UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2003

OR

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

For the transition period from to .

Commission File Number 1-5725

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**38-1872178**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Class	Outstanding at April 30, 2003
Common Stock, par value $0.50 per share	16,031,494

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	April 30, 2003	October 31, 2002
ASSETS		
Current assets:		
Cash and equivalents	$ 806	$ 18,283
Accounts and notes receivable, net	125,917	116,122
Inventories	105,991	90,756
Deferred income taxes	9,301	9,302
Other current assets	3,097	1,338
Total current assets	245,112	235,801
Property, plant and equipment	788,493	773,855
Less accumulated depreciation and amortization	(444,513)	(420,723)
Property, plant and equipment, net	343,980	353,132
Goodwill, net	66,436	66,436
Cash surrender value insurance policies, net	28,641	25,799
Intangible assets	2,813	2,870
Other assets	3,472	5,102
	$ 690,454	$ 689,140
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 83,763	$ 76,588
Accrued expenses	38,800	48,973
Income taxes payable	1,311	4,839
Other current liabilities	1,375	3,970
Current maturities of long-term debt	424	434
Total current liabilities	125,673	134,804
Long-term debt	81,694	75,131
Deferred pension credits	7,048	4,960
Deferred postretirement welfare benefits	8,182	7,928
Deferred income taxes	33,064	29,210
Other liabilities	13,997	15,712
Total liabilities	269,658	267,745
Stockholders' equity:		
Preferred stock, no par value	—	—
Common stock, $.50 par value	8,260	8,227
Additional paid-in capital	187,885	185,972
Retained earnings	242,631	232,074
Unearned compensation	(223)	(418)
Accumulated other comprehensive income	(3,101)	(3,479)
	435,452	422,376
Less: Common stock held by rabbi trust	(1,685)	(981)
Less: Cost of shares of common stock in treasury	(12,971)	—
Total stockholders' equity	420,796	421,395
	$ 690,454	$ 689,140

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
Net sales	$ 254,610	$ 249,500	$ 484,119	$ 453,743
Cost and expenses:				
Cost of sales	213,368	204,371	407,493	375,413
Selling, general and administrative expense	14,340	13,697	27,595	25,861
Depreciation and amortization	12,027	11,399	24,041	22,592
Operating income	14,875	20,033	24,990	29,877
Other income (expense):				
Interest expense	(596)	(4,668)	(1,571)	(8,109)
Capitalized interest	—	803	—	1,533
Other, net	353	446	1,812	1,844
Income before income taxes	14,632	16,614	25,231	25,145
Income tax expense	(5,267)	(5,982)	(9,083)	(9,053)
Net income	$ 9,365	$ 10,632	$ 16,148	$ 16,092
Earnings per common share:				
Basic	$ 0.58	$ 0.77	$ 0.99	$ 1.18
Diluted	$ 0.58	$ 0.70	$ 0.98	$ 1.10
Weighted average shares outstanding:				
Basic	16,064	13,881	16,238	13,665
Diluted	16,286	16,107	16,470	15,848
Cash dividends per share	$ 0.17	$ 0.16	$ 0.34	$ 0.32

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)
(Unaudited)

	Six Months Ended April 30,	
	2003	2002
Operating activities:		
Net income	$ 16,148	$ 16,092
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of Piper Utah property	(405)	—
Depreciation and amortization	24,221	22,765
Deferred income taxes	3,855	2,480
Deferred pension and postretirement benefits	2,342	(1,494)
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Increase in accounts and notes receivable	(9,795)	(1,715)
Increase in inventory	(15,235)	(1,887)
Increase in accounts payable	7,175	9,556
Decrease in accrued expenses	(10,173)	(1,922)
Increase (decrease) in income taxes payable	(3,528)	1,599
Other, net	(4,791)	(424)
Cash provided by operating activities	9,814	45,050
Investment activities:		
Acquisition of Colonial Craft, net of cash acquired	—	(17,365)
Proceeds from sale of Piper Utah property	2,832	—
Capital expenditures, net of retirements	(14,812)	(20,109)
Other, net	(3,004)	(646)
Cash used for investment activities	(14,984)	(38,120)
Financing activities:		
Bank (repayments) borrowings, net	6,700	(40,000)
Prepayment of note payable	—	(7,029)
Purchase of Quanex common stock	(13,515)	—
Dividends paid on common stock	(5,379)	(4,412)
Issuance of common stock, net	1,574	20,453

Other, net	(1,687)	(1,617)
Cash used for financing activities	(12,307)	(32,605)
Decrease in cash and equivalents	(17,477)	(25,675)
Cash and equivalents at beginning of period	18,283	29,573
Cash and equivalents at end of period	$ 806	$ 3,898
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 1,508	$ 9,201
Cash paid during the period for income taxes	$ 8,852	$ 3,527
Cash received during the period for income tax refunds	$ 73	$ 101

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Significant Accounting Policies and New Accounting Pronouncements

The interim consolidated financial statements of Quanex Corporation and its subsidiaries ("Quanex" or the "Company") are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 2003 classifications.

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

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

Revenue Recognition and Allowance for Doubtful Accounts

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

Inventory

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

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

Risk Management and Derivative Instruments

The Company's current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include: (1) the use of commodity futures and options to fix the price of a portion of anticipated future purchases of certain raw materials, including aluminum scrap, and energy to offset the effect of fluctuations in the costs of those commodities, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. The Company accounts for these derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". Some of these derivative instruments qualify for the normal purchase and sale exemption. Some derivatives have not been designated as "hedges". For those derivatives, the gains and losses are realized and recorded in the statement of income as they occur. Some hedges have been designated as cash flow hedges. For those cash flow hedges, the effective portion of gains and losses is recorded in the accumulated other comprehensive income (loss) component of stockholders' equity. The Company evaluates cash flow hedges each quarter to determine if they are highly effective. Any ineffectiveness is recorded in the statement of income. If the anticipated future transactions are no longer

expected to occur, the unrealized gains and losses on the related hedge are reclassified to the consolidated statement of income. (See Note 10 to the financial statements for further explanation.)

