SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
Annual Report on Form 10-K
on
FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED OCTOBER 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NUMBER 1-5725

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

DELAWARE	38-1872178
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
1900 WEST LOOP SOUTH, SUITE 1500 HOUSTON, TEXAS	77027
(Address of principal executive offices)	(Zip Code)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.50 Par Value	New York Stock Exchange, Inc.
Rights to Purchase Series A Junior Participating Preferred Stock	New York Stock Exchange, Inc.
6.88% Convertible Subordinated Debentures	New York Stock Exchange, Inc.

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

NONE

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates as of December 31, 1997, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was $396,630,084. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At December 31, 1997, there were outstanding 14,102,403 shares of the registrant's Common Stock, $.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement, to be filed with the Commission within 120 days of October 31, 1997, for its Annual Meeting of Stockholders to be held on February 26, 1998, are incorporated herein by reference in Items 10, 11, 12, and 13 of Part III of this Annual Report.

EXPLANATORY NOTE

This Form 10-K/A amends Item 8 of Quanex Corporation's Annual Report on Form 10-K for the year ended October 31, 1997.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Quanex Corporation
Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1997. Our audits also included the financial statement schedule listed in the index on page 41. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Houston, Texas
December 11, 1997

RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

/s/ VERSON E. OECHSLE	/s/ WAYNE M. ROSE
Vernon E. Oechsle	Wayne M. Rose
President and	Vice President and
Chief Executive Officer	Chief Financial Officer

Quanex Corporation
CONSOLIDATED BALANCE SHEETS

October 31,	1997	1996
	(In thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 26,851	$ 35,962
Accounts and notes receivable, less allowance for doubtful accounts of $10,338,000 in 1997 and $7,703,000 in 1996	80,089	78,439
Inventories	73,035	78,828
Deferred income taxes	5,601	9,302
Prepaid expenses	1,320	110
Total current assets	186,896	202,641
Property, plant and equipment, net	379,071	319,165
Net assets of discontinued operations	13,554	18,830
Goodwill, net	91,496	84,343
Other assets	14,688	13,969
	$ 685,705	$ 638,948
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ --	$ 5,575
Accounts payable	71,317	67,037
Accrued expense	43,208	37,984
Current maturities of long-term debt	11,050	--
Income taxes payable	8,503	3,807
Total current liabilities	134,078	114,403
Long-term debt	201,858	253,513
Deferred pension credits	6,627	7,110
Deferred postretirement welfare benefits	6,835	6,459
Deferred income taxes	48,111	40,454
Other liabilities	19,373	20,000
Total liabilities	416,882	441,939
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; issued & outstanding -- none in 1997 and 1996	--	--
Common stock, $.50 par value, 50,000,000 shares authorized in 1997 and 25,000,000 shares authorized in 1996; 14,050,411 shares in 1997 and 13,590,400 shares in 1996 issued and outstanding	7,025	6,795
Additional paid-in capital	105,146	94,251
Retained earnings	156,528	96,623
Cumulative foreign currency translation adjustment	422	--
Unearned compensation	--	(185)
Adjustment for minimum pension liability	(298)	(475)
Total stockholders' equity	268,823	197,009
	$ 685,705	$ 638,948

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF INCOME

Years Ended October 31,	1997	1996	1995
	(In thousands, except per share amounts)		
Net sales	$746,093	$620,069	$603,985
Costs and expenses:			
Cost of sales	609,989	492,594	493,994
Selling, general and administrative	43,798	44,959	33,746
Depreciation and amortization	37,298	36,083	28,785
Operating income	55,008	46,433	47,460
Other income (expense):			
Interest expense	(17,541)	(11,929)	(10,742)
Capitalized interest	3,539	569	1,872
Other, net	1,637	4,544	1,721
Income from continuing operations before income taxes and extraordinary charge	42,643	39,617	40,311
Income tax expense	(14,925)	(16,639)	(16,931)
Income from continuing operations and before extraordinary charge	27,718	22,978	23,380
Income from discontinued operations, net of income taxes	5,176	9,912	10,480
Gain on sale of discontinued operations, net of income taxes	36,290	--	--
Income before extraordinary charge	69,184	32,890	33,860
Extraordinary charge -- early extinguishment of debt, net of income taxes	--	(2,522)	(2,021)
Net income	69,184	30,368	31,839
Preferred dividends	--	--	(3,957)
Net income attributable to common stockholders	$ 69,184	$ 30,368	$ 27,882
Earnings per common share:			
Primary:			
Continuing operations	$ 1.98	$ 1.68	$ 1.43
Discontinued operations	0.37	0.73	0.77
Gain on sale of discontinued operations	2.58	--	--
Extraordinary charge	--	(0.19)	(0.15)
Total primary net earnings	$ 4.93	$ 2.22	$ 2.05
Fully diluted:			
Continuing operations	$ 1.90	$ 1.60	$ 1.43
Discontinued operations	0.31	0.60	0.77
Gain on sale of discontinued operations	2.17	--	--
Extraordinary charge	--	(0.15)	(0.15)
Total assuming full dilution	$ 4.38	$ 2.05	$ 2.05
Weighted average number of shares outstanding			
Primary	14,029	13,658	13,580
Assuming full dilution	16,725	16,585	13,580

See notes to consolidated financial statements.

