus (B) where (A) is the amount that would have been credited to the Participant's account under the Nichols-Homesfield 401(k) Savings Plan for the Plan Year as a Company profit sharing contribution if the applicable limitation under section 401(a)(17) of the Code for the Plan Year was \$235,840 (not indexed for increases in the cost of living), and (B) is the amount that was actually credited to the Participant's account under the Nichols-Homesfield 401(k) Savings Plan for the Plan Year as a Company profit sharing contribution.

Effective January 1, 2007, no additional amounts shall be credited to a Participant's Account under this Section of the Plan.

3.3 Crediting of Interest. As of the last day of each calendar quarter of each Plan Year in which an individual is a Participant, after deferred compensation has been credited under Section 3.2, the Committee shall credit the balance of the Participant's Account in the Deferred Compensation Ledger with interest as specified in this Section. This amount credited by the Committee shall be a part of the Company's obligation to the Participant. Interest will be accrued on the last day of each calendar quarter on each Participant's Account at a rate equal to (x) the rate of interest announced by Chase Manhattan Bank, N.A., or its successor, if applicable as its prime rate of interest on the last business day preceding the last day of the calendar quarter divided by (y) four. Interest so accrued on the last day of each calendar quarter shall be credited to the Participant's Account and shall thereafter accrue interest. Interest will continue to be credited on the balance in the Participants Account until the entire cash balance has been distributed.

ARTICLE IV

VESTING

Except for the event of forfeiture described in Section 5.4, Participant shall have a nonforfeitable interest in amounts credited to his Account to the extent that he has a nonforfeitable interest in the amounts credited to his account under the Nichols-Homeshield 401(k) Savings Plan or, effective January 1, 2007, the Quanex Corporation Employees 401(k) Savings Plan.

ARTICLE V

DISTRIBUTIONS

5.1 **Death.** Upon the death of a Participant, the Participant's Beneficiary or Beneficiaries shall receive the balance credited to the Participant's Account in the Deferred Compensation Ledger as of the Valuation Date coincident with or next preceding the date of death. The death benefit shall be paid in a lump sum cash payment 30 days after the Participant's death or, if later, as soon as administratively practicable following the Participant's death..

Each Participant, upon becoming eligible to participate in the Plan, shall file with the Committee a designation of one or more Beneficiaries to whom distributions otherwise due the Participant shall be made in the event of his death prior to the complete distribution of the amount credited to his Account in the Deferred Compensation Ledger. The designation will be effective upon receipt by the Committee of a properly executed form which the Committee has approved for that purpose. The Participant may from time to time revoke or change any designation of Beneficiary by filing another approved Beneficiary designation form with the Committee. If there is no valid designation of Beneficiary on file with the Committee at the time of the Participant's death, or if all of the Beneficiaries designated in the last Beneficiary designation have predeceased the Participant or otherwise ceased to exist, the Beneficiary shall be the Participant's spouse, if the spouse survives the Participant, or otherwise the Participant's estate. If any Beneficiary survives the Participant but dies or otherwise ceases to exist before receiving all amounts due the Beneficiary from the Participant's Account, the balance of the amount which would have been paid to that Beneficiary shall, unless the Participant's designation provides otherwise, be distributed to the individual deceased Beneficiary's estate or to the Participant's estate in the case of a Beneficiary which is not an individual. Any Beneficiary designation which designates any person or entity other than the Participant's spouse must be consented to in writing by the spouse in a form acceptable to the Committee to be effective.

5.2 **Disability.** Upon the Disability of a Participant, the Participant shall receive the entire amount credited to the Participant's Account in the Deferred Compensation Ledger as of the Valuation Date coincident with or next preceding the date of Disability. The Disability benefit shall be paid in a lump sum cash payment 30 days after the Participant's Disability or, if later, as soon as administratively practicable following the Participant's Disability.

5.3 **Separation From Service Prior to Death or Disability.** Upon a Participant's Separation From Service prior to Death or Disability, subject to Section 5.4, the Participant shall receive his vested interest in the amount credited to his Account in the Deferred Compensation Ledger as of the Valuation Date coincident with or next preceding the date of Separation From Service in a lump sum cash payment. The benefit shall be paid in a lump sum cash payment 30 days after the Participant's Separation From Service or, if later, as soon as administratively practicable following the Participant's Separation From Service. Any amounts not vested upon the Participant's Separation From Service will be forfeited.

Notwithstanding anything to the contrary in this Plan, payments due to the Separation From Service of an Employee, excluding due to death or Disability but including due to Retirement, may not be made before the date which is six (6) months after the date of such Employee's Separation From Service (a "*Six-Month Delay*"). In the event of a Six-Month Delay, the benefits that would have been paid during such delay if the delay had not been imposed, shall be paid in a lump sum as soon as is administratively practicable following the expiration of the Six-Month Delay and any other benefits to be paid after the end of the Six Month Delay shall be paid in accordance with the terms of the Plan.

5.4 Forfeiture For Cause. If the Committee finds, after full consideration of the facts presented on behalf of both the Company and a former Participant, that the Participant was discharged by the Company for fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment by the Company which damaged the Company, or for disclosing trade secrets of the Company, the entire amount credited to his Account in the Deferred Compensation Ledger shall be forfeited, even though it may have been previously vested under Article IV. The decision of the Committee as to the cause of a former Participant's discharge and the damage done to the Company will be final. No decision of the Committee will affect the finality of the discharge of the Participant by the Company in any manner.

5.5 Responsibility for Withholding of Taxes. The Committee will calculate the deductions from the amount of the benefit paid under the Plan for any taxes required to be withheld by federal, state or local government and shall cause them to be withheld.

ARTICLE VI

ADMINISTRATION

6.1 Committee Appointment. The Committee shall be appointed by the Board of Directors. Each Committee member will serve until his or her resignation or removal. The Board of Directors shall have the sole discretion to remove any one or more Committee members and appoint one or more replacement or additional Committee members from time to time.

6.2 Committee Organization and Voting. The Committee shall select from among its members a chairman who shall preside at all of its meetings and shall elect a secretary without regard to whether that person is a member of the Committee. The secretary shall keep all records, documents and data pertaining to the Committee's supervision and administration of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business and the vote of a majority of the members present at any meeting shall decide any question brought before the meeting. In addition, the Committee may decide any question by vote, taken without a meeting, of a majority of its members. A member of the Committee who is also a Participant shall not vote or act on any matter relating solely to himself.

6.3 Powers of the Committee. The Committee shall have the exclusive responsibility for the general administration of the Plan according to the terms and provisions of the Plan and shall have all powers necessary to accomplish those purposes, including, but not by way of limitation the right, power and authority:

- (a) to make rules and regulations for the administration of the Plan;
- (b) to construe all terms, provisions, conditions and limitations of the Plan;
- (c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect for the greatest benefit of all parties at interest;
- (d) to designate the persons eligible to become Participants;
- (e) to determine all controversies relating to the administration of the Plan, including but not limited to:
 - (1) differences of opinion arising between the Company and a Participant; and
 - (2) any question it deems advisable to determine in order to promote the uniform administration of the Plan for the benefit of all parties at interest; and
- (f) to delegate by written notice those clerical and recordation duties of the Committee, as it deems necessary or advisable for the proper and efficient administration of the Plan.

6.4 Committee Discretion. The Committee in exercising any power or authority granted under this Plan or in making any determination under this Plan shall perform or refrain from performing those acts using its sole discretion and judgment. Any decision made by the Committee, or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decision shall never be subject to de novo review.

6.5 Annual Statements. The Committee shall cause each Participant to receive an annual statement as of each Valuation Date as soon as administratively feasible after the conclusion of each Plan Year. The statement shall indicate the credit by the Company to the Participant's Account for that Plan Year; credits for all prior Plan Years, if any, and the interest applicable to those amounts; the total Account balance of the Participant in the Deferred Compensation Ledger, and the amount vested as of the end of that Plan Year.