Long-Lived Assets

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

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

Income Taxes

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

Retirement and Pension Plans

The Company sponsors a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The

discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

Stock Based Employee Compensation

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
	(In thousands)		(In thousands)	
Net income, as reported	$ 9,365	$ 10,632	$ 16,148	$ 16,092
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(378)	(325)	(735)	(651)
Pro forma net income	$ 8,987	$ 10,307	$ 15,413	$ 15,441
Earnings per common share:				
Basic as reported	$ 0.58	$ 0.77	$ 0.99	$ 1.18
Basic pro forma	$ 0.56	$ 0.74	$ 0.95	$ 1.13
Diluted as reported	$ 0.58	$ 0.70	$ 0.98	$ 1.10
Diluted pro forma	$ 0.56	$ 0.68	$ 0.94	$ 1.06

New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not

anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted this statement and included the new disclosure requirements in this report.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as "derivatives") and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The provisions of this statement are effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

2. Goodwill - - Adoption of SFAS 142

As of November 1, 2001, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. In accordance with SFAS 142, the Company completed the transitional impairment test of goodwill during the second quarter ended April 30, 2002, which indicated that goodwill was not impaired. The Company again reviewed goodwill for impairment as of August 31, 2002, which indicated that goodwill was not impaired. The Company plans to perform this annual impairment test as of August 31 each year or more frequently if certain indicators arise.

There were no changes in the carrying amount of goodwill for the six months ended April 30, 2003. Since the Company adopted SFAS No. 142 on November 1, 2001, neither the current period ended April 30, 2003 nor the prior period ended April 30, 2002 included goodwill amortization.

3. Inventories

Inventories consist of the following:

	April 30, 2003	October 31, 2002
	(In thousands)	
Raw materials	$ 26,165	$ 24,307
Finished goods and work in process	70,950	58,108
	97,115	82,415
Other	8,876	8,341
	$ 105,991	$ 90,756

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

	April 30, 2003	October 31, 2002
LIFO	$ 76,536	$ 64,269
FIFO	29,455	26,487
	$ 105,991	$ 90,756

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $8.7 million as of April 30, 2003 and $7.9 million as of October 31, 2002.

4. Acquired Intangible Assets

Intangible assets consist of the following ($ in thousands):

	As of April 30, 2003		As of October 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete Agreements	$ 313	$ 85	$ 313	$ 51
Patents	443	58	443	35
Total	$ 756	$ 143	$ 756	$ 86

Unamortized intangible assets:				
Tradename	$	2,200	$	2,200

The aggregate amortization expense for the three and six month periods ended April 30, 2003 is $31 thousand and $57 thousand, respectively. The aggregate amortization expense for the three and six month periods ended April 30, 2002 was $45 thousand. Estimated amortization expense for the next five years follows ($ in thousands):

Fiscal years ending October 31,	Estimated Amortization
2003	$ 115
2004	$ 115
2005	$ 100
2006	$ 86
2007	$ 46

5. Earnings Per Share

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

	For the Three Months Ended April 30, 2003			For the Three Months Ended April 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Total basic net earnings	$ 9,365	16,064	$ 0.58	$ 10,632	13,881	$ 0.77
Effect of Dilutive Securities						
Effect of common stock equiv. arising from stock options	—	153		—	321	
Effect of common stock held by rabbi trust	—	69		—	41	
Effect of conversion of subordinated debentures	—	—		680	1,864	
Diluted EPS						
Total diluted net earnings	$ 9,365	16,286	$ 0.58	$ 11,312	16,107	$ 0.70

	For the Six Months Ended April 30, 2003			For the Six Months Ended April 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Total basic net earnings	$ 16,148	16,238	$ 0.99	$ 16,092	13,665	$ 1.18
Effect of Dilutive Securities						
Effect of common stock equiv. arising from stock options	—	167		—	281	
Effect of common stock held by rabbi trust	—	65		—	38	
Effect of conversion of subordinated debentures	—	—		1,360	1,864	
Diluted EPS						
Total diluted net earnings	$ 16,148	16,470	$ 0.98	$ 17,452	15,848	$ 1.10

6. Comprehensive Income

Total comprehensive income for the three and six months ended April 30, 2003 is $9.4 million and $16.5 million, respectively. Total comprehensive income for the three and six months ended April 30, 2002 is $12.5 million and $18.7 million, respectively. Included in comprehensive income is net income and the effective portion of the gains and losses on derivative instruments designated as cash flow hedges.

7. Long-term Debt

In November 2002, the Company entered into a secured $200 million Revolving Credit Agreement (“Bank Agreement”). The new Bank Agreement is secured by all Company assets, excluding land and buildings. The new Bank Agreement expires November 2005 and provides for up to $25 million for standby letters of credit, limited to the undrawn amount available under the new Bank Agreement. All borrowings under the new Bank Agreement bear interest, at the option of the Company, at either (a) the prime rate or federal funds rate plus one percent, whichever is higher, or (b) a Eurodollar based rate. The new Bank Agreement requires facility fees, which are not significant, and maintenance of certain financial ratios and a minimum consolidated tangible net worth on a quarterly basis. Management believes the Company is currently in compliance with those requirements.

Long-term debt consists of the following (in thousands):

	April 30,	October 31,

	2003	2002
New Bank Agreement Revolver	$ 71,700	$ —
Old Bank Agreement Revolver	—	65,000
Temroc Industrial Development Revenue Bonds	2,326	2,425
Industrial Revenue and Economic Development Bonds	1,665	1,665
State of Alabama Industrial Development Bonds	3,800	3,800
Scott County, Iowa Indus. Waste Recycling Revenue Bonds	2,400	2,400
Other	227	275
	$ 82,118	$ 75,565
Less maturities due within one year included in current liabilities	424	434
	$ 81,694	$ 75,131

8. Industry Segment Information ($ in thousands)

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
Net Sales				
Vehicular Products	$ 118,018	$ 117,640	$ 226,950	$ 220,073
Building Products(1)	136,592	131,860	257,169	233,670
Consolidated	$ 254,610	$ 249,500	$ 484,119	$ 453,743
Operating Income (Loss)				
Vehicular Products	$ 14,336	$ 16,356	$ 24,223	$ 27,098
Building Products(1)	4,218	7,643	8,385	10,017
Corporate & Other (2)	(3,679)	(3,966)	(7,618)	(7,238)
Consolidated	$ 14,875	$ 20,033	$ 24,990	$ 29,877

	For the periods ended	
	April 30, 2003	October 31, 2002
Identifiable Assets		
Vehicular Products	$ 364,176	$ 363,559
Building Products	299,988	283,475
Corporate & Other(2)	26,290	42,106
Consolidated	$ 690,454	$ 689,140
Goodwill (Net)		
Vehicular Products	$ 13,496	$ 13,496
Building Products	52,940	52,940
Consolidated	$ 66,436	$ 66,436

(1) Fiscal 2003 results include COLONIAL CRAFT operations acquired in February 2002.
(2) Included in "Corporate and Other" are inter-segment eliminations, consolidated LIFO inventory adjustments and corporate expenses and assets.