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

Years Ended October 31, 1997, 1996, and 1995	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Other	Total Stock-holders' Equity
Balance at October 31, 1994...	345,000	$ 86,250	13,377,724	$6,688	$ 86,323	$ 55,081	$(459)	$233,883
Net income..................	--	--	--	--	--	31,839	--	31,839
Common dividends ($.59 per share)....................	--	--	--	--	--	(7,932)	--	(7,932)
Preferred dividends.........	--	--	--	--	--	(4,451)	--	(4,451)
Conversion of preferred stock to subordinated debentures................	(339,681)	(84,920)	--	--	3,350	--	--	(81,570)
Conversion of preferred stock to common stock.....	(5,319)	(1,330)	42,211	21	1,309	--	--	--
Adjustment for minimum pension liability.........	--	--	--	--	--	--	(355)	(355)
Unearned compensation.......	--	--	--	--	--	--	53	53
Other.......................	--	--	65,377	34	1,424	(111)	--	1,347
Balance at October 31, 1995...	--	--	13,485,312	6,743	92,406	74,426	(761)	172,814
Net income..................	--	--	--	--	--	30,368		30,368
Common dividends ($.60 per share)....................	--	--	--	--	--	(8,115)	--	(8,115)
Adjustment for minimum pension liability.........	--	--	--	--	--	--	(31)	(31)
Unearned compensation.......	--	--	--	--	--	--	132	132
Other.......................	--	--	105,088	52	1,845	(56)	--	1,841
Balance at October 31, 1996...	--	--	13,590,400	6,795	94,251	96,623	(660)	197,009
Net income..................	--	--	--	--	--	69,184		69,184
Common dividends ($.61 per share)....................	--	--	--	--	--	(8,422)	--	(8,422)
Adjustment for minimum pension liability.........	--	--	--	--	--	--	177	177
Unearned compensation.......	--	--	--	--	--	--	185	185
Foreign currency translation adjustment................							422	422
Other.......................	--	--	460,011	230	10,895	(857)	--	10,268
Balance at October 31, 1997...	--	$ --	14,050,411	$7,025	$105,146	$156,528	$ 124	$268,823

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW

Years Ended October 31,	1997	1996	1995
		(In thousands)	
OPERATING ACTIVITIES:			
Net Income	$ 69,184	$ 30,368	$ 31,839
Adjustments to reconcile net income to cash provided by operating activities:			
Income from discontinued operations	(5,176)	(9,912)	(10,480)
Gain on sale of discontinued operations	(36,290)	--	--
Depreciation and amortization	37,865	36,654	29,410
Deferred income taxes	7,545	2,533	6,668
Deferred pension costs	(183)	318	76
Deferred postretirement welfare benefits	376	417	254
	73,321	60,378	57,767
Changes in assets and liabilities net of effects from acquisitions and dispositions:			
Decrease (increase) in accounts and notes receivable	2,957	7,798	(19,630)
Decrease (increase) in inventory	8,898	(17,568)	(3)
Increase (decrease) in accounts payable	112	(4,848)	12,863
Increase in accrued expenses	2,919	2,907	3,926
Other, net	(8,868)	900	(3,656)
Cash provided by continuing operations	79,339	49,567	51,267
Cash provided by discontinued operations	89	16,073	15,885
Cash provided by operating activities	79,428	65,640	67,152
INVESTMENT ACTIVITIES:			
Acquisition of Advanced Metal Forming, C.V., net of cash and equivalents acquired	(33,584)	--	--
Acquisition of Piper Impact, Inc., net of cash and equivalents acquired	(5,575)	(123,264)	--
Net proceeds from sale of LaSalle Steel Company	63,900	--	--
Capital expenditures, net of retirements	(68,916)	(34,699)	(21,615)
Capital expenditures of discontinued operations	(3,868)	(11,089)	(4,986)
Decrease in short-term investments	--	--	54,070
Other, net	(1,550)	(5,120)	(1,878)
Cash provided (used) by investment activities	(49,593)	(174,172)	25,591
Cash provided (used) by operating and investment activities	29,835	(108,532)	92,743
FINANCING ACTIVITIES:			
Bank borrowings (repayments), net	(41,828)	160,000	--
Notes payable borrowings (repayments)	--	(10,000)	10,000
Purchase of Senior Notes	--	(44,667)	(59,500)
Repayments of long-term debt	--	--	(20,958)
Common dividends paid	(8,422)	(8,115)	(7,932)
Preferred dividends paid	--	--	(4,451)
Stock options exercised	8,357	1,179	454
Other, net	2,525	905	846
Cash provided (used) by financing activities	(39,368)	99,302	(81,541)
Effect of exchange rate changes on cash and equivalents	422	--	--
Increase (decrease) in cash and equivalents	(9,111)	(9,230)	11,202
Cash and equivalents at beginning of period	35,962	45,192	33,990
Cash and equivalents at end of period	$ 26,851	$ 35,962	$ 45,192

See notes to consolidated financial statements.

Quanex Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

---

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

SCOPE OF OPERATIONS

The Company operates primarily in two industry segments: the manufacturing of engineered steel bars and aluminum products. The Company's products include engineered steel bars, aluminum sheet, aluminum fabricated products and impact extrusions. The Company's manufacturing operations are conducted primarily in the United States.

REVENUES

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

STATEMENTS OF CASH FLOWS

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 1997, 1996 and 1995 cash paid for income taxes was $13,906,000, $19,551,000, and $17,572,000, respectively. These amounts are before refunds of $471,000, $204,000, and $47,000, respectively. Cash paid for interest for fiscal 1997, 1996 and 1995 was $17,964,000, $12,084,000, and $10,324,000, respectively. Non-cash investing and financing activities in fiscal 1995 included the exchange of $84,920,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007, and the conversion of $1,330,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock to the Company's common stock. (See Note 2 regarding acquisitions)

INVENTORIES

Inventories are valued at the lower of cost or market. The accounting methods used in valuing the Company's inventories are described in Note 5.

LONG-LIVED ASSETS

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years for the goodwill resulting from the acquisition of Nichols Homeshield in 1989, and over twenty-five years for the goodwill resulting from the acquisitions of Piper Impact, Inc. in 1996 and Piper Impact Europe B.V. in 1997 (See Note 2). At October 31, 1997 and 1996, accumulated amortization was $10,398,000 and $7,297,000, respectively. The Company evaluates any possible impairment of goodwill using estimates of undiscounted future cash flows.