6.6 Reimbursement of Expenses. The Committee members shall serve without compensation for their services but shall be reimbursed by the Company for all expenses properly and actually incurred in the performance of their duties under the Plan.

6.7 Claims Procedure. The Committee shall make all determinations as to the right of any person to receive benefits under the Plan. Any denial by the Committee of a claim for benefits under the Plan by a Participant, spouse or retired Participant (collectively referred to herein as "Claimant") shall be stated in writing by the Committee and delivered or mailed to the Claimant on the 90th day after receipt of the claim, unless special circumstances require an extension of time for processing the claim. If such an extension of time is required, written notice of the extension shall be furnished to the Claimant on the 90th day after receipt of the claim, and the claim shall thereafter be paid on the 180th day after the date of receipt of the initial claim. Such notice shall set forth the specific reasons for the denial, specific reference to pertinent provisions of the Plan upon which the denial is based, a description of any additional material or information necessary for the Claimant to perfect his claim with an explanation of why such material or information is necessary, and an explanation of claim review procedures under the Plan written to the best of the Committee's ability in a manner that may be understood without legal or actuarial counsel. A Claimant whose claim for benefits has been wholly or partially denied by the Committee may, within 90 days following the date of such denial, request a review of such denial in a writing addressed to the Committee. The Claimant shall be entitled to submit such issues or comments, in writing or otherwise, as he shall consider relevant to a determination of his claim, and may include in his request a request for a hearing in person before the Committee. Prior to submitting his request, the Claimant shall be entitled to review such documents as the Committee shall agree are pertinent to his claim. The Claimant may, at all stages of review, be represented by counsel, legal or otherwise, of his choice, provided that the fees and expenses of such counsel shall be borne by the Claimant. All requests for review shall be promptly resolved. The Committee's decisions with respect to any such review shall be set forth in writing and shall be mailed to the Claimant on the 60th day following receipt by the Committee of the Claimant's request unless special circumstances, such as the need to hold a hearing, require an extension of time for processing, in which case the Committee's decision shall be so mailed on the 120th day after receipt of such request.

ARTICLE VII

AMENDMENT AND/OR TERMINATION

7.1 Amendment or Termination of the Plan. The Company may amend or terminate this Plan at any time. Any amendment or termination shall be made by an instrument in writing executed by an authorized officer of the Company, and shall be supported by a resolution of the Board of Directors; *provided, however*, that no amendment of the Plan shall apply to amounts deferred and vested on or before December 31, 2004, unless the instrument explicitly states that the amendment shall apply to such amounts.

7.2 No Retroactive Effect on Awarded Benefits. No amendment shall affect the rights of any Participant to the amounts then credited to his Account in the Deferred Compensation Ledger or change the method of calculating the interest applicable to such amounts. However, the Board of Directors shall retain the right at any time to change in any manner the method of calculating the interest to accrue to amounts of deferred compensation credited after the date of an amendment, if it has been announced to the Participants.

7.3 Effect of Termination. If the Plan is terminated, all amounts credited to the Account of each Participant shall immediately vest. No interest shall be applied to the Account after the date the Plan terminated. Payment of the Participant's Account balance would be made in accordance with the terms of the Plan. The Board may terminate the Plan within the 30 days preceding or 12 months following a change in control, as defined by section 409A of the Code, or as otherwise permitted under section 409A of the Code, and distribute the value of the Participants' Accounts to Participants in the manner and the time as determined by the Committee, in its sole discretion, as permitted by section 409A of the Code.

ARTICLE VIII

FUNDING

8.1 Unfunded Arrangement. It is intended that this Plan shall be unfunded for tax purposes and for purposes of Title 1 of the Employee Retirement Income Security Act of 1974, as amended.

8.2 Participants Must Rely Only on General Credit of the Company. It is specifically recognized by both the Company and the Participants that this Plan is only a general corporate commitment and that each Participant must rely upon the general credit of the Company for the fulfillment of its obligations hereunder. Under all circumstances the rights of Participants to any asset held by the Company will be no greater than the rights expressed in this Agreement. Nothing contained in this Agreement shall constitute a guarantee by the Company that the assets of the Company will be sufficient to pay any benefits under this Plan or would place the Participant in a secured position ahead of general creditors of the Company; the Participants are only unsecured creditors of the Company with respect to their Plan benefits, and the Plan constitutes a mere promise by the Company to make benefit payments in the future. No specific assets of the Company have been or shall be set aside, or shall in any way be transferred to the trust or shall be pledged in any way for the performance of the Company's obligations under this Plan which would remove such assets from being subject to the general creditors of the Company.

In addition, no assets shall be set aside or reserved (directly or indirectly) in a trust (or other arrangement as determined by the Internal Revenue Service), or transferred to a trust or other arrangement established to fund the Company's obligations under the Plan during any Restricted Period for purposes of paying benefits to an Applicable Covered Employee. The rule contained in the preceding sentence does not apply to assets set aside, reserved or transferred before or after a Restricted Period.

ARTICLE IX

MISCELLANEOUS

9.1 **Limitation of Rights.** Nothing in this Plan shall be construed:

- (a) to give any employee of the Company any right to be designated a Participant in the Plan;
- (b) to give a Participant any right with respect to the amounts and interest credited in the Deferred Compensation Ledger to Participant's Account, except in accordance with the terms of this Plan;
- (c) to limit in any way the right of the Company to terminate a Participant's employment with the Company at any time;
- (d) to evidence any agreement or understanding, expressed or implied, that the Company will employ a Participant in any particular position or for any particular remuneration; or
- (e) to give a Participant or any other person claiming through him any interest or right under this Plan other than that of an unsecured general creditor of the Company.

9.2 **Distributions to Incompetents or Minors.** Should a Participant become incompetent or should a Participant designate a Beneficiary who is a minor or incompetent, the Committee is authorized to pay the funds due to the parent of the minor or to the guardian of the minor or incompetent or directly to the minor or to apply those funds for the benefit of the minor or incompetent in any manner the Committee determines in its sole discretion.

9.3 **Nonalienation of Benefits.** No right or benefit provided in this Plan shall be transferable by the Participant except, upon his death, to a named Beneficiary as provided in this Plan. No right or benefit under this Plan shall be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary. Any attempt to anticipate, alienate, sell, assign, pledge, or encumber the same shall be void. No right or benefit under this Plan shall in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If any Participant or any Beneficiary becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, or encumber any right or benefit under this Plan, that right or benefit shall, in the discretion of the Committee, cease. In that event, the Committee may have the Company hold or apply the right or benefit or any part of it to the benefit of the Participant or Beneficiary, his or her spouse, children or other dependents or any of them in any manner and in any proportion the Committee believes to be proper in its sole and absolute discretion, but is not required to do so.

9.4 **Reliance Upon Information.** The Committee shall not be liable for any decision or action taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any decision or action taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's independent accountants or other advisors in connection with the administration of this Plan shall be deemed to have been taken in good faith.

9.5 **Severability.** If any term, provision, covenant or condition of the Plan is held to be invalid, void or otherwise unenforceable, the rest of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

9.6 **Notice.** Any notice or filing required or permitted to be given to the Committee or a Participant shall be sufficient if in writing and hand delivered or sent by U.S. mail to the principal office of the Company or to the residential mailing address of the Participant. Notice will be deemed to be given as of the date of hand delivery or if delivery is by mail, as of the date shown on the postmark.

9.7 **Gender and Number.** If the context requires it, words of one gender when used in this Plan will include the other genders, and words used in the singular or plural will include the other.

9.8 **Governing Law.** The Plan will be construed, administered and governed in all respects by the laws of the State of Texas.