9. Treasury Stock and Stock Option Exercises

On December 5, 2002, the Board of Directors approved a program to purchase up to a total of 1 million shares of its common stock in the open market or in privately negotiated transactions. During the six months ended April 30, 2003, the Company repurchased 438,600 shares at a cost of approximately $13.5 million. These shares were placed in treasury stock. There are currently 420,923 shares in treasury stock with a remaining carrying value of approximately $13 million.

The Company has various restricted stock and stock option plans for key employees and directors as described in its Annual Report on Form 10-K for the fiscal year ended October 31, 2002. Below is a table summarizing the stock option activity in all plans since October 31, 2002.

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 2002	602,366	940,602	$ 23
Granted		252,500	32
Exercised		(50,999)	21
Cancelled / Lapsed		(41,385)	27
Balance at April 30, 2003	585,700	1,100,718	$ 25

10. Financial Instruments and Risk Management

Metal Exchange Forward Contracts

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

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

At April 30, 2003, open LME forward contracts had maturity dates extending through September 2003. At April 30, 2003, these contracts covered notional volumes of approximately 3 million pounds and had fair values of approximately $43 thousand (gain), which is recorded as part of other current assets in the financial statements.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of April 30, 2003, net losses of approximately $74 thousand ($45 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts related to hedge ineffectiveness, are reflected in "Cost of sales" in the income statement. For the three and six months ended April 30, 2003, a net gain of $14 thousand was recognized in "Cost of sales" representing the amount of the hedges' ineffectiveness. No components of these gains and losses were excluded from the assessment of hedge effectiveness. Additionally, no hedge contracts were discontinued due to determinations that the original forecasted transactions would not occur.

Interest Rate Swap Agreements

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement Revolver to a fixed rate. The Company's risk management policy related to these swap agreements is to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the swap agreements, payments are made based on a fixed rate ($50 million at 7.025% and $50 million at 6.755%) and received on a LIBOR based variable rate (1.31% at April 30, 2003).

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

The interest rate swap agreements remain in effect until July 2003. Therefore, the fair market value of the swaps is reflected on the balance sheet in other current liabilities. Changes in the fair market value, net of the reduction due to swap settlement payments, are reflected in interest expense in fiscal 2003.

The fair value of the swaps as of April 30, 2003 was a loss of $1.4 million, which is reflected in other current liabilities. A net loss of $4 thousand and $76 thousand, respectively, was recorded in interest expense in the three and six month

periods ended April 30, 2003, representing the change in the fair market value of the swap agreements since October 31, 2002.

11. Contingencies

Quanex is subject to loss contingencies arising from federal, state, and local environmental laws. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation are not discounted to their present value. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of companies participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. It is management's opinion that the Company has established appropriate reserves for environmental remediation obligations at various of its plant sites and disposal facilities. Those amounts are not expected to have a material adverse effect on the Company's financial condition. Total remediation reserves, at April 30, 2003, were approximately $17 million. These reserves include, without limitation, the Company's best estimate of liabilities related to costs for further investigations, environmental remediation, and corrective actions related to the acquisition of Piper Impact, the acquisition of Nichols Aluminum Alabama and the Company's former Tubing Operations. Actual cleanup costs at the Company's current plant sites, former plants, and disposal facilities could be more or less than the amounts accrued for remediation obligations. Because of uncertainties as to the extent of environmental impact and concurrence of governmental authorities, 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.

As reported in its annual report dated October 31, 2002, the Company filed a petition in Tax Court over the disallowance of a 1997 capital loss by the IRS. A September 2003 trial date has now been set. The disputed taxes of $13.5 million, as well as penalties and interest have been adequately provided for in the financial statements.

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

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

General

The discussion and analysis of Quanex Corporation and its subsidiaries’ (the “Company's”) financial condition and results of operations should be read in conjunction with the April 30, 2003 and October 31, 2002 Consolidated Financial Statements of the Company and the accompanying notes.

Private Securities Litigation Reform Act

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

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

Results of Operations

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2003		2002		2003		2002	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
Net Sales	$ 254.6	100	$ 249.5	100%	$ 484.1	100	$ 453.7	100%
Cost of Sales	213.4	84	204.4	82	407.5	84	375.4	83
Selling, general and administrative	14.3	5	13.7	5	27.6	6	25.9	5
Depreciation and amortization	12.0	5	11.4	5	24.0	5	22.5	5
Operating Income	14.9	6%	20.0	8%	25.0	5%	29.9	7%
Interest Expense	(0.6)		(4.7)	(2)	(1.6)		(8.1)	(1)
Capitalized Interest	—	—	.8				1.5	—
Other, net	0.4	—	.4		1.8	—	1.8	—
Income tax expense	(5.3)	(2)	(5.9)	(2)	(9.1)	(2)	(9.0)	(2)
Net income	$ 9.4	4%	$ 10.6	4%	$ 16.1	3%	$ 16.1	4%

Overview

Quanex’s quarter ended April 30, 2003 included record second quarter net sales; however, operating results fell short of expectations. While MACSTEEL had a good quarter, Engineered Products business was much slower than expected due to a harsh winter season which slowed its customers’ activities in key market regions. Normally, the Company’s Engineered Products business ramps up early in the second quarter, but this year the spring thaw came much later and order rates didn’t begin to strengthen until recently. Additionally, during the quarter, Nichols Aluminum Alabama – Decatur facility experienced quality problems associated with the upgrade of a paint line. Fortunately, production issues were resolved during the second quarter and painted product sales for the third quarter are expected to be greater than last year.

Business Segments

Quanex has two market focused segments: Vehicular Products and Building Products. The Vehicular Products segment is comprised of MACSTEEL, Piper Impact and Temroc. The Vehicular segment’s main driver is North American light vehicle builds. The Building Products segment is comprised of Nichols Aluminum and Engineered Products. The main drivers of this segment are residential housing starts and remodeling expenditures.