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

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

- ---

During 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of". The statement establishes accounting standards related to the impairment of long-lived assets, such as property, plant, equipment and intangibles. The Company adopted statement No. 121 in fiscal 1997 and did not experience any material impact on its financial position or results of operations.

HEDGING

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with the related sales transactions. The Company enters into interest rate agreements which effectively exchange variable interest rate debt for fixed interest rate debt. The agreements are used to reduce the exposure to increasing interest rates. The Company enters into these agreements with major financial institutions. The Company does not use derivative financial instruments for trading or speculative purposes. (See Note 15)

EARNINGS PER SHARE DATA

Primary earnings per share is computed by deducting preferred dividends from net income in order to determine net income attributable to common stockholders. This amount is then divided by the weighted average number of common shares outstanding and common stock equivalents.

Fully diluted earnings per-share amounts assume conversion of the Company's 6.88% Convertible Subordinated Debentures, the elimination of the related interest and amortization of issuance costs, net of tax, and the issuance of common stock for all other potentially dilutive common stock equivalents outstanding.

In February 1997, the Financial Accounting Standards Board issued statement of Financial Accounting Standards No. 128 -- "Earnings per Share" ("SFAS 128") which specifies the computation, presentation and disclosure requirements for Earnings Per Share ("EPS"). SFAS 128 replaces the presentation of primary and fully diluted EPS pursuant to Accounting Principles Board Opinion No. 15 -- "Earnings per Share" ("APB 15") with the presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company is required to adopt SFAS 128 with its January 31, 1998 financial statements and restate all prior-period EPS disclosure.

Under SFAS 128, the Company's pro forma basic and diluted EPS would have been:

	1997	1996	1995
Basic EPS:			
Continuing operations	$2.01	$ 1.70	$ 1.44
Discontinued operations	0.37	0.73	0.78
Gain on sale of discontinued operations	2.63	--	--
Extraordinary charge	--	(0.19)	(0.15)
Total Basic EPS	$5.01	$ 2.24	$ 2.07
Diluted EPS:			
Continuing operations	$1.90	$ 1.60	$ 1.51
Discontinued operations	0.31	0.60	0.64
Gain on sale of discontinued operations	2.17	--	--
Extraordinary charge	--	(0.15)	(0.12)
Total Diluted EPS	$4.38	$ 2.05	$ 2.03

FOREIGN CURRENCY TRANSLATION

Gains and losses resulting from translation of the Company's foreign subsidiary's operations are included as a separate component of stockholder's equity.

USE OF ESTIMATES

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

RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1997 presentations.

2. ACQUISITIONS

On August 9, 1996, the Company acquired the assets, net of various liabilities, of Piper Impact, Inc. ("Piper Impact"). Piper Impact is a manufacturer of custom-designed, impact-extruded aluminum and steel parts for the transportation, electronics and defense markets, with production facilities in New Albany, Mississippi and Park City, Utah.

Piper Impact's net assets were acquired for approximately $130 million in cash, cash equivalents, and notes. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated to the assets and liabilities of Piper Impact based on their estimated fair values. The goodwill associated with the Piper Impact acquisition approximated $56 million, which is being amortized on a straight-line basis over twenty-five years. To finance the acquisition, the Company entered into an unsecured revolving credit/term loan facility which provides for the borrowing of up to $250 million. (See Note 8)

Liabilities assumed included an estimated $20 million related to costs for further investigation and specified environmental remediation. These cost estimates include charges for additional studies, remediation, renovations to affected facilities and equipment, and other compliance expenditures. The estimated range of costs is $15 million to $25 million of which the accrual represents management's best estimate of total costs expected to be incurred. Actual expenditures could differ from current estimates as additional studies are completed, requiring revisions to the remediation and restoration plan.

The unaudited pro-forma consolidated results of operations of the Company are shown below as if the acquisition had occurred at the beginning of the fiscal periods indicated. These results are not necessarily indicative of the results which would actually have occurred if the purchase had taken place at the beginning of the periods, nor are they necessarily indicative of future results.

	Pro Forma October 31, 1996	Pro Forma October 31, 1995
	(In thousands, except per share amounts) (Unaudited)	
Net sales	$708,492	$710,357
Income before extraordinary charge	27,751	28,801
Preferred dividends	--	3,957
Net income attributable to common shareholders before extraordinary charge	27,751	24,844
Earnings per share before extraordinary charge:		
Primary	$ 2.03	$ 1.83
Fully diluted	$ 1.89	$ 1.83

- --

On October 29, 1997, the Company, through its Dutch subsidiary, Piper Impact Europe B.V. ("Piper Europe"), acquired the net assets of Advanced Metal Forming C.V., a Dutch limited partnership, for approximately $30 million. The Company's balance sheet as of October 31, 1997 includes Piper Europe. The income statement for the twelve months ended October 31, 1997 does not include Piper Europe.

Piper Europe produces aluminum impact extrusions and precision steel stampings for the automotive and electronics industries in Europe and North America. Piper Europe employs approximately 260 people, and its manufacturing facilities are located near Zwolle in The Netherlands.

3. DISCONTINUED OPERATIONS

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. The Company recorded an after tax gain on the sale of $36,290,000 in the second quarter of fiscal 1997. LaSalle's results of operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, LaSalle's data was previously reported as the segment "Cold Finished Steel Bars".