9.9 **Section 409A.** The Plan is intended to be a nonqualified deferred compensation arrangement and is not intended to meet the requirements of section 401(a) of the Code. The Plan is intended to meet the requirements of section 409A of the Code and may be administered in a manner that is intended to meet those requirements and shall be construed and interpreted in accordance with such intent. To the extent that a deferral, accrual, vesting or payment of an amount under the Plan is subject to section 409A of the Code, except as the Committee otherwise determines in writing, the amount will be deferred, accrued, vested or paid in a manner that will meet the requirements of section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the deferral, accrual, vesting or payment shall not be subject to the excise tax applicable under section 409A of the Code. Any provision of the Plan that would cause the deferral, accrual, vesting or payment of an amount under the Plan to fail to satisfy section 409A of the Code shall be amended (in a manner that as closely as practicable achieves the original intent of the Plan) to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code. In the event additional regulations or other guidance is issued under section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of section 409A of the Code with respect to the distributions under the Plan, then the provisions of the Plan regarding distributions shall be automatically amended to permit such distributions to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the intent of the Plan prior to its amendment to comply with section 409A of the Code.

9.10 **Effect of Amendment and Restatement of the Plan.** Unless otherwise explicitly provided, the amendment and restatement of the Plan effective as of January 1, 2005 shall apply only to amounts earned and vested on or after January 1, 2005. The provisions of the Plan prior to this amendment and restatement shall apply to any amounts that were earned and vested under the Plan on or before December 31, 2004. The amendment and restatement of the Plan is not intended to be a material modification of the Plan with respect to amounts deferred and vested on or before December 31, 2004, and any provision of the Plan that is considered to be a material modification of the Plan shall be retroactively amended to the extent required to prevent such provision from being considered a material modification of the Plan with respect to such amounts.

**AMENDED AND RESTATED
CHANGE IN CONTROL AGREEMENT
BETWEEN QUANEX CORPORATION
AND _____**

THIS AGREEMENT between Quanex Corporation, a Delaware corporation (the “Company”), and _____ (the “Executive”) is effective as of _____. Certain capitalized terms used herein are defined in Section 21.

W I T N E S S E T H:

WHEREAS, the Company considers it to be in the best interests of its stockholders to encourage the continued employment of certain key employees of the Company notwithstanding the possibility, threat or occurrence of a Change in Control of the Company (as that phrase is defined in Section 2); and

WHEREAS, the Executive is a key employee of the Company; and

WHEREAS, the Company believes that the possibility of the occurrence of a Change in Control of the Company may result in the termination by the Executive of the Executive’s employment by the Company or in the distraction of the Executive from the performance of his duties to the Company, in either case to the detriment of the Company and its stockholders; and

WHEREAS, the Company previously recognized that the Executive could suffer adverse financial and professional consequences if a Change in Control of the Company were to occur and entered into this Agreement to protect the Executive if a Change in Control of the Company occurs;

WHEREAS, under current Internal Revenue Service guidance, the Agreement is subject to section 409A of the Internal Revenue Code of 1986, as amended by the American Jobs Creation Act of 2004 (“Section 409A”);

WHEREAS, the Company and the Executive have determined that the Agreement should be amended to comply with Section 409A and the guidance promulgated thereunder;

NOW, THEREFORE, the parties agree that the Agreement is hereby amended and restated, effective as stated above, as follows:

Section 1. Other Employment Arrangements.

(a) Except as specified below in this paragraph, this Agreement does not affect the Executive’s existing or future employment arrangements with the Company unless a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement. The Executive’s employment with the Company shall continue to be governed by the Executive’s existing or future employment agreements with the Company, if any, or, in the absence of any employment agreement, shall continue to be at the will of the Board of Directors or, if the Executive is not an officer of the Company at the time of the termination of the Executive’s employment with the Company, the will of the Chief Executive Officer of the Company, except that if (i) a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, and (ii) the Executive’s employment with the Company is terminated (whether by the Executive or the Company or automatically as provided in Section 3) after the occurrence of that Change in Control of the Company, then the Executive shall be entitled to receive certain benefits as provided in this Agreement.

(b) Notwithstanding anything contained in this Agreement to the contrary, if following the commencement of any discussion with a third person that ultimately results in a Change in Control of the Company, (i) the Executive's employment with the Company is terminated, (ii) the Executive is removed from any material duties or position with the Company, (iii) the Executive's Base Salary is reduced, or (iv) the Executive's annual bonus is reduced to an amount less than the Benchmark Bonus, then for all purposes of this Agreement, such Change in Control of the Company shall be deemed to have occurred on the date immediately prior to the date of such termination, removal, or reduction.

(c) Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice of or provided by the Company or any of its Affiliates and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliates. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, program, policy or practice of or provided by, or any contract or agreement with, the Company or any of its Affiliates at or subsequent to the date of termination of the Executive's employment with the Company shall be payable or otherwise provided in accordance with such plan, program, policy or practice or contract or agreement except as explicitly modified by this Agreement.

Section 2. Change in Control of the Company. For purposes of this Agreement, a "Change in Control of the Company" shall mean the occurrence of any of the following after the Effective Date:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Covered Person") of beneficial ownership (within the meaning of rule 13d-3 promulgated under the Exchange Act) of 20 percent or more of either (i) the then outstanding shares of the common stock of the Company (the "Outstanding Company Common Stock"), or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a) of this Section 2, the following acquisitions shall not constitute a Change in Control of the Company: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company, or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; or

(b) individuals who, as of the Effective Date, constitute the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Covered Person other than the Board; or

(c) the consummation of (xx) a reorganization, merger or consolidation or sale of the Company, or (yy) a disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, direct or indirectly, more than 80 percent of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Covered Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20 percent or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination, were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(d) the approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

Section 3. Term of This Agreement. The term of this Agreement shall begin on the Effective Date and, unless automatically extended pursuant to the second sentence of this Section 3, shall expire on the first to occur of:

(i) the Executive's death or the Executive's Disability, which events shall also be deemed automatically to terminate Executive's employment by the Company;

(ii) the termination by the Executive or the Company of the Executive's employment by the Company; or

(iii) the end of the last day (the "Expiration Date") of:

(x) the three-year period beginning on the Effective Date (or any period for which the term of this Agreement shall have been automatically extended pursuant to the second sentence of this Section 3) if no Change in Control of the Company shall have occurred during that three-year period (or any period for which the term of this Agreement shall have been automatically extended pursuant to the second sentence of this Section 3); or

(y) if one or more Changes in Control of the Company shall have occurred during the three-year period beginning on the Effective Date (or any period for which the term of this Agreement shall have been automatically extended pursuant to the second sentence of this Section 3), the three-year period beginning on the date on which the last Change in Control of the Company occurred.

If (i) the term of this Agreement shall not have expired as a result of the occurrence of one of the events described in clause (i) or (ii) of the immediately preceding sentence, and (ii) the Company shall not have given notice to the Executive at least ninety (90) days before the Expiration Date that the term of this Agreement will expire on the Expiration Date, then the term of this Agreement shall be automatically extended for successive one-year periods (the first such period to begin on the day immediately following the Expiration Date) unless the Company shall have given notice to the Executive at least ninety (90) days before the end of any one-year period for which the term of this Agreement shall have been automatically extended that such term will expire at the end of that one-year period. The expiration of the term of this Agreement shall not terminate this Agreement itself or affect the right of the Executive or the Executive's legal representatives to enforce the payment of any amount or other benefit to which the Executive was entitled before the expiration of the term of this Agreement or to which the Executive became entitled as a result of the event (including the termination, whether by the Executive or the Company or automatically as provided in this Section 3, of the Executive's employment by the Company) that caused the term of this Agreement to expire.

Section 4. Event of Termination for Cause. An “Event of Termination for Cause” shall have occurred if, after a Change in Control of the Company, the Executive shall have committed:

(i) gross negligence or willful misconduct in connection with his duties or in the course of his employment with the Company;

(ii) an act of fraud, embezzlement or theft in connection with his duties or in the course of his employment with the Company;

(iii) intentional wrongful damage to property of the Company;

(iv) intentional wrongful disclosure of secret processes or confidential information of the Company; or

(v) an act leading to a conviction of a felony or a misdemeanor involving moral turpitude.

For purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be deemed “intentional” if it was due primarily to an error in judgment or negligence, but shall be deemed “intentional” only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated as a result of an “Event of Termination for Cause” hereunder unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the Board of Directors then in office at a meeting of the Board of Directors called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with his counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, the Executive had committed an act set forth above in this Section 4 and specifying the particulars thereof in detail. Nothing herein shall limit the right of the Executive or his legal representatives to contest the validity or propriety of any such determination.

Section 5. An Event of Termination for Good Reason. An “Event of Termination for Good Reason” shall mean the occurrence of any of the following on or after a Change in Control of the Company:

(i) the Company or the Successor assigns to the Executive any duties inconsistent with the Executive’s position (including offices, titles and reporting requirements), authority, duties or responsibilities with the Company in effect immediately before the occurrence of the first Change in Control of the Company or otherwise make any change in any such position, authority, duties or responsibilities;

(ii) the Company or the Successor removes the Executive from, or fails to re-elect or appoint the Executive to, any duties or position with the Company that were assigned or held by the Executive immediately before the occurrence of the first Change in Control of the Company, except that a nominal change in the Executive's title that is merely descriptive and does not affect rank or status shall not constitute such an event;

(iii) the Company or the Successor takes any other action that results in a material diminution in such position, authority, duties or responsibilities or otherwise take any action that materially interferes therewith;

(iv) the Company or the Successor reduces the Executive's annual base salary as in effect immediately before the occurrence of the first Change in Control of the Company or as the Executive's annual base salary may be increased from time to time after that occurrence (the "Base Salary");

(v) the Company or the Successor reduces the Executive's annual bonus (x) to an amount less than \$ _____ at any time on or prior to the third anniversary of the Effective Date, or (y) to an amount less than the average of the two annual bonuses earned by such Executive with respect to the two preceding years at any time after the third anniversary of the Effective Date (the amount determined pursuant to clause (x) or (y), as applicable, is referred to herein as the "Benchmark Bonus");

(vi) the Company or the Successor relocates the Executive's principal office outside of the portion of the metropolitan area of the City of Houston, Texas that is located within the highway known as "Beltway 8";

(vii) the Company or the Successor fails to (x) continue in effect any bonus, incentive, profit sharing, performance, savings, retirement or pension policy, plan, program or arrangement (such policies, plans, programs and arrangements collectively being referred to herein as "Basic Benefit Plans"), including, but not limited to, any deferred compensation, supplemental executive retirement or other retirement income, stock option, stock purchase, stock appreciation, or similar policy, plan, program or arrangement of the Company, in which the Executive was a participant immediately before the occurrence of the first Change in Control of the Company, or any substitute plan adopted by the Board of Directors and in which the Executive was a participant immediately before the occurrence of the last Change in Control of the Company, unless an equitable and reasonably comparable arrangement (embodied in a substitute or alternative benefit or plan) shall have been made with respect to such Basic Benefit Plan promptly following the occurrence of the last Change in Control of the Company, or (y) continue the Executive's participation in any Basic Benefit Plan (or any substitute or alternative plan) on substantially the same basis, both in terms of the amount of benefits provided to the Executive (which are in any event always subject to the terms of any applicable Basic Benefit Plan) and the level of the Executive's participation relative to other participants, as existed immediately before the occurrence of the first Change in Control of the Company;

(viii) the Company or the Successor fails to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's other Executive benefit plans, policies, programs and arrangements, including, but not limited to, life insurance, medical, dental, health, hospital, accident or disability plans, in which the Executive was a participant immediately before the occurrence of the first Change in Control of the Company;

(ix) the Company or the Successor takes any action that would directly or indirectly materially reduce any other non-contractual benefits that were provided to the Executive by the Company immediately before the occurrence of the first Change in Control of the Company or deprive the Executive of any material fringe benefit enjoyed by the Executive immediately before the occurrence of the first Change in Control of the Company;

(x) the Company or the Successor fails to provide the Executive with the number of paid vacation days to which the Executive was entitled in accordance with the Company's vacation policy in effect immediately before the occurrence of the first Change in Control of the Company;

(xi) the Company or the Successor fails to continue to provide the Executive with office space, related facilities and support personnel (including, but not limited to, administrative and secretarial assistance) (y) that are both commensurate with Executive's responsibilities to and position with the Company immediately before the occurrence of the first Change in Control of the Company and not materially dissimilar to the office space, related facilities and support personnel provided to other Executives of the Company having comparable responsibility to the Executive, or (z) that are physically located at the Company's principal executive offices;

(xii) the Company or the Successor requires the Executive to perform a majority of his duties outside the Company's principal executive offices for a period of more than 21 consecutive days or for more than 90 days in any calendar year;

(xiii) the Company or the Successor fails to honor any provision of any employment agreement Executive has or may in the future have with the Company or fail to honor any provision of this Agreement;

(xiv) the Company or the Successor gives effective notice of an election to terminate at the end of the term or extended term of any employment agreement Executive has or may in the future have with the Company or the Successor in accordance with the terms of any such agreement; or

(xv) the Company or the Successor purports to terminate the Executive's employment by the Company unless notice of that termination shall have been given to the Executive pursuant to, and that notice shall meet the requirements of, Section 6.

Section 6. Notice of Termination. If a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, any subsequent termination by the Executive or the Company of the Executive's employment by the Company, or any determination of the Executive's Disability, shall be communicated by notice to the other party that shall indicate the specific paragraph of Section 7 pursuant to which the Executive is to receive benefits as a result of the termination. If the notice states that the Executive's employment by the Company has been automatically terminated as a result of the Executive's Disability, the notice shall (i) specifically describe the basis for the determination of the Executive's Disability, and (ii) state the date of the determination of the Executive's Disability, which date shall be not more than ten (10) days before the date such notice is given. If the notice is from the Company and states that the Executive's employment by the Company is terminated by the Company as a result of the occurrence of an Event of Termination for Cause, the notice shall specifically describe the action or inaction of the Executive that the Company believes constitutes an Event of Termination for Cause and shall be accompanied by a copy of the resolution satisfying Section 4. If the notice is from the Executive and states that the Executive's employment by the Company is terminated by the Executive as a result of the occurrence of an Event of Termination for Good Reason, the notice shall specifically describe the action or inaction of the Company that the Executive believes constitutes an Event of Termination for Good Reason. Each notice given pursuant to this Section 6 (other than a notice stating that the Executive's employment by the Company has been automatically terminated as a result of the Executive's Disability) shall state a date, which shall be not fewer than thirty (30) days nor more than sixty (60) days after the date such notice is given, on which the termination of the Executive's employment by the Company is effective. The date so stated in accordance with this Section 6 shall be the "Termination Date". If a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, any subsequent purported termination by the Company of the Executive's employment by the Company, or any subsequent purported determination by the Company of the Executive's Disability, shall be ineffective unless that termination or determination shall have been communicated by the Company to the Executive by notice that meets the requirements of the foregoing provisions of this Section 6 and the provisions of Section 9.

Section 7. Benefits Payable on Change in Control and Termination. (a) If (x) a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, and (y) the Executive's employment by the Company is terminated (whether by the Executive or the Company or automatically as provided in Section 3) after the occurrence of that Change in Control of the Company, the Executive shall be entitled to the following benefits:

(i) If the Executive's employment by the Company is terminated (x) by the Company as a result of the occurrence of an Event of Termination for Cause, or (y) by the Executive before the occurrence of an Event of Termination for Good Reason, then the Company shall pay to the Executive the Base Salary accrued through the Termination Date but not previously paid to the Executive, and the Executive shall be entitled to any other amounts or benefits provided under any plan, policy, practice, program, contract or arrangement of or with the Company, including, but not limited to, the Basic Benefit Plans and the Other Benefit Plans, which shall be governed by the terms thereof (except as explicitly modified by this Agreement).