The following table sets forth selected operating data for the Company’s two business segments:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2003	2002	2003	2002
	(In millions)		(In millions)	
Vehicular Products:				
Net sales	$ **118.0**	$ 117.6	$ **227.0**	$ 220.1
Operating income	**14.3**	16.4	**24.2**	27.1
Depreciation and amortization	**7.7**	7.1	**15.3**	14.3
Identifiable assets	$ **364.2**	$ 366.1	$ **364.2**	$ 366.1
Building Products:(1)				
Net sales	$ **136.6**	$ 131.9	$ **257.2**	$ 233.7
Operating income	**4.2**	7.6	**8.4**	10.0
Depreciation and amortization	**4.3**	4.1	**8.6**	8.1
Identifiable assets	$ **300.0**	$ 287.4	$ **300.0**	$ 287.4

(1) Fiscal 2003 results include COLONIAL CRAFT operations acquired February 12, 2002.

Vehicular Products

Within the Vehicular Products segment, MACSTEEL experienced a good second quarter and clearly outperformed their markets, despite the fact that North American builds were down 4% for the second quarter versus a year ago. Both net sales and operating income were up slightly over last year's period. Solid operating performance, a richer mix and some price relief enabled MACSTEEL to overcome significant year-over-year scrap and energy cost increases. Toward the end of the second quarter, MACSTEEL's backlog dropped and we entered the third quarter with softer releases compared to last quarter and a year ago, consistent with reductions in the OEMs' recent build rates. Nevertheless, Phase VI, the value-added MACPLUS program, is essentially sold out and management is exploring opportunities to incrementally increase capacity.

Offsetting MACSTEEL's earnings improvement were operating losses at Piper Impact and Temroc. Piper Impact results continue to be negatively impacted by the drop in demand for its aluminum airbag components which was only partially offset by sales of new products.

Building Products

Engineered Products results for the quarter were well below expectations. Many of its larger door and window customers serve the Midwest and Northeast

markets which were severely impacted by a long, wet and cold winter season. Business conditions remained slow until recently.

Nichols Aluminum results for the quarter had the benefit of strong volume levels, higher selling prices and improved spreads versus a year ago. Those benefits, however, were more than offset by poor operating performance at the Decatur, Alabama finishing facility which negatively impacted margins for the Building Products segment. A capital project of about $2 million was approved last year to allow the business to ramp up capacity of its existing paint line. However, due to a number of unexpected problems, low quality painted coil was produced and shipped that did not meet the high quality requirements of customers. During the second quarter, management changes were made, quality was restored, and the Company is currently working closely with customers to sort out any remaining issues. A reserve has been set up for customer returns related to this problem.

Fiscal Quarter and Six Months ended April 30, 2003 vs. 2002

Net Sales - Consolidated net sales for the three and six month periods ended April 30, 2003 were $254.6 million and $484.1 million, respectively, representing an increase of $5.1 million, or 2%, and $30.4 million, or 7%, when compared to consolidated net sales for the same periods in 2002. Both the Vehicular and Building Products segments experienced increased net sales.

Net sales from the Company's Vehicular Products segment for the three and six month periods ended April 30, 2003, was $118.0 million and $227.0 million, respectively, representing an increase of $0.4 million, or less than 1%, and $6.9 million, or 3%, when compared to the same periods last year. MACSTEEL had increased net sales for the three month period as compared to the same prior year period due largely to increased average selling price and slightly higher volume than the previous year's levels. For the six month period ended April 30, 2003, both volume and average selling price contributed to increased net sales as volume was up approximately 5%. The increased average selling price resulted from a combination of selling more of the value added MACPLUS product as well as pricing increases that became effective early in the calendar year. The increased volume resulted from strong demand for light vehicles in the first three months of the year, as well as new product programs and market share gains.

Piper experienced lower net sales as aluminum airbag component sales continued to decline from its prior year levels. This decline was partially offset by increased sales of new products.

Net sales from the Company's Building Products segment for the three and six month periods ended April 30, 2003, was $136.6 million and $257.2 million, respectively, representing an increase of $4.7 million, or 4%, and $23.5 million, or 10%, when compared to the same periods last year. Within the Building Products segment, Engineered Products' net sales decreased for the three months ended April 30, 2003 compared to the prior year due to severe winter weather conditions in the Northeast and Midwest building products markets. For the six months ended April 30, 2003, net sales increased due largely to the inclusion of a full period of results of COLONIAL CRAFT acquired in February 2002. Net sales combined for the other Engineered Products business units, excluding COLONIAL CRAFT, were down slightly for the current six month period, primarily due to the winter weather. Nichols Aluminum's net sales, however, increased from the same prior year periods due to increased volume resulting from continuing strength in the building construction markets they serve, as well as higher selling prices.

Operating income - Consolidated operating income for the three and six month periods ended April 30, 2003 was $14.9 million and $25.0 million, respectively, representing a decrease of $5.2 million, or 26%, and $4.9 million, or 16%, when compared to the same periods last year. Both the Vehicular

Products and Building Products segments experienced decreased operating income.

Operating income from the Company's Vehicular Products segment for the three and six months ended April 30, 2003, was $14.3 million and $24.2 million, respectively, representing a decrease of $2.0 million, or 12%, and $2.9 million, or 11%, when compared to the same periods last year. This decrease was largely

due to 1) a loss at Piper as a result of the decline in demand for aluminum airbag components which has not been offset by cost reduction initiatives and 2) weaker performance at Temroc than in the prior year. MACSTEEL, however, experienced higher operating income for the three and six month periods ended April 30, 2003 compared to the prior year. The increase can be attributed to higher net sales and lower outside processing costs (due to capital expansions) which more than offset higher material scrap costs, labor costs, energy costs and depreciation expense.

Operating income from the Company's Building Products segment for the three and six months ended April 30, 2003, was $4.2 million and $8.4 million, respectively, representing a decrease of $3.4 million, or 45%, and $1.6 million, or 16%, when compared to the same periods last year. Both the Engineered Products business and Nichols Aluminum business had lower operating income. Engineered Products' decreased operating income can largely be attributed to lower net sales, excluding the incremental sales of COLONIAL CRAFT acquired in February 2002. At Nichols Aluminum, the benefit of good volumes, slightly higher prices and improved spreads versus the prior year were more than offset by higher energy and outside processing costs and production and quality problems at the Nichols Aluminum Alabama facility. The Alabama finishing plant experienced problems with an upgrade to that facility's paint line. Painted coil was produced and shipped, but did not meet high quality requirements of customers. During the second quarter, quality was restored, and the Company is currently working closely with customers sorting out remaining issues. A reserve has been set up for customer returns related to this problem.