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"). The Company will record a gain on the sale of approximately $13,000,000 in the first quarter of fiscal 1998. Results of these operations have been classified as discontinued and prior periods have been restated. For business segment reporting purposes, Tubing Operations were previously classified as "Steel Tubes". (See Note 17)

Net sales and income from discontinued operations are as follows:

	Years Ended October 31,		
	1997	1996	1995
	(In thousands)		
Net sales	$187,123	$275,641	$287,210
Operating income	7,962	17,090	18,069
Income tax expense	(2,786)	(7,178)	(7,589)
Income from discontinued operations	$ 5,176	$ 9,912	$ 10,480

	October 31,	
	1997	1996
	(In thousands)	
Net Assets of Discontinued Operations		
Current assets	$ 24,388	$ 60,697
Property, plant and equipment, net	17,357	32,381
Other assets	2,784	5,010
Current liabilities	(11,241)	(38,663)
Deferred pension credits	(4,373)	(10,183)
Deferred postretirement welfare benefits	(22,406)	(49,169)
Deferred income taxes	6,718	16,421
Adjustment for minimum pension liability	327	2,336
Net assets of discontinued operations	$ 13,554	$ 18,830

- ---

4. INCOME TAXES

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	1997	1996	1995
	(In thousands)		
Current:			
Federal	$ 846	$12,914	$11,147
State	2,829	2,865	562
	3,675	15,779	11,709
Deferred	11,250	860	5,222
Income taxes from continuing operations	14,925	16,639	16,931
Income taxes from discontinued operations	2,786	7,178	7,589
Income taxes from sale of discontinued operations	13,178	--	--
Reduction of taxes from extinguishment of debt	--	(1,826)	(1,463)
Totals	$30,889	$21,991	$23,057

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

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

	October 31,	
	1997	1996
	(In thousands)	
Deferred tax liability:		
Property, plant and equipment	$43,092	$34,843
Inventory	412	(587)
Other	12,735	12,791
	56,239	47,047
Deferred tax assets:		
Postretirement benefit obligation	2,969	2,762
Other employee benefit obligations	8,143	7,041
Other accrued liabilities	2,617	6,092
	13,729	15,895
Net deferred tax liability	$42,510	$31,152
Deferred income tax liability -- non-current	$48,111	$40,454
Deferred tax assets -- current	(5,601)	(9,302)
Net deferred tax liability	$42,510	$31,152

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

	Years Ended October 31,		
	1997	1996	1995
	(In thousands)		
Income tax expense at statutory tax rate	$14,925	$13,866	$14,109
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal effect	1,655	2,148	2,220
Goodwill	334	334	334
Other items, net	(1,989)	291	268
	$14,925	$16,639	$16,931

The Company reached a settlement with the Internal Revenue Service with respect to its tax audit of fiscal years 1992 through 1994. During 1997, the Company made a payment of $2,016,000 of tax and related interest. Adequate provisions had been made in prior years and the settlement did not have a material effect on earnings for fiscal 1997.

- ---

5. INVENTORIES

Inventories consist of the following:

	October 31, 1997	October 31, 1996
	(In thousands)	
Raw materials	$19,432	$19,757
Finished goods and work in process	47,739	53,100
	67,171	72,857
Other	5,864	5,971
Total	$73,035	$78,828

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

LIFO	$51,517	$60,904
FIFO	21,518	17,924
Total	$73,035	$78,828

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $16,000,000 and $13,000,000 at October 31, 1997 and 1996, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31, 1997	October 31, 1996
	(In thousands)	
Land and land improvements	$ 18,901	$ 16,381
Buildings	80,981	75,466
Machinery and equipment	461,817	424,577
Construction in progress	81,155	34,890
	642,854	551,314
Less accumulated depreciation and amortization	(263,783)	(232,149)
	$ 379,071	$ 319,165

The Company had commitments for the purchase or construction of capital assets amounting to approximately $23 million at October 31, 1997.

7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	October 31, 1997	October 31, 1996
	(In thousands)	
Accrued contribution to pension funds	$ 1,033	$ 1,023
Interest	2,516	2,925
Payroll, payroll taxes and employee benefits	21,995	20,682
State and local taxes	1,985	1,647
Other	15,679	11,707
	$43,208	$37,984

8. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

	October 31, 1997	October 31, 1996
	(In thousands)	
Revolving credit agreements	$100,185	$160,000
Convertible subordinated debentures	84,920	84,920
Term loan	7,709	--
Bank borrowings due within one year	10,278	--
Industrial Revenue and Economic Development Bonds, unsecured, payable in annual installments through the year 2005, bearing interest ranging from 6.50% to 8.375%	3,275	3,275
Other	6,541	5,318
	$212,908	$253,513
Less maturities due within one year included in current liabilities	11,050	--
	$201,858	$253,513

On July 23, 1996, the Company replaced its $75 million Revolving Credit and Letter of Credit Agreement with an unsecured $250 million Revolving Credit and Term Loan Agreement ("Bank Agreement"). The Bank Agreement consists of a revolving line of credit ("Revolver"). In July 1997, the term loan provisions of the Bank Agreement expired. The Bank Agreement expires July 23, 2002, and provides for up to $25 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either (a) the prime rate or the federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. At October 31, 1997, the Company had $100 million outstanding under the Revolver. The weighted average interest rates on borrowings under the Revolver were 6.6% and 6.3% in 1997 and 1996, respectively. As of October 31, 1997, the Company was in compliance with all Bank Agreement covenants. Under the Company's most restrictive loan covenants, retained earnings of $42,954,000 at October 31, 1997 were available for dividends.

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

At October 31, 1994, the Company had $125 million outstanding in Senior Notes. The Senior Notes paid interest at 10.77% per annum. In December 1994, the Company acquired $59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The Company recorded an extraordinary charge of $2.0 million ($3.5 million before tax) in the first quarter of 1995 related to the call premium and write-off of deferred debt issuance costs for the Senior Notes that were repurchased. In August 1995, the Company made a required annual repayment of $20.8 million principal amount. In December 1995, the Company acquired the remaining $44.7 million principal amount of the Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The second acquisition and related expenses resulted in an after-tax extraordinary charge of approximately $2.5 million ($4.3 million before tax) in the first quarter of 1996.