(ii) If the Executive's employment by the Company is automatically terminated as a result of the Executive's death or the Executive's Disability, then (x) the Company shall pay to the Executive the Base Salary accrued through the date of the occurrence of that event but not previously paid to the Executive, and (y) the Executive shall be entitled to any other amounts or benefits provided under any plan, policy, practice, program, contract or arrangement of or with the Company, including, but not limited to, the Basic Benefit Plans and the Other Benefit Plans, which shall be governed by the terms thereof (except as explicitly modified by this Agreement).

(iii) If the Executive's employment by the Company is terminated (x) by the Company otherwise than as a result of the occurrence of an Event of Termination for Cause, or (y) by the Executive after the occurrence of an Event of Termination for Good Reason, then the Executive shall be entitled to the following:

(1) the Company shall pay to the Executive the Base Salary and compensation for earned but unused vacation time accrued through the Termination Date but not previously paid to the Executive;

(2) the Company shall pay to the Executive an amount equal to the product of (A) the greater of (I) the Executive's target performance bonus for the Fiscal Year in which the Termination Date occurs and (II) the Executive's performance bonus for the Fiscal Year preceding the Fiscal Year in which the Termination Date occurs (including any deferred portion thereof) (the greater of the amounts described in clauses (I) and (II) of this Section 7(a)(iii)(2)(A) being referred to herein as the "Highest Bonus"), and (B) a fraction, the numerator of which is the number of days in the current Fiscal Year through the Termination Date and the denominator of which is 365;

(3) the Company shall pay to the Executive, as a lump sum, an amount (the "Severance Payment") equal to _____ times the sum of:

(A) the amount (including any deferred portion thereof) of the Base Salary that would have been paid to the Executive during the Fiscal Year in which the Termination Date occurs based on the assumption that the Executive's employment by the Company had continued throughout that Fiscal Year at the Base Salary rate in effect in the Fiscal Year in which the Termination Date occurs, or in the immediately preceding Fiscal Year, whichever is higher;

(B) the amount of the Highest Bonus;

(4) the Company (at its sole expense) shall take the following actions:

(A) throughout the Relevant Period, the Company shall maintain in effect, and not materially reduce the benefits provided by, each of the Other Benefit Plans in which the Executive was a participant immediately before the Termination Date; and

(B) the Company shall arrange for the Executive's uninterrupted participation throughout the Relevant Period in each of such Other Benefit Plans,

provided that if the Executive's participation after the Termination Date in any such Other Benefit Plan is not permitted by the terms of that Other Benefit Plan, then throughout the Relevant Period, the Company (at its sole expense) shall provide the Executive with substantially the same benefits that were provided to the Executive by that Other Benefit Plan immediately before the Termination Date; and

(5) the Executive shall be entitled to any other amounts or benefits provided under any plan, policy, practice, program, contract or arrangement of or with the Company, including, but not limited to, the Basic Benefit Plans and the Other Benefit Plans, which shall be governed by the terms thereof (except as explicitly modified by this Agreement).

(b) Each payment required to be made to the Executive pursuant to the foregoing provisions of this Section 7(a) above (i) shall be made by check drawn on an account of the Company at a bank located in the United States of America, and (ii) shall be paid (x) if the Executive's employment by the Company was terminated as a result of the Executive's death or the Executive's Disability, not more than thirty (30) days immediately following the date of the occurrence of that event, and (y) if the Executive's employment by the Company was terminated for any other reason, on the Termination Payment Date.

(c) The following shall occur immediately upon the occurrence of a Change in Control of the Company:

(i) all options to acquire Voting Stock and all stock appreciation rights pertaining to Voting Stock held by the Executive immediately prior to a Change in Control of the Company shall become fully exercisable, regardless of whether or not the vesting conditions set forth in the relevant stock option agreements have been satisfied in full; and

(ii) all restrictions on any restricted Voting Stock granted to the Executive prior to a Change in Control of the Company shall be removed and the stock shall be freely transferable, regardless of whether the conditions set forth in the relevant restricted stock agreements have been satisfied in full.

Section 8. Successors. If a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement,

(i) the Company shall not, directly or indirectly, consolidate with, merge into or sell or otherwise transfer its assets as an entirety or substantially as an entirety to, any person, or permit any person to consolidate with or merge into the Company, unless immediately after such consolidation, merger, sale or transfer, the Successor shall have assumed in writing the Company's obligations under this Agreement; and

(ii) not fewer than ten (10) days before the consummation of any consolidation of the Company with, merger by the Company into, or sale or other transfer by the Company of its assets as an entirety or substantially as an entirety to, any person, the Company shall give the Executive notice of that proposed transaction.

Section 9. Notice. Notices required or permitted to be given by either party pursuant to this Agreement shall be in writing and shall be deemed to have been given when delivered personally to the other party or when deposited with the United States Postal Service as certified or registered mail with postage prepaid and addressed:

(i) if to the Executive, at the Executive's address last shown on the Company's records, and

(ii) if to the Company, at 1900 West Loop West, Suite 1500, Houston, Texas 77027, directed to the attention of the Chief Financial Officer.

or, in either case, to such other address as the party to whom or which such notice is to be given shall have specified by notice given to the other party.

Section 10. Withholding Taxes. The Company may withhold from all payments to be paid to the Executive pursuant to this Agreement all taxes that, by applicable federal or state law, the Company is required to so withhold.

Section 11. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by, or benefit from, the Company or any of its Affiliates to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (any such payments, distributions or benefits being individually referred to herein as a "Payment," and any two or more of such payments, distributions or benefits being referred to herein as "Payments"), would be subject to the excise tax imposed by Section 4999 of the Code (such excise tax, together with any interest thereon, any penalties, additions to tax, or additional amounts with respect to such excise tax, and any interest in respect of such penalties, additions to tax or additional amounts, being collectively referred to herein as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment or payments (individually referred to herein as a "Gross-Up Payment" and any two or more of such additional payments being referred to herein as "Gross-Up Payments") in an amount such that after payment by the Executive of all taxes (as defined in Section 11(k)) imposed upon the Gross-Up Payment, the Executive retains an amount of such Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The purpose of this Section 11 and the intent of the parties to this Agreement is to place the Executive in the same economic position the Executive would have been in had no Excise Tax been imposed with respect to the Payments.

(b) Subject to the provisions of Section 11(c) through (i), any determination (individually, a "Determination") required to be made under this Section 11(b), including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall initially be made, at the Company's expense, by nationally recognized tax counsel mutually acceptable to the Company and the Executive ("Tax Counsel"). Tax Counsel shall provide detailed supporting legal authorities, calculations, and documentation both to the Company and the Executive within 15 business days of the termination of the Executive's employment, if applicable, or such other time or times as is reasonably requested by the Company or the Executive. If Tax Counsel makes the initial Determination that no Excise Tax is payable by the Executive with respect to a Payment or Payments, it shall furnish the Executive with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to any such Payment or Payments. The Executive shall have the right to dispute any Determination (a "Dispute") within 15 business days after delivery of Tax Counsel's opinion with respect to such Determination. The Gross-Up Payment, if any, as determined pursuant to such Determination shall, at the Company's expense, be paid by the Company to the Executive within five business days of the Executive's receipt of such Determination. The existence of a Dispute shall not in any way affect the Executive's right to receive the Gross-Up Payment in accordance with such Determination. If there is no Dispute, such Determination shall be binding, final and conclusive upon the Company and the Executive, subject in all respects, however, to the provisions of Section 11(c) through (i) below. As a result of the uncertainty in the application of Sections 4999 and 280G of the Code, it is possible that Gross-Up Payments (or portions thereof) which will not have been made by the Company should have been made ("Underpayment"), and if upon any reasonable written request from the Executive or the Company to Tax Counsel, or upon Tax Counsel's own initiative, Tax Counsel, at the Company's expense, thereafter determines that the Executive is required to make a payment of any Excise Tax or any additional Excise Tax, as the case may be, Tax Counsel shall, at the Company's expense, determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to the Executive.