In addition to the two operating segments mentioned above, corporate level operating expenses for the three months ended April 30, 2003, were $3.7 million, representing a decrease of $0.3 million, or 7%, compared to the same prior year period. Corporate level operating expenses for the six months ended April 30, 2003, were $7.6 million, representing an increase of $0.4 million, or 5%, compared to the same prior year period. Included in corporate expenses are the consolidated LIFO inventory adjustments, corporate office expenses and inter-segment eliminations. Also included for the three months ended April 30, 2003 was a gain of $0.4 million on the sale of the Piper Utah facility which has not been in operations and was held for sale. (See Note 3 to the financial statements regarding LIFO valuation method of inventory accounting.)

Selling, general and administrative expense was $14.3 million and $27.6 million, respectively, for the three and six months ended April 30, 2003 representing an increase of $0.6 million, or 5%, and $1.7 million, or 7%, when compared to the same periods last year. The increase for the three months ended April 30, 2003 was largely a result of severance accruals and consulting costs at Nichols Aluminum. Additionally, the six month period ended April 30, 2003 included the results of COLONIAL CRAFT acquired in February 2002 for the entire period.

Depreciation and amortization - Depreciation and amortization expense increased $0.6 million and $1.4 million, respectively, for the three and six month periods ended April 30, 2003 as compared to the same prior year periods. The increase was largely due to recently completed capital projects at MACSTEEL as well as the acquisition of COLONIAL CRAFT in February 2002.

Interest expense for the three and six months ended April 30, 2003 was $0.6 million and $1.6 million, respectively, compared to $4.7 million and $8.1 million from the same periods last year. The decrease in interest expense is due largely to the Company's outstanding debt balance substantially decreasing year over year as 1) the 6.88% convertible subordinated debentures were converted to Company stock and/or redeemed in June of 2002, 2) lower Bank Revolver balances and 3) the payback of principal for other interest bearing debt and notes.

Another factor that contributed to the decrease in interest expense was the interest rate swap agreement. With the execution of the new Bank Agreement in November 2002, the interest rate swaps no longer qualified as a hedge. As a result, the Company discontinued hedge accounting under SFAS 133 on the swaps after the effective date of the new Bank Agreement and reclassified the related portion of other comprehensive income to interest expense in the fiscal quarter

ended October 31, 2002. The interest rate swap agreements remain in effect until July 2003.

During the prior year's six months ended April 30, 2002, losses related to the swap agreement were reclassified out of other comprehensive income into interest expense as interest payments were made. This reclassification did not occur in the six months ended April 30, 2003 since it was all taken in the prior year. (See Note 10 to the financial statements for further discussion.)

Capitalized interest for the prior year's three and six months ended April 30, 2002 was due to the long-term capital expansion programs underway at MACSTEEL at that time. There were no long-term capital expansion programs underway during the first six months ended April 30, 2003 and therefore no capitalized interest.

Net income was $9.4 million and $16.1 million for the three and six month periods ended April 30, 2003, compared to $10.6 million and $16.1 million for the same periods of 2002.

Outlook

The Company's two target markets are vehicular products and building products. North American light vehicle builds year-to-date are below year-ago levels and the OEMs' calendar second quarter build rates are now projected to be 10% below last year. As a result, for the third quarter, the Company expects MACSTEEL to report slightly lower results compared to a year ago. Share gains, higher prices and scrap surcharges will be a plus in the third quarter compared to last year, but will probably be offset by lower volume and higher scrap costs. Demand is projected to rebound slightly later in the quarter.

Within the Building Products segment, the Company now expects Nichols to post flat sales and lower operating income for the third quarter. Rising scrap prices, with little change in mill finish selling prices, will negatively impact their results. Business activity at Engineered Products has returned to the

healthy levels expected for this time of year and management anticipates third quarter results to be similar to a year ago. New housing starts for 2003 are expected to be down about 5% from last year while remodeling expenditures are expected to be in line with 2002.

Because of the current uncertainty in the economy, near term results cannot be easily forecasted. At this point, it is difficult to predict what North American light vehicle build rates will be for the remainder of 2003. In addition, the Company also experienced further tightening in spread due to tight scrap supplies, particularly for its aluminum scrap. Based on the factors discussed above, a broader earnings range is prudent. Therefore, the Company now expects its third quarter diluted earnings per share to be in the range of $0.65 to $0.80. For fiscal 2003, the Company now expects diluted earnings per share to be in the range of $2.65 to $2.90.

Liquidity and Capital Resources

Sources of Funds

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its secured $200 million Revolving Credit Agreement. At April 30, 2003, the Company had $71.7 million borrowed under the Bank Agreement. This represents a $6.7 million increase from October 31, 2002 borrowing levels. There have been no significant changes to the terms of the Company's debt structure during the three month period ended April 30, 2003.

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

The Company's working capital (current assets less current liabilities excluding current maturities of debt) was $119.9 million at April 30, 2003 compared to $101.4 million at October 31, 2002. The change in working capital was largely a result of: a) the $9.8 million increase in accounts and notes receivable from the October 31, 2002 balance as the number of days sales outstanding increased due to seasonal payment term extensions for certain customers, as well as certain customers not taking early payment discounts, b) the $15.2 million increase in inventory balances with Nichols Aluminum building inventory in preparation for the seasonally strong summer months, MACSTEEL building inventory in preparation for the scheduled July shutdown as well as certain of MACSTEEL's customers delaying delivery of product and c) the $7.2 million increase in accounts payable due largely to higher scrap prices and capital projects at Nichols Aluminum. Also included in the working capital change was the decrease in cash, accrued expenses, income taxes payable and other current liabilities due to timing of payments on normal trade and other obligations.

Operating Activities

Cash provided by operating activities during the six months ended April 30, 2003 was $9.8 million compared to $45.1 million for the same six month period of 2002. This decrease is largely due to higher working capital requirements compared to the same prior year period as discussed above.

Investment Activities

Net cash used for investment activities during the six months ended April 30, 2003 was $15.0 million compared to $38.1 million for the same period of 2002. Investment activities for the six months ended April 30, 2002 included the acquisition of COLONIAL CRAFT for $17.4 million. Additionally, capital expenditures decreased from $20.1 million in the six months ended April 30, 2002 to $14.8 million in the same period of the current year. This decline was largely due to reduced spending at MACSTEEL, partially offset by increased spending at Nichols Aluminum and Engineered Products. The Company estimates that fiscal 2003 capital expenditures will be approximately $35 million. At April 30, 2003, the Company had commitments of approximately $10 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations.