On October 28, 1997, Piper Impact Europe B.V. ("Piper Europe") executed a stand-alone secured credit facility ("Credit Facility") providing up to 50 million Dutch Guilders ("NLG"). At October 31, 1997, 1 NLG was equal to .514 U.S. dollars. The Credit Facility consists of a Roll-Over Term Loan, a Medium Term Loan and an Overdraft Facility. The Roll-Over Term Loan provides NLG 15 million for loan periods of 1, 2, 3, 6, or 12 months with repayment of outstanding borrowings on October 27, 2002. Interest is payable on the repayment date at the Amsterdam Interbank Offering Rate (AIBOR) plus 90 basis points. In the case of a loan period of twelve months, interest is payable six months after the beginning of the loan period and on the repayment date. The Medium Term Loan provides NLG 15 million at 6.375% payable quarterly in arrears from March 1, 1998, with quarterly repayments of principal in equal amounts of NLG 500 thousand commencing January 1, 1999 through April 1, 2006. The Overdraft Facility provides an aggregate amount of NLG 20 million to cover overdrafts or up to NLG 15 million of loans for a period of one year, subject to annual renewal. Overdrafts bear interest at the Bank's published rate for overdraft facilities plus 1% per annum. Loans under the Overdraft Facility bear interest at AIBOR plus 45 to 55 basis points. The terms of Overdraft Facility loans are selected by Piper Europe to be a period of 1, 2, 3, 6, or 12 months. Interest on overdrafts are paid quarterly in arrears.

Interest on loans under the Overdraft Facility is payable on the repayment date, however, in the case of a loan period of twelve months, interest is payable six months after the beginning of the loan period and on the repayment date. At October 31, 1997, Piper Europe had NLG 35.3 million outstanding under the Credit Facility. As of October 31, 1997, Piper Europe was in compliance with all Credit Facility covenants.

Aggregate maturities of long-term debt at October 31, 1997, are as follows (in thousands):

1998	$ 11,050
1999	--
2000	--
2001	--
2002	100,185
Thereafter	101,673
	$212,908

9. PENSION PLANS AND RETIREMENT BENEFITS

The Company has retirement plans covering substantially all employees. The plans provide for defined benefits. The plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations.

The plans' funded status was as follows:

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
	October 31,			
	1997	1996	1997	1996
	(In thousands)			
Assets available for benefits	$ 12,807	$ 9,910	$ 3,606	$ 2,323
Projected benefit obligation				
Vested	(10,602)	(8,571)	(4,446)	(3,637)
Nonvested	(170)	(283)	(752)	(834)
Accumulated benefit obligation	(10,772)	(8,854)	(5,198)	(4,471)
Effect of future salary increases	(5,990)	(5,378)	--	--
Total projected benefit obligation	(16,762)	(14,232)	(5,198)	(4,471)
Assets less than projected benefit obligation	$ (3,955)	$ (4,322)	$(1,592)	$(2,148)
Consisting of:				
Amounts to be offset against future pension costs:				
Assets in excess of obligation at adoption	$ 772	$ 876	$ 52	$ 59
Obligation (increase) decrease due to plan amendments	238	294	(816)	(826)
Actuarial gains (losses)	1,103	492	(541)	(836)
Minimum liability adjustment	--	--	1,305	1,604
Amounts recognized in consolidated balance sheets:				
Deferred pension credit	(5,371)	(5,250)	(1,256)	(1,860)
Accrued contribution to pension funds	(697)	(734)	(336)	(289)
	$ (3,955)	$ (4,322)	$(1,592)	$(2,148)

In accordance with the provisions of Statement of Financial Accounting Standards No. 87, the Company recorded additional minimum pension liabilities as of October 31, 1997 and 1996, representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The Company recorded additional pension liabilities of $1,305,000 and $1,604,000; intangible assets of $816,000 and $827,000; and stockholders' equity reductions, net of income taxes, of $298,000 and $475,000, as of October 31, 1997 and 1996, respectively.

The projected unit credit method was used to determine the actuarial present value of the accumulated benefit obligation and the projected benefit obligation. For 1997, 1996 and 1995 the discount rate was 7.5%. The expected long term rate of return on assets was 10% for the three year period ending October 31, 1997. The assumed rate of increase in future compensation levels was 4.5% in 1997, 1996 and 1995. The plans invest primarily in marketable equity and debt securities.

Net pension costs for defined benefit plans were as follows:

	Years Ended October 31, 1997	1996	1995
	(In thousands)		
Benefits earned during the year	$ 1,371	$ 1,270	$ 1,109
Interest cost on projected benefit obligation	1,511	1,293	1,142
Actual return on plan assets	(2,561)	(1,400)	(1,319)
Net amortization and deferral	1,250	335	348
	$ 1,571	$ 1,498	$ 1,280

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately $2,919,000, $2,476,000, and $2,299,000 during fiscal 1997, 1996, and 1995, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately $3,724,000, $2,959,000, and $4,107,000 at October 31, 1997, 1996 and 1995, respectively. These benefits are funded with life insurance policies purchased by the Company.

10. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides certain healthcare and life insurance benefits for eligible retired employees. Employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis; and, for fiscal year 1997, the Company made benefit payments totaling $247,000, compared to $171,000 and $366,000 in fiscal 1996 and 1995, respectively.