(c) The Company shall defend, hold harmless, and indemnify the Executive on a fully grossed-up after tax basis from and against any and all claims, losses, liabilities, obligations, damages, impositions, assessments, demands, judgements, settlements, costs and expenses (including reasonable attorneys', accountants', and experts' fees and expenses) with respect to any tax liability of the Executive resulting from any Final Determination (as defined in Section 11(j)) that any Payment is subject to the Excise Tax.

(d) If a party hereto receives any written or oral communication with respect to any question, adjustment, assessment or pending or threatened audit, examination, investigation or administrative, court or other proceeding which, if pursued successfully, could result in or give rise to a claim by the Executive against the Company under this Section 11 ("Claim"), including, but not limited to, a claim for indemnification of the Executive by the Company under Section 11(c), then such party shall promptly notify the other party hereto in writing of such Claim ("Tax Claim Notice").

(e) If a Claim is asserted against the Executive ("Executive Claim"), the Executive shall take or cause to be taken such action in connection with contesting such Executive Claim as the Company shall reasonably request in writing from time to time, including the retention of counsel and experts as are reasonably designated by the Company (it being understood and agreed by the parties hereto that the terms of any such retention shall expressly provide that the Company shall be solely responsible for the payment of any and all fees and disbursements of such counsel and any experts) and the execution of powers of attorney, provided that:

(i) within 30 calendar days after the Company receives or delivers, as the case may be, the Tax Claim Notice relating to such Executive Claim (or such earlier date that any payment of the taxes claimed is due from the Executive, but in no event sooner than five calendar days after the Company receives or delivers such Tax Claim Notice), the Company shall have notified the Executive in writing ("Election Notice") that the Company does not dispute its obligations (including, but not limited to, its indemnity obligations) under this Agreement and that the Company elects to contest, and to control the defense or prosecution of, such Executive Claim at the Company's sole risk and sole cost and expense; and

(ii) the Company shall have advanced to the Executive on an interest-free basis, the total amount of the tax claimed in order for the Executive, at the Company's request, to pay or cause to be paid the tax claimed, file a claim for refund of such tax and, subject to the provisions of the last sentence of Section 11(g), sue for a refund of such tax if such claim for refund is disallowed by the appropriate taxing authority (it being understood and agreed by the parties hereto that the Company shall only be entitled to sue for a refund and the Company shall not be entitled to initiate any proceeding in, for example, United States Tax Court) and shall indemnify and hold the Executive harmless, on a fully grossed-up after tax basis, from any tax imposed with respect to such advance or with respect to any imputed income with respect to such advance; and

(iii) the Company shall reimburse the Executive for any and all costs and expenses resulting from any such request by the Company and shall indemnify and hold the Executive harmless, on fully grossed-up after-tax basis, from any tax imposed as a result of such reimbursement.

(f) Subject to the provisions of Section 11(e) hereof, the Company shall have the right to defend or prosecute, at the sole cost, expense and risk of the Company, such Executive Claim by all appropriate proceedings, which proceedings shall be defended or prosecuted diligently by the Company to a Final Determination; provided, however, that (i) the Company shall not, without the Executive's prior written consent, enter into any compromise or settlement of such Executive Claim that would adversely affect the Executive, (ii) any request from the Company to the Executive regarding any extension of the statute of limitations relating to assessment, payment, or collection of taxes for the taxable year of the Executive with respect to which the contested issues involved in, and amount of, the Executive Claim relate is limited solely to such contested issues and amount, and (iii) the Company's control of any contest or proceeding shall be limited to issues with respect to the Executive Claim and the Executive shall be entitled to settle or contest, in his sole and absolute discretion, any other issue raised by the Internal Revenue Service or any other taxing authority. So long as the Company is diligently defending or prosecuting such Executive Claim, the Executive shall provide or cause to be provided to the Company any information reasonably requested by the Company that relates to such Executive Claim, and shall otherwise cooperate with the Company and its representatives in good faith in order to contest effectively such Executive Claim. The Company shall keep the Executive informed of all developments and events relating to any such Executive Claim (including, without limitation, providing to the Executive copies of all written materials pertaining to any such Executive Claim), and the Executive or his authorized representatives shall be entitled, at the Executive's expense, to participate in all conferences, meetings and proceedings relating to any such Executive Claim.

(g) If, after actual receipt by the Executive of an amount of a tax claimed (pursuant to an Executive Claim) that has been advanced by the Company pursuant to Section 11(e)(ii) hereof, the extent of the liability of the Company hereunder with respect to such tax claimed has been established by a Final Determination, the Executive shall promptly pay or cause to be paid to the Company any refund actually received by, or actually credited to, the Executive with respect to such tax (together with any interest paid or credited thereon by the taxing authority and any recovery of legal fees from such taxing authority related thereto), except to the extent that any amounts are then due and payable by the Company to the Executive, whether under the provisions of this Agreement or otherwise. If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 11(e)(ii), a determination is made by the Internal Revenue Service or other appropriate taxing authority that the Executive shall not be entitled to any refund with respect to such tax claimed and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of any Gross-Up Payments and other payments required to be paid hereunder.

(h) With respect to any Executive Claim, if the Company fails to deliver an Election Notice to the Executive within the period provided in Section 11(e)(i) hereof or, after delivery of such Election Notice, the Company fails to comply with the provisions of Section 11(e)(ii) and (iii) and (f) hereof, then the Executive shall at any time thereafter have the right (but not the obligation), at his election and in his sole and absolute discretion, to defend or prosecute, at the sole cost, expense and risk of the Company, such Executive Claim. The Executive shall have full control of such defense or prosecution and such proceedings, including any settlement or compromise thereof. If requested by the Executive, the Company shall cooperate, and shall cause its Affiliates to cooperate, in good faith with the Executive and his authorized representatives in order to contest effectively such Executive Claim. The Company may attend, but not participate in or control, any defense, prosecution, settlement or compromise of any Executive Claim controlled by the Executive pursuant to this Section 11(h) and shall bear its own costs and expenses with respect thereto. In the case of any Executive Claim that is defended or prosecuted by the Executive, the Executive shall, from time to time, be entitled to current payment, on a fully grossed-up after tax basis, from the Company with respect to costs and expenses incurred by the Executive in connection with such defense or prosecution.

(i) In the case of any Executive Claim that is defended or prosecuted to a Final Determination pursuant to the terms of this Section 11(i), the Company shall pay, on a fully grossed-up after tax basis, to the Executive in immediately available funds the full amount of any taxes arising or resulting from or incurred in connection with such Executive Claim that have not theretofore been paid by the Company to the Executive, together with the costs and expenses, on a fully grossed-up after tax basis, incurred in connection therewith that have not theretofore been paid by the Company to the Executive, within ten calendar days after such Final Determination. In the case of any Executive Claim not covered by the preceding sentence, the Company shall pay, on a fully grossed-up after tax basis, to the Executive in immediately available funds the full amount of any taxes arising or resulting from or incurred in connection with such Executive Claim at least ten calendar days before the date payment of such taxes is due from the Executive, except where payment of such taxes is sooner required under the provisions of this Section 11(i), in which case payment of such taxes (and payment, on a fully grossed-up after tax basis, of any costs and expenses required to be paid under this Section 11(i) shall be made within the time and in the manner otherwise provided in this Section 11(i).

(j) For purposes of this Agreement, the term “Final Determination” shall mean (A) a decision, judgment, decree or other order by a court or other tribunal with appropriate jurisdiction, which has become final and non-appealable; (B) a final and binding settlement or compromise with an administrative agency with appropriate jurisdiction, including, but not limited to, a closing agreement under Section 7121 of the Code; (C) any disallowance of a claim for refund or credit in respect to an overpayment of tax unless a suit is filed on a timely basis; or (D) any final disposition by reason of the expiration of all applicable statutes of limitations.

(k) For purposes of this Agreement, the terms “tax” and “taxes” mean any and all taxes of any kind whatsoever (including, but not limited to, any and all Excise Taxes, income taxes, and employment taxes), together with any interest thereon, any penalties, additions to tax, or additional amounts with respect to such taxes and any interest in respect of such penalties, additions to tax, or additional amounts.