Financing Activities

Net cash used for financing activities for the six months ended April 30, 2003 was $12.3 million compared to $32.6 million during the same prior year period. The Company borrowed $6.7 million in the six months ended April 30, 2003, compared to debt and note repayments totaling $47 million during the six months of fiscal 2002. During the six months ended April 30, 2003, the Company paid $13.5 million to repurchase shares of its common stock. Additionally, Quanex received $1.6 million in the six months ended April 30, 2003 for the issuance of common stock ($1.1 million from option exercises). For the prior year's six months ended April 30, 2002, the Company received $20.5 million for the issuance of common stock ($16.9 million from option exercises).

On February 26, 2003, the board of directors of the Company authorized an annual dividend increase of $.04 per common share outstanding, increasing the annual dividend from $.64 to $.68, or $.01 per quarter. This increase was effective with the Company's first quarter dividend paid on March 31, 2003 to shareholders of record on March 14, 2003.

Critical Accounting Policies

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

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

Revenue Recognition and Allowance for Doubtful Accounts

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

Inventory

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

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

Risk Management and Derivative Instruments

The Company's current risk management strategies include the use of derivative instruments to reduce certain risks. The critical strategies include: (1) the use of commodity futures and options to fix the price of a portion of anticipated future purchases of certain raw materials, including aluminum scrap, and energy to offset the effect of fluctuations in the costs of those commodities, and (2) the use of interest rate swaps to fix the rate of interest on a portion of floating rate debt. The Company accounts for these derivative instruments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". Some of these derivative instruments qualify for the normal purchase and sale exemption. Some derivatives have not been designated as "hedges". For those derivatives, the gains and losses are realized and recorded in the statement of income as they occur. Some hedges have been designated as cash flow hedges. For those cash flow hedges, the effective portion of gains and losses is recorded in the accumulated other comprehensive income (loss) component of stockholders' equity. The Company evaluates cash flow hedges each quarter to determine if they are highly effective. Any ineffectiveness is recorded in the statement of income. If the anticipated future transactions are no longer expected to occur, the unrealized gains and losses on the related hedge are reclassified to the consolidated statement of income. (See Note 10 to the financial statements for further explanation.)

Long-Lived Assets

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

Income Taxes

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

Retirement and Pension Plans

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

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible, long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred by capitalizing it as part of the carrying amount of the long-lived assets. The provisions of this Statement are required to be applied starting with fiscal years beginning after June 15, 2002 (Quanex's fiscal year beginning November 1, 2002). There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement establishes a single accounting model for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. There was no material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company does not anticipate any material impact on the its financial position, results of operations, or cash flows as a result of adoption.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has adopted this statement and included the new disclosure requirements in this report.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". The provisions of this statement are effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The Company does not anticipate any material impact on the Company's financial position, results of operations, or cash flows as a result of adoption.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward-looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward-looking information.

Interest Rate Risk

The Company holds certain floating-rate obligations. The exposure of these obligations to increases in short-term interest rates is limited for $100 million of this variable rate debt by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate, thus limiting the potential impact that increasing interest rates would have on earnings. Under these swap agreements, payments are made based on a fixed rate ($50 million at 7.025%, and $50 million at 6.755%) and received on a LIBOR based variable rate (1.31% at April 30, 2003). At April 30, 2003 and October 31, 2002, the fair market value related to the interest rate swap agreements was a loss of $1.4 million and $4.0 million, respectively. These swap agreements expire in July of 2003. The final settlement payment has been set based on April 29, 2003 LIBOR rates. There will be no impact to the fair market value of these swaps if the floating LIBOR rates change from April 30, 2003 levels.

Commodity Price Risk

The Company's aluminum mill sheet producer, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its

customers. In an effort to reduce the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments as well as forward contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, net of fixed price purchase commitments.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

At April 30, 2003, the Company had open futures contracts with fair values of approximately $43 thousand (net gain) which was recorded as part of other current assets. At April 30, 2003, these contracts covered a notional volume of 3.1 million pounds of aluminum. A hypothetical 10% change from the April 30, 2003 average forward London Metal Exchange ("LME") ingot price of $.6205 per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately $195 thousand. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap.

Other than the items mentioned above, there were no other material quantitative or qualitative changes during the six months of fiscal 2003 in the Company's market risk sensitive instruments.

Item 4. Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer of Quanex have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14[c] and 15d-14[c] under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

There were no significant changes in Quanex's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

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

On February 26, 2003, the Company held its Annual Meeting of Stockholders (the "Annual Meeting").

At the Annual Meeting, Donald G. Barger, Jr. and Raymond A. Jean were elected as directors for a three-year term until the Annual Meeting of Stockholders in 2006. The following sets forth the number of shares that voted for and for which votes were withheld of each of such persons:

	For	Withheld
Donald G. Barger, Jr.	13,634,035	1,110,534
Raymond A. Jean	13,512,098	1,232,471

Additionally, at the Annual Meeting, the 1996 Employee Stock Option and Restricted Stock Plan was amended. The following sets forth the number of shares that voted for, against, and those which abstained:

For	Against	Abstain
10,244,701	2,734,345	167,873

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

a) Exhibits

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
3.1	Restated Certificate of Incorporation of the Registrant dated as of November 10, 1995, filed as Exhibit 3.1 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1995 and incorporated herein by reference.
3.2	Certificate of Amendment to Restated Certificate of Incorporation of the Registrant dated as of February 27, 1997, filed as Exhibit 3.2 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.3	Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant dated as of April 15, 1999, filed as Exhibit 3.3 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.4	Certificate of Correction of Amendment to Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated as of April 16, 1999, filed as Exhibit 3.4 of the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) for the fiscal year ended October 31, 1999 and incorporated herein by reference.
3.5	Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999 filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the fiscal quarter ended July 31, 1999, and incorporated herein by reference.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1987, and incorporated herein by reference.
4.2	Second Amended and Restated Rights agreement dated as of April 15, 1999, between the Registrant and American Stock Transfer & Trust Co. as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (Reg. No. 001-05725) dated April 15, 1999, and incorporated herein by reference.
4.3	Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-05725) for the quarter ended April 30, 1992, and incorporated herein by reference.

4.4	Revolving Credit Agreement dated as of November 26, 2002, by and among Quanex Corporation, the financial institutions from time to time signatory thereto and Comerica Bank, as agent for the banks filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (Reg. No. 001-05725) dated October 31, 2002. Certain schedules and exhibits to this Revolving Credit Agreement were not filed with this exhibit. The Company agrees to furnish supplementally any omitted schedule or exhibit to the SEC upon request.
4.5	First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q, dated January 31, 2003.
*10.1	Amendment to the Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, effective December 5, 2002.
*10.2	Agreement to Terminate the Quanex Corporation 1997 Non-Employee Director Stock Option Plan, effective December 5, 2002.

*10.3 Agreement to Freeze the Quanex Corporation Non-Employee Director Retirement Plan, effective December 5, 2002.

*99.1 Certification by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*99.2 Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Filed herewith

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

b) Reports on Form 8-K

On May 29, 2003, the Company filed a Current Report on Form 8-K which included a press release reporting its earnings results for the second quarter ended April 30, 2003. The press release was incorporated by reference as Exhibit 99.1 to that filing.

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

QUANEX CORPORATION

/s/ Terry M. Murphy

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

Date: June 4, 2003

/s/ Ricardo Arredondo

Ricardo Arredondo
Vice President - Corporate Controller
(Principal Accounting Officer)

Date: June 4, 2003

CERTIFICATIONS

I, Raymond A. Jean, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
    a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 4, 2003

/s/ RAYMOND A. JEAN

RAYMOND A. JEAN
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

I, Terry M. Murphy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
    a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    b. Evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and
    c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control; and
6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 4, 2003

/s/ TERRY M. MURPHY

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

INDEX TO EXHIBITS

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4.5	First Amendment to Security Agreement, dated February 17, 2003, effective November 26, 2002, filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-Q, dated January 31, 2003.
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*99.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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

WITNESSETH:

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

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

WHEREAS, the directors of the Company have approved resolutions to amend the Plan to increase the number of shares of the Company's Common Stock, $.50 par value, by 1,200,000 shares and to permit non-employee directors of the Company to participate in the Plan.

NOW, THEREFORE, effective December 5, 2002, the Company agrees that, subject to and contingent upon the approval of this Agreement by the Company's stockholders, the Plan is hereby amended to provide as follows:

(1) Section 1 of the Plan is amended in its entirety to provide as follows:

SECTION 1. Purpose

The purpose of the Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan is to promote the interests of Quanex Corporation (the "Company") and its shareholders by providing it with a mechanism to enable the Company and its subsidiaries to attract, retain and motivate their key employees and directors with compensatory arrangements and benefits that make use of the Company's stock so as to provide for or increase the proprietary interests of such employees and directors in the Company.

(2) Paragraph (H) of Section 2 of the Plan is amended in its entirety to provide as follows:

(H) **"Disability"** shall mean, in the case of an Employee, a mental or physical disability which, in the opinion of a physician selected by the Committee, shall prevent the Employee from earning a reasonable livelihood with the Company or any Subsidiary and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months and which: (a) was not contracted, suffered or incurred while the Employee was engaged in, or did not result from having engaged in, a felonious criminal enterprise; (b) did not result from alcoholism or addiction to narcotics; and (c) did not result from an injury incurred while a member of the Armed Forces of the United States for which the Employee receives a military pension. "*Disability*" shall mean, in the case of a non-employee director of the Company, a mental or physical disability of the director which, in the opinion of a physician selected by the Chief Executive Officer of the Company, (i) shall prevent the director from adequately performing his services as a director of the Company and (ii) can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months.

(3) Paragraph (V) of Section 2 of the Plan is amended in its entirety to provide as follows:

(V) **"Retire"** or **"Retirement"** shall mean, in the case of an Employee, retirement in accordance with the terms of a retirement plan that is qualified under Section 401(a) of the Code and maintained by the Company or a Subsidiary in which the employee is a participant. "*Retire*" or "*Retirement*" shall mean, in the case of a non-employee director, the cessation of the director's services as a director of the Company after completing either two full terms or six years of service as a director of the Company.

(4) Section 3 of the Plan is amended in its entirety to provide as follows:

SECTION 3. Stock Subject to the Plan

The total amount of the Common Stock with respect to which Awards may be granted shall not exceed in the aggregate 2,550,000 shares. The class and aggregate number of shares which may be subject to the Options granted under the Plan shall be subject to adjustment under Section 7. The class and aggregate number of shares which may be subject to the Restricted Stock Awards granted under the Plan shall also be subject to adjustment under Section 8. Shares may be treasury shares or authorized but unissued shares. If any Award under the Plan shall expire or terminate for any reason without having been exercised in full, or if any Award shall be forfeited, the shares subject to the unexercised or forfeited portion of such Award shall again be available for the purposes of the Plan.

(5) Section 5 of the Plan is amended in its entirety to provide as follows:

SECTION 5. Eligibility

The individuals who shall be eligible to participate in the Plan shall be those full-time key Employees and directors, as the Committee shall determine during the term of the Plan.

No Employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the corporation employing the Employee or of its parent or subsidiary corporation shall be eligible to receive an Option which is an Incentive Stock Option unless at

the time that the Option is granted the option price is at least 110% of the Fair Market Value of the Common Stock at the time the Option is granted and the Option by its own terms is not exercisable after the expiration of five years from the date the Option is granted.

An Employee will be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants. Stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust will be considered as being owned proportionately by or for its shareholders, partners or beneficiaries. For all purposes of the Plan, a parent corporation is any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, on the date of grant of the Option in question, each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in that chain; and a subsidiary corporation is any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, on the date of grant of the Option in question, each of the corporations, other than the last corporation in the chain, owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in that chain.

(6) Paragraph A of Section 7 of the Plan is amended in its entirety to provide as follows:

A. **Authority to Grant Options**. The Committee may grant an Incentive Stock Option at any time during the term of the Plan to any key Employee that it chooses. The Committee may grant a Non-Incentive Stock Option at any time during the term of the Plan to any director of the Company or to any key Employee that it chooses. Each Option granted shall be approved by the Committee. Subject only to any applicable limitations set forth in the Plan, the number of shares of Common Stock to be covered by an Option shall be as determined by the Committee.