The following table sets forth the funded status of the Company's projected postretirement benefits other than pensions, reconciled with amounts recognized in the Company's consolidated balance sheets at:

	October 31, 1997	1996
	(In thousands)	
Accumulated postretirement benefit obligation:		
Retirees	$(4,233)	$(3,870)
Fully eligible active plan participants	(161)	(178)
Other active plan participants	(2,217)	(2,043)
	(6,611)	(6,091)
Plan assets at fair value	--	--
Accumulated postretirement benefit obligation in excess of plan assets	(6,611)	(6,091)
Unrecognized prior service cost	--	--
Unrecognized net loss from past experience different from that assumed and from changes in assumption	(224)	(368)
Accrued postretirement benefit cost	$(6,835)	$(6,459)

	Years Ended October 31, 1997	1996	1995
	(In thousands)		
Net periodic postretirement benefit cost:			
Service cost -- benefits attributed to service during the period	$148	$145	$124
Interest cost on accumulated postretirement Benefit obligation	472	438	442
Net amortization and deferral	3	5	54
Net periodic postretirement benefit cost	$623	$588	$620

The assumed healthcare cost trend rate was 8.8% in 1997, decreasing uniformly to 5.5% in the year 2003 and remaining level thereafter. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% at October 31, 1997 and October 31, 1996.

If the healthcare cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 1997 would be increased by 3.5%. The effect of this change on the sum of the service cost and interest cost would be an increase of 2.8%.

11. INDUSTRY SEGMENT INFORMATION

Quanex is principally a producer of specialized metals and metal products. The Company's operations primarily consist of two segments: engineered steel bars and aluminum products.

For the year ended October 31, 1997, sales to Autoliv Inc. represented 13% of the Company's consolidated net sales. Sales to Autoliv are included in the aluminum products segment.

Year ended October 31, 1997	Engineered Steel Bars(4)	Aluminum Products(1)	Corporate and Other(2)	Consolidated
		(In thousands)		
Net Sales:				
To unaffiliated companies	$301,436	$444,657	--	$746,093
Intersegment(3)	18,032	--	$(18,032)	--
Total	$319,468	$444,657	$(18,032)	$746,093
Operating Income (loss)	$50,762	$17,415	$(13,169)	$55,008
Depreciation and amortization:				
Operating	$13,940	$23,227	$ 131	$37,298
Other	--	--	567	567
Total	$13,940	$23,227	$ 698	$37,865
Capital expenditures	$35,220	$33,581	$ 345	$69,146
Identifiable assets	$192,937	$443,799	$48,969	$685,705

(1) Identifiable assets includes Advanced Metal Forming C.V., acquired on October 29, 1997.
(2) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and net assets of discontinued operations.
(3) Intersegment sales are conducted on an arm's-length basis.
(4) Includes Nitro Steel and Heat Treat divisions previously reported under the Steel Tubes segment. See Note 3.

Year ended October 31, 1996	Engineered Steel Bars(4)	Aluminum Products(1)	Corporate and Other(2)	Consolidated
		(In thousands)		
Net Sales:				
To unaffiliated companies	$275,202	$344,867	--	$620,069
Intersegment(3)	16,965	--	$(16,965)	--
Total	$292,167	$344,867	$(16,965)	$620,069
Operating Income (loss)	$39,090	$22,070	$(14,727)	$46,433
Depreciation and amortization:				
Operating	$18,263	$17,712	$ 108	$36,083
Other	--	--	571	571
Total	$18,263	$17,712	$ 679	$36,654
Capital expenditures	$19,573	$15,031	$ 133	$34,737
Identifiable assets	$171,351	$412,048	$55,549	$638,948

(1) Includes three months of Piper Impact's operations.
(2) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and net assets of discontinued operations.
(3) Intersegment sales are conducted on an arm's-length basis.
(4) Includes Nitro Steel and Heat Treat divisions previously reported under the Steel Tubes segment. See Note 3.

Year ended October 31, 1995	Engineered Steel Bars(3)	Aluminum Products	Corporate and Other(1)	Consolidated
	(In thousands)			
Net Sales:				
To unaffiliated companies	$272,420	$331,565	--	$603,985
Intersegment(2)	14,229	--	$(14,229)	--
Total	$286,649	$331,565	$(14,229)	$603,985
Operating Income (loss)	$43,668	$21,128	$(17,336)	$47,460
Depreciation and amortization:				
Operating	$15,537	$13,135	$ 113	$28,785
Other	--	--	625	625
Total	$15,537	$13,135	$ 738	$29,410
Capital expenditures	$12,776	$ 8,704	$ 149	$21,629
Identifiable assets	$177,079	$230,586	$58,793	$466,458

(1) Included in "Corporate and Other" are intersegment eliminations, corporate expenses and net assets of discontinued operations.
(2) Intersegment sales are conducted on an arm's length basis.
(3) Includes Nitro Steel and Heat Treat divisions previously reported under the Steel Tubes segment. See Note 3.

12. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of $60. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of $.01 or the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will entitle the holder to purchase $120 worth of the surviving company's common stock for $60. Additionally, if someone acquires 20% or more of the Company's common stock, each Right not owned by the 20% or greater shareholder would permit the holder to purchase $120 worth of the Company's common stock for $60. The Rights are redeemable, at the option of the Company, at $.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire in 1999.

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

13. PREFERRED STOCK -- DEPOSITARY CONVERTIBLE EXCHANGEABLE PREFERRED SHARES

During May 1992, the Company issued 3,450,000 Depositary Convertible Exchangeable Preferred Shares ("Depositary Shares"), each representing 1/10th of a share of the Company's 6.88% Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock"). The net proceeds from the issuance was $82.9 million. The dividend per annum and liquidation preference for each share of Preferred Stock were $17.20 and $250, respectively, and for each Depositary Share were $1.72 and $25, respectively. Dividends on the Preferred Stock and Depositary Shares were cumulative and payable quarterly, commencing September 30, 1992. The Company was prohibited from paying any dividends on Common Stock (other than in Common Stock or junior stock) unless all required preferred dividends had been paid.

The Preferred Stock was convertible at the option of the holder into shares of the Company's Common Stock at a conversion price of $31.50 per share, subject to adjustment in certain events. The Preferred Stock was exchangeable at the option of the Company, in whole but not in part, on any dividend payment date commencing June 30, 1995 for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007 ("6.88% Debentures") at the rate of $250 principal amount of 6.88% Debentures for each share of Preferred Stock and $25 principal amount of 6.88% Debentures for each Depositary Share.

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

14. RESTRICTED STOCK AND STOCK OPTION PLANS

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The award vests during an eight year period based on the price of the Company's stock. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. There were no restricted shares granted in 1995, 1996 or 1997. The amount charged to compensation expense was $185,000 in 1997, $132,000 in 1996, and $53,000 in 1995.

Options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. No options may be granted under the plans after December 1, 2002. There were 722,322, 624,035, and 140,151 shares available for granting of options at October 31, 1997, 1996, and 1995, respectively. Stock option transactions for the three years ended October 31, 1997, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1994	405,299	794,801	$19
Granted		295,000	20
Exercised		(28,768)	15
Cancelled		--	--
Balance at October 31, 1995	567,243	1,061,033	20
Granted		269,650	28
Exercised		(69,503)	12
Cancelled		(3,534)	22
Balance at October 31, 1996	726,609	1,257,646	22
Granted		165,700	29
Exercised		(323,218)	18
Cancelled		(13,987)	25
Balance at October 31, 1997	650,053	1,086,141	$24

The Company also has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director, as of the first anniversary of the date of his election as a Director of the Company, will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were no shares available for granting of options

- --

at October 31, 1997. There were 20,000, and 40,000 shares available for granting of options at October 31, 1996 and 1995, respectively. Stock option transactions for the three years ended October 31, 1997, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1994	13,333	20,000	$17
Granted		--	--
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1995	16,666	20,000	$17
Granted		20,000	20
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1996	20,000	40,000	$18
Granted		--	--
Exercised		(15,000)	18
Cancelled		--	--
Balance at October 31, 1997	11,666	25,000	$18

In addition, the Company has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 210,000 shares of common stock. Each non-employee Director as of December 6, 1989, was granted an option to purchase 3,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of grant. Also, each non-employee Director who is a director of the Company on any subsequent October 31, while the plan is in effect and shares are available for the granting of options hereunder, shall be granted on such October 31, an option to purchase 3,000 shares of common stock at a price equal to the fair market value of the common stock as of such October 31. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were 30,000, 51,000, and 72,000 shares available for granting of options at October 31, 1997, 1996 and 1995, respectively. Stock option transactions for the three years ended October 31, 1997, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1994	66,000	87,000	$20
Granted		21,000	20
Exercised		--	--
Cancelled		--	--
Balance at October 31, 1995	87,000	108,000	$20
Granted		21,000	29
Exercised		(6,000)	19
Cancelled		--	--
Balance at October 31, 1996	102,000	123,000	$22
Granted		21,000	28
Exercised		(30,000)	18
Cancelled		--	--
Balance at October 31, 1997	93,000	114,000	$24

On October 1, 1992, Carl E. Pfeiffer retired as the Chief Executive Officer of the Company. In connection with such retirement, the Company replaced options to purchase 60,000 shares of Common Stock at a weighted average exercise price of $15.85 held by Mr. Pfeiffer, under the Company's employee stock option plans with new options

- --

having the same exercise prices and expiration dates. Such options are substantially similar to the options previously held by him with the exception that vesting is not contingent upon his continued employment with the Company and the options expire on various dates between October 25, 1999, and October 13, 2001, instead of one year after retirement. There were no shares exercisable at October 31, 1997. There were 60,000 shares exercisable at October 31, 1996 and 1995. During the year ended October 31, 1997, 60,000 shares were exercised at an average price of $15.85 per share. There were no transactions related to these stock options during the years ended October 31, 1996 and 1995.

STOCK BASED COMPENSATION

Effective November 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with SFAS No. 123, the Company will continue to apply the existing rules contained in Accounting Principles Opinion No. 25, "Accounting for Stock Issued to Employees," and disclose the required pro forma effect on net income and earnings per share of the fair value based method of accounting for stock based compensation as required by SFAS No. 123.

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

	Years Ended October 31,	
	1997	1996
	(In thousands)	
Net income attributable to common stockholders	$69,184	$30,368
SFAS No. 123 adjustment	(995)	(1,431)
Pro forma net attributable to common stockholders	$68,189	$28,937
Earnings per Common share:		
Primary as reported	$ 4.93	$ 2.22
Primary pro forma	$ 4.86	$ 2.12
Fully diluted as reported	$ 4.38	$ 2.05
Fully diluted pro forma	$ 4.32	$ 1.96

Fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997 and 1996.

	1997	1996
Risk-free interest rate	5.39%	5.44%
Dividend yield	2.23%	2.23%
Volatility factor	29.83%	29.83%
Weighted average expected life	5 YEARS	5 years

15. FINANCIAL INSTRUMENTS

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Firm price commitments do not extend beyond December, 1998. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the consolidated statements of income. At October 31, 1997, the Company had open futures contracts at fair values of $2.8 million and unrealized losses of $16,000 on such contracts. At October 31, 1997, these contracts covered a notional volume of 3,693,000 pounds of aluminum.

In the fourth quarter of fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement, to fixed rate. Under these agreements, payments are made based on a fixed rate ($50 million at 7.025%, and $50 million at 6.755%) and received on a LIBOR based variable rate (5.78125% at October 31, 1997). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The unrealized losses related to the interest rate swaps are $4.1 million ($3.1 million in 1996) on the total notional amount of $100 million ($100 million in 1996).

- --

The fair values of the Company's financial assets approximate the carrying values reported on the consolidated balance sheet. The fair value of long-term debt was $215.6 million and $256.9 million, as of October 31, 1997 and 1996, respectively, as compared to carrying values at October 31, 1997 and 1996 of $212.9 million and $253.5 million, respectively.

The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities. The fair value of interest rate swaps were estimated by discounting expected cash flows using quoted market interest rates.

16. CONTINGENCIES

Quanex is subject to loss contingencies arising from federal, state, and local environmental laws. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company accrues its best estimates of its cleanup obligations and adjusts such accruals as further information develops or circumstances change. Costs of future expenditures for environmental laws might be deemed to impose joint and several liability for remediation obligations, the Company accrues its allocable share of liability taking into account the number of companies participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. It is management's opinion that the company has established appropriate reserves for environmental remediation obligations at various of its plant sites and disposal facilities. Those amounts are not expected to have a material adverse effect on the Company's financial condition. Total reserves include $20 million related to costs for further investigations, environmental remediation, and corrective actions in connection with the acquisition of Piper Impact. Actual cleanup costs at the Company's current plan sites, former plants, and disposal facilities could be more or less than the amounts accrued for remediation obligations. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals that would be material to Quanex's financial statements because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities.

17. SUBSEQUENT EVENT

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group Administrative Office ("Tubing Operations"), to Vision Metals, Inc., a new company formed by certain management of the Tubing Operations and Citicorp Venture Capital, Ltd. Under the terms of the Purchase Agreement dated December 3, 1997, the Company received cash consideration of approximately $30 million, subject to post closing adjustments. The results of operations of the Tubing Operations have been classified as discontinued operations and prior periods have been restated. For business segment reporting purposes, the Tubing Operations were previously classified as "Steel Tubes". Two small divisions, Heat Treat Division and Nitro Steel Division, which were previously included within the "Steel Tubes" segment, were retained by the Company and are now included in the "Engineered Steel Bars" segment.

Quanex Corporation
SUPPLEMENTARY FINANCIAL DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following sets forth the selected quarterly information for the years ended October 31, 1997 and 1996. The information presented has been restated to reflect LaSalle and the Tubing Operations as discontinued operations. (See Note 3 to the Consolidated Financial Statements)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands except per share amounts)			
1997:				
Net sales	$167,955	$185,999	$196,589	$195,550
Gross profit	20,732	26,265	28,807	26,671
Income from continuing operations	3,372	7,339	8,607	8,400
Income from discontinued operations	954	1,751	813	1,658
Gain on sale of discontinued operations	--	36,290	--	--
Net income	4,326	45,380	9,420	10,058
Earnings per share:				
Primary:				
Income from continuing operations	0.23	0.53	0.61	0.59
Income from discontinued operations	0.08	0.12	0.06	0.11
Gain on sale of discontinued operations	--	2.60	--	--
Earnings per primary common share	0.31	3.25	0.67	0.70
Assuming full dilution	$ 0.31	$ 2.78	$ 0.62	$ 0.65
1996:				
Net sales	$121,845	$143,497	$160,294	$194,433
Gross profit	14,728	17,955	26,409	34,091
Income from continuing operations	1,524	5,254	7,478	8,722
Income from discontinued operations	2,523	2,878	1,667	2,844
Extraordinary charge -- early extinguishment of debt	(2,522)	--	--	--
Net income	1,525	8,132	9,145	11,566
Earnings per share:				
Primary:				
Income from continuing operations	0.11	0.39	0.55	0.63
Income from discontinued operations	0.19	0.21	0.12	0.21
Extraordinary charge -- early extinguishment of debt	(.19)	--	--	--
Earnings per primary common share	0.11	0.60	0.67	0.84
Assuming full dilution	$ 0.11	$ 0.55	$ 0.61	$ 0.75

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of year	Charged to costs and expenses	Write-offs	Other	Balance at end of year
			(In thousands)		
Allowance for doubtful accounts:					
Year ended October 31, 1997	$7,703	$ 2,674	$ (39)	$ --	$10,338
Year ended October 31, 1996	$2,933	$10,449	$(5,679)	$ --	$ 7,703
Year ended October 31, 1995	$2,942	$ 445	$ (454)	$ --	$ 2,933

QUARTERLY FINANCIAL RESULTS
(from continuing operations)

	1997	1996	1995
NET SALES (millions)			
January	167.96	121.85	128.64
April	186.00	143.50	154.16
July	196.58	160.29	160.22
October	195.55	194.43	160.97
Total	746.09	620.07	603.99
GROSS PROFIT (millions)			
January	20.73	14.73	15.48
April	26.27	17.95	19.98
July	28.81	26.41	23.55
October	26.67	34.09	23.45
Total	102.48	93.18	82.46
INCOME FROM CONTINUING OPERATIONS (millions)			
January	3.37	1.52	2.30
April	7.34	5.26	6.11
July	8.61	7.48	7.57
October	8.40	8.72	7.40
Total	27.72	22.98	23.38
INCOME FROM CONTINUING OPERATIONS PER PRIMARY COMMON SHARE			
January	.23	.11	.07
April	.53	.39	.34
July	.61	.55	.48
October	.59	.63	.54
Total	1.98	1.68	1.43
QUARTERLY COMMON STOCK DIVIDENDS			
January	.15	.15	.14
April	.15	.15	.15
July	.15	.15	.15
October	.16	.15	.15
Total	.61	.60	.59
COMMON STOCK SALES PRICE (High & Low)			
January	29 1/8-24 1/4	21 1/8-18	24 5/8-20
April	27 7/8-23 3/8	22 3/8-19 5/8	23 7/8-21
July	34 1/8-25 1/8	23 7/8-19 3/8	26 5/8-22 1/8
October	36 1/2-26 1/4	28 3/4-19 5/8	26-18 5/8

SIGNATURES

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

QUANEX CORPORATION

By: /s/ WAYNE M. ROSE

Wayne M. Rose
Vice President-Finance and
Corporate Development
(Principal Financial
Officer)

By: /s/ VIREN M. PARIKH

Viren M. Parikh
Controller (Principal
Accounting Officer

Date: January 20, 1998