(l) If any additional payment required pursuant to this Section 11 is determined by the Board (or its delegate) to be subject to section 409A of the Code, such payment shall be made as follows:

(i) if such payment is made or deemed made due to a Change in Control (*i.e.*, such payment or deemed payment is made without taking into account Executive’s termination of employment), then the Company shall pay such payment on the date of the Change in Control or, if later, as soon as administratively practicable following the Tax Counsel’s Determination described in Section 11(a);

(ii) if such payment is made on or after, and due to, Executive’s termination of employment, then the Company shall pay such payment incurred during the Six-Month Delay Period in a lump sum on the Termination Payment Date, and for each calendar month thereafter in which such a payment becomes due in monthly installments on the corresponding Termination Payment Date(s) (*i.e.*, the last business day of the calendar month following the month such payment becomes due);

(iii) if such payment is due pursuant to Section 11(e), then the Company shall pay such payment no later than March 15th of the calendar year following the calendar year in which the Executive Claim, as reflected by Executive’s receipt of a claim by the Internal Revenue Service, is received by Executive; and

(iv) notwithstanding Sections 11(l)(i) or (ii), if a payment due under Section 11 is paid pursuant to Section 11(b) or (c), such payment will be considered a distribution payable on the date of the Change in Control or the Executive’s Termination Date, respectively, as permitted under Section 409A and proposed Treasury Regulation § 1.409-3(d) (because such payment was not administratively practicable due to events beyond the control of the Executive) and, as such, shall be made as soon as administratively practicable (but in no event shall it be made later than the end of the first calendar year in which the payment becomes administratively practicable).

Section 12. Expenses of Enforcement. If a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, then, upon demand by the Executive made to the Company, the Company shall reimburse the Executive for the reasonable expenses (including attorneys' fees and expenses) incurred by the Executive in enforcing or seeking to enforce the payment of any amount or other benefit to which the Executive shall have become entitled pursuant to this Agreement, including those incurred in connection with any arbitration initiated pursuant to Section 20. To the extent that any such reimbursement would be subject to the Excise Tax, then the Executive shall be entitled to receive Gross-Up Payments in an amount such that after payment by the Executive of all taxes imposed on such Gross-Up Payments, the Executive retains an amount equal to the Excise Tax imposed upon the reimbursement, and the other provisions of Section 11 hereof shall also apply to such circumstance unless the context thereof otherwise indicates.

Section 13. Employment by Wholly Owned Entities. If, at or after the Effective Date, the Executive is or becomes an Executive of one or more corporations, partnerships, limited liability companies or other entities that are, directly or indirectly, wholly owned by the Company ("Wholly Owned Entities"), references in this Agreement to the Executive's employment by the Company shall include the Executive's employment by any such Wholly Owned Entity.

Section 14. No Obligation to Mitigate; No Rights of Offset.

(a) The Executive shall not be required to mitigate the amount of any payment or other benefit required to be paid to the Executive pursuant to this Agreement, whether by seeking other employment or otherwise, nor shall the amount of any such payment or other benefit be reduced on account of any compensation earned by the Executive as a result of employment by another person.

(b) The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others.

Section 15. Amendment and Waiver. No provision of this Agreement may be amended or waived (whether by act or course of conduct or omission or otherwise) unless that amendment or waiver is by written instrument signed by the parties hereto. No waiver by either party of any breach of this Agreement shall be deemed a waiver of any other or subsequent breach.

Section 16. Governing Law. The validity, interpretation, construction and enforceability of this Agreement shall be governed by the laws of the State of Texas.

Section 17. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

Section 18. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute the same instrument.

Section 19. Assignment; Binding Effect. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representative. This Agreement shall be binding upon any Successor. The Company may not assign any of its obligations under this Agreement unless (i) such assignment is to a Successor and (ii) the requirements of Section 8 are fulfilled.

Section 20. Arbitration. Except as otherwise explicitly provided in Section 11, any dispute between the parties arising out of this Agreement, whether as to this Agreement's construction, interpretation or enforceability or as to any party's breach or alleged breach of any provision of this Agreement, shall be submitted to arbitration in accordance with the following procedures:

(i) Either party may demand such arbitration by giving notice of that demand to the other party. The notice shall state (x) the matter in controversy, and (y) the name of the arbitrator selected by the party giving the notice.

(ii) Not more than 15 days after such notice is given, the other party shall give notice to the party who demanded arbitration of the name of the arbitrator selected by the other party. If the other party shall fail to timely give such notice, the arbitrator that the other party was entitled to select shall be named by the Arbitration Committee of the American Arbitration Association. Not more than 15 days after the second arbitrator is so named, the two arbitrators shall select a third arbitrator. If the two arbitrators shall fail to timely select a third arbitrator, the third arbitrator shall be named by the Arbitration Committee of the American Arbitration Association.

(iii) The dispute shall be arbitrated at a hearing that shall be concluded within ten days immediately following the date the dispute is submitted to arbitration unless a majority of the arbitrators shall elect to extend the period of arbitration. Any award made by a majority of the arbitrators (x) shall be made within ten days following the conclusion of the arbitration hearing, (y) shall be conclusive and binding on the parties, and (z) may be made the subject of a judgment of any court having jurisdiction.

(iv) All expenses of the arbitration shall be borne by the Company.

The agreement of the parties contained in the foregoing provisions of this Section 20 shall be a complete defense to any action, suit or other proceeding instituted in any court or before any administrative tribunal with respect to any dispute between the parties arising out of this Agreement.

Section 21. Interpretation.

(a) As used in this Agreement, the following terms and phrases have the indicated meanings:

(i) "*Affiliate*" and "*Affiliates*" mean, when used with respect to any entity, individual, or other person, any other entity, individual, or other person which, directly or indirectly, through one or more intermediaries controls, or is controlled by, or is under common control with such entity, individual or person.

(ii) "*Base Salary*" has the meaning assigned to that term in Section 5.

(iii) "*Basic Benefit Plans*" has the meaning assigned to that term in Section 5.

(iv) "*Benchmark Bonus*" has the meaning assigned to that term in Section 5.

(v) "*Board of Directors*" means the Board of Directors of the Company.

(vi) “*Business Combination*” has the meaning assigned to that term in Section 2.

(vii) “*Change in Control of the Company*” has the meaning assigned to that phrase in Section 2.

(viii) “*Claim*” has the meaning assigned to such term in Section 11.

(ix) “*Code*” means the Internal Revenue Code of 1986, as amended from time to time.

(x) “*Commission*” means the United States Securities and Exchange Commission or any successor agency.

(xi) “*Company*” has the meaning assigned to that term in the preamble to this Agreement. The term “*Company*” shall also include any Successor, whether the liability of such Successor under this Agreement is established by contract or occurs by operation of law.

(xii) “*Covered Person*” has the meaning assigned to that term in Section 2.

(xiii) “*Determination*” has the meaning assigned to that term in Section 11.

(xiv) “*Dispute*” has the meaning assigned to that term in Section 11.

(xv) “*Effective Date*” means August 26, 2003.

(xvi) “*Election Notice*” has the meaning assigned to such term in Section 11.

(xvii) “*Executive*” has the meaning assigned to such term in the preamble to this Agreement.

(xviii) “*Executive Claim*” has the meaning assigned to such term in Section 11.

(xix) “*Executive’s Disability*” means:

(A) if no Change in Control of the Company shall have occurred before the date of determination, the physical or mental disability of the Executive determined in accordance with the disability policy of the Company at the time in effect and generally applicable to its salaried Executives; and

(B) if a Change in Control of the Company shall have occurred at that date, the physical or mental disability of the Executive determined in accordance with the disability policy of the Company in effect immediately before the occurrence of the first Change in Control of the Company and generally applicable to its salaried Executives.