(7) Paragraph E of Section 7 of the Plan is amended in its entirety to provide as follows:

E. **Amount Exercisable**. The usual form of agreement granting an Option (whether Incentive or Non-Incentive) shall, subject to any limitation on exercise contained in the Agreement which is not inconsistent with the Plan, contain the following terms of exercise:

(a) No Option granted under the Plan may be exercised until an optionee has completed one year of continuous employment with the Company or any Subsidiary following the date of grant, or, in the case of an Option awarded in consideration of the optionee serving as a director of the Company, until he has served as a director on the Board for one year following the date of grant;

(b) beginning on the day after the first anniversary of the date of grant, an Option may be exercised up to 1/3 of the shares subject to the Option;

(c) after the expiration of each succeeding anniversary date of the date of grant, the Option may be exercised up to an additional 1/3 of the shares subject to the Option, so that after the expiration of the third anniversary of the date of grant, the Option shall be exercisable in full; and

(d) to the extent not exercised, installments shall be cumulative and may be exercised in whole or in part until the Option expires on the tenth anniversary of the date of the grant.

However, the Committee, in its discretion, may change the terms of exercise so that any Option may be exercised so long as it is valid and outstanding from time to time in part or as a whole in such manner and subject to such conditions as it may set. In addition, the Committee, in its discretion, may accelerate the time in which any outstanding Option may be exercised. But in no event shall any Option be exercisable after the tenth anniversary of the date of the grant.

(8) Paragraph H of Section 7 of the Plan is amended in its entirety to provide as follows:

H. **Termination of Employment or Affiliation Relationship of Optionee**. Except as may be otherwise expressly provided herein with respect to an Option that is a Non-Incentive Stock Option, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of severance of the employment or affiliation relationship between the Company and the optionee, whether with or without cause, for any reason other than the death, Disability or, in the case of Non-Incentive Stock

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

assuming an option" shall be substituted for the word "Company" in the definitions of parent and subsidiary corporations in Section 5 and the parent-subsidiary relationship shall be determined at the time of the corporate action described in Section 424(a) of the Code.

In the event of the death, Disability or Retirement of a holder of a Non-Incentive Stock Option, before the date of expiration of such Non-Incentive Stock Option, such Non-Incentive Stock Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, for a period of not more than three years commencing on the date of the optionee's death, Disability or Retirement and shall terminate on the earlier of the date of the expiration of such three-year period or the date of expiration of the Non-Incentive Stock Option. After the death of the optionee, his executors, administrators or any person or persons to whom his Non-Incentive Stock Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Non-Incentive Stock Option to exercise

the Non-Incentive Stock Option, in respect to the number of shares that the optionee would have been entitled to exercise if he were still alive. Notwithstanding the foregoing provisions of this Section, in the case of a Non-Incentive Stock Option the Committee may provide for a different option termination date in the Option Agreement with respect to such Option.

For purposes of the Plan, a person is "affiliated" with the Company if he is serving as a non-employee director on the Board.

(9) Paragraph A of Section 8 of the Plan is amended in its entirety to provide as follows:

A. **Awards.** The Committee may make an Award of Restricted Stock to selected eligible Employees and directors. The amount of each Restricted Stock Award and the respective terms and conditions of each Award (which terms and conditions need not be the same in each case) shall be determined by the Committee in its sole discretion. However, the terms and conditions of an Award shall not be inconsistent with the terms of the Plan.

(10) Paragraph C of Section 8 of the Plan is amended in its entirety to provide as follows:

C. **Vesting of Restricted Stock.** Restricted Stock Awards shall be subject to such vesting restrictions, if any, as the Committee shall determine in its sole discretion; provided that any Restricted Stock Award that is granted to a person who is then subject to the reporting and short-swing profit provisions of Section 16 of the Exchange Act and the rules thereunder shall vest no earlier than six months following the date on which the Restricted Stock is deemed awarded for purposes of such provisions.

(11) Section 15 of the Plan is amended in its entirety to provide as follows:

SECTION 15. Section 83(b) Elections.

No Award recipient shall exercise the election permitted under Section 83(b) of the Code with respect to an Award without written approval of the Committee. If the Committee permits such an election with respect to any Award, the Company shall require the Award recipient to pay the Company an amount necessary to satisfy the Company's tax withholding obligation.

Exhibit 10.2

AGREEMENT TO TERMINATE THE QUANEX CORPORATION 1997 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

This **TERMINATION AGREEMENT** by Quanex Corporation, a Delaware corporation (the "Company"),

WITNESSETH:

WHEREAS, the Company maintains the Quanex Corporation 1997 Non-Employee Director Stock Option Plan (the "Plan") for the benefit of its non-employee directors; and

WHEREAS, the Company has determined to terminate the Plan effective December 5, 2002;

NOW, THEREFORE, effective as of December 5, 2002, the Plan is hereby terminated so that no further stock options shall be granted under the Plan after December 5, 2002. The Plan shall remain in effect as to all stock options outstanding as of December 5, 2002, until such options lapse or are exercised in accordance with the terms of the Plan.

Approved by the Board of Directors: December 5, 2002

Exhibit 10.3

**AGREEMENT TO FREEZE THE QUANEX CORPORATION
NON-EMPLOYEE DIRECTOR RETIREMENT PLAN**

This **FREEZE AGREEMENT** by Quanex Corporation, a Delaware corporation (the "Company"),

WITNESSETH:

WHEREAS, the Company maintains the Quanex Corporation Non-Employee Director Retirement Plan (the "Plan") for the benefit of its non-employee directors; and

WHEREAS, the Company has determined to freeze the Plan effective December 5, 2002;

NOW, THEREFORE, as of December 5, 2002, Section 3 of the Plan is hereby amended to provide as follows:

3. Termination of Payment. The Company shall pay the Retirement Amount annually for a period equal to the aggregate length of time the director served on the Board of Directors up to December 5, 2002 (not including time served when a full-time employee of the Company), such period to be rounded up to the next full year; provided that the Company's obligation shall earlier terminate (i) upon the death of the director, (ii) upon the termination of this Plan as to all then current and retired directors, in which case payment shall be made to all eligible retired directors for the year in which the termination of this Plan occurs and two additional years, or (iii) upon determination of the Board of Directors that the retired director is serving as a director, officer or employee of a competitor of the Company and the continuation of such relationship after 15 days written notice of such determination to the retired director.

Approved by the Board of Directors: December 5, 2002

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PUSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report of Quanex Corporation (the "Company") on Form 10-Q for the period ended April 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry M. Murphy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Terry M. Murphy

Terry M. Murphy
Chief Financial Officer
June 4, 2003

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PUSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

NOT FILED PURSUANT TO THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Quarterly Report of Quanex Corporation (the “Company”) on Form 10-Q for the period ended April 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Raymond A. Jean, Chief Executive Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Raymond A. Jean

Raymond A. Jean
Chief Executive Officer
June 4, 2003