The Executive's Disability, and the automatic termination of the Executive's employment by the Company by reason of the Executive's Disability, shall be deemed to have occurred on the date of determination, provided that if (1) a Change in Control of the Company shall have occurred before the expiration of the term of this Agreement, (2) the Company shall have subsequently given notice pursuant to Section 6 of the Company's determination of the Executive's Disability, and (3) the Executive shall have given notice to the Company that the Executive disagrees with that determination, then (A) whether the Executive's Disability shall have occurred shall be submitted to arbitration pursuant to Section 20, and (B) if a majority of the arbitrators decide that the Executive's Disability had not occurred, at the date of determination by the Company, then (I) the Executive's Disability, and the automatic termination of the Executive's employment by the Company by reason of the Executive's Disability, shall be deemed not to have occurred, and (II) on demand by the Executive made to the Company, the Company shall reimburse the Executive for the reasonable expenses (including attorneys' fees and expenses) incurred by the Executive in obtaining that decision.

(xx) "*Event of Termination for Good Reason*" has the meaning assigned to that phrase in Section 5.

(xxi) "*Event of Termination for Cause*" has the meaning assigned to that phrase in Section 4.

(xxii) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended from time to time.

(xxiii) "*Excise Tax*" has the meaning assigned to that term in Section 11.

(xxiv) "*Expiration Date*" has the meaning assigned to that term in Section 3.

(xxv) "*Final Determination*" has the meaning assigned to such term in Section 11.

(xxvi) "*Fiscal Year*" means the fiscal year of the Company.

(xxvii) "*Gross-Up Payment*" has the meaning assigned to that term in Section 11.

(xxviii) "*Other Benefit Plan*" means any employee welfare benefit plan (within the meaning of section 3(1) of the Employee Retirement Income Security Act of 1974, as amended) maintained by the Company.

(xxix) "*Outstanding Company Common Stock*" has the meaning assigned to that term in Section 2.

(xxx) "*Outstanding Company Voting Securities*" has the meaning assigned to that term in Section 2.

(xxxi) "*Payment*" has the meaning assigned to that term in Section 11.

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

(xxxiii) "*Relevant Period*" means a period beginning on the Termination Date and ending on the first to occur of (x) the third anniversary of the Termination Date, or

(y) the date on which the Executive becomes employed on a full-time basis by another person.

(xxxiv) “*Severance Payment*” has the meaning assigned to that term in Section 7.

(xxxv) “*Successor*” means a person with or into which the Company shall have been merged or consolidated or to which the Company shall have transferred its assets as an entirety or substantially as an entirety.

(xxxvi) “*Tax*” has the meaning assigned to that term in Section 11.

(xxxvii) “*Tax Claim Notice*” has the meaning assigned to that term in Section 11.

(xxxviii) “*Tax Counsel*” has the meaning assigned to that term in Section 11.

(xxxix) “*Termination Date*” has the meaning assigned to that term in Section 6.

(xl) “*Termination Payment Date*” means

(A) if the Board (or its delegate) determines in its sole discretion that as of the Termination Date, other than a termination due to death or Disability, the Executive is a specified employee (as defined in section 409A(a)(2)(B)(i) of the Code, and Department of Treasury regulations and other interpretive guidance issued thereunder) as of such date (a “*Specified Employee*”) and that section 409A of the Code applies with respect to a portion of the payments hereunder, then with respect to such portion, the first business day following the six-month anniversary of the Termination Date or

(B) if the Board (or its delegate) determines in its sole discretion that as of the Termination Date, other than a termination due to death or Disability, the Executive is not a Specified Employee as of such date or that section 409A of the Code does not apply with respect to a portion of the payments hereunder, then with respect to such portion, not more than ten (10) days immediately following the Termination Date and

With respect to any amount payable to or on behalf of the Executive under a welfare or benefit plan program of the Company, including but not limited to a Basic Benefit Plan or Other Benefit Plan, then any amount payable to or on behalf of the Executive under such plan or program that is payable for any calendar month during the Relevant Period shall be paid in monthly installments on the last business day of the calendar month following such month.

If the Board (or its delegate) determines in its sole discretion that as of the Termination Date, other than a termination due to death or Disability, the Executive is a Specified Employee as of such date and that section 409A of the Code applies with respect to a portion of the payments hereunder, then with respect to such portion, the following rules shall apply:

(A) with respect to such portion that is payable to or on behalf of the Executive under a welfare or benefit plan program of the Company, including but not limited to a Basic Benefit Plan or Other Benefit Plan, then in lieu of such benefit(s) being provided during the period commencing on the Termination Date and ending on the six-month anniversary of such date (the “*Six-Month Delay Period*”), Executive and his dependents shall be eligible to participate in and may elect to receive continued coverage under the Company’s health plans in which he previously participated in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (“*COBRA*”) or any successor law during the Six-Month Delay Period, and the Company will reimburse Executive on the Termination Payment Date the total amount of COBRA premiums Executive paid during such period. After the expiration of the Six-Month Delay Period, for the remainder of the Relevant Period, the Corporation shall, at its expense, arrange for the Executive’s uninterrupted participation throughout the Relevant Period in each affected Other Benefit Plan or shall, at its expense, provide the Executive with substantially the same benefits that were provided to the Executive by that affected Other Benefit Plan immediately before the Termination Date; and.

(B) any such amount(s) payable during the Six-Month Delay Period, including but not limited to any payments under Section 11 or any reimbursements for COBRA coverage, shall be transferred to a rabbi trust (which shall be a rabbi trust previously created by the Company that contains other amounts of deferred compensation payable by the Company to the Executive or a rabbi trust created by the Company or its successor, on terms reasonably acceptable to the Executive) as soon as administratively feasible following the occurrence of an event giving rise to the Executive’s right to such payment, except to the extent such transfer would subject the Executive to penalties under the funding restriction provisions of Section 409A of the Code, as amended by the Pension Protection Act of 2006, and such amounts (together with earnings thereon determined in accordance with the terms of the trust agreement) shall be transferred from the trust to the Executive upon the earlier of (i) the expiration of the Six-Month Delay Period, or (ii) any other earlier date permitted under Section 409A of the Code.

(xli) “*This Agreement*” means this Change in Control Agreement as it may be amended from time to time in accordance with Section 15.

(xlii) “*Underpayment*” has the meaning assigned to that term in Section 11.

(xliii) “*Wholly Owned Entities*” has the meaning assigned to that term in Section 13.

(b) In the event of the enactment of any successor provision to any statute or rule cited in this Agreement, references in this Agreement to such statute or rule shall be to such successor provision.

(c) The headings of Sections of this Agreement shall not control the meaning or interpretation of this Agreement.

(d) References in this Agreement to any Section are to the corresponding Section of this Agreement unless the context otherwise indicates.

(e) This Agreement is intended to meet the requirements of section 409A of the Code and shall be administered, construed and interpreted in a manner that is intended to meet those requirements. To the extent that the provision of a benefit or payment under the Agreement is subject to section 409A of the Code, except as the Company and Executive otherwise determine in writing, the provision or payment shall be provided or paid in a manner that will meet the requirements of section 409A of the Code, including regulations or other guidance issued with respect thereto, such that the provisions or payment shall not be subject to the excise tax or interest applicable under section 409A of the Code. Any provision of this Agreement that would cause the provision or payment to fail to satisfy section 409A of the Code shall be amended to comply with section 409A of the Code on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under section 409A of the Code. In the event additional regulations or other guidance is issued under section 409A of the Code or a court of competent jurisdiction provides additional authority concerning the application of section 409A of the Code with respect to the distributions under the Agreement, then the provisions of the Agreement regarding distributions shall be automatically amended to permit such distributions to be made at the earliest time permitted under such additional regulations, guidance or authority that is practicable and achieves the intent of the Agreement prior to its amendment to comply with section 409A of the Code.

IN WITNESS WHEREOF, the Company and the Executive have executed this Agreement this ___ day of _____, to be effective as of the date first written above.

QUANEX CORPORATION

By: _____
Name:
Title

EXECUTIVE

Name: