

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**  
SEC Accession No. **0000950129-99-004044**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### QUANEX CORP

CIK: **276889** | IRS No.: **381872178** | State of Incorporation: **DE** | Fiscal Year End: **1031**  
Type: **10-Q** | Act: **34** | File No.: **001-05725** | Film No.: **99708959**  
SIC: **3312** Steel works, blast furnaces & rolling mills (coke ovens)

Mailing Address  
1900 WEST LOOP SOUTH  
SUITE 1500  
HOUSTON TX 77027

Business Address  
1900 W LOOP SOUTH STE  
1500  
ATTN THOMAS M BEWLEY  
HOUSTON TX 77027  
7139614600

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 July 31, 1999

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-5725

QUANEX CORPORATION

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

38-1872178

-----  
(State or other jurisdiction of  
incorporation or organization)

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

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

-----  
(Address of principal executive offices and zip code)

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

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

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

Class	Outstanding at July 31, 1999
----- Common Stock, par value \$0.50 per share	----- 14,267,458

QUANEX CORPORATION  
INDEX

<TABLE>  
<CAPTION>

<S>  
Part I. Financial Information:

Page No.  
-----  
<C>

Item 1: Financial Statements	
Consolidated Balance Sheets - July 31, 1999 and October 31, 1998.....	1
Consolidated Statements of Income - Three and Nine Months Ended July 31, 1999 and 1998 .....	2
Consolidated Statements of Cash Flow - Nine months Ended July 31, 1999 and 1998 .....	3
Notes to Consolidated Financial Statements.....	4 - 7
Item 2: Management's Discussion and Analysis of Results of Operations and Financial Condition .....	8 - 17
Item 3: Quantitative and Qualitative Disclosure about Market Risk .....	18
Part II. Other Information	
Item 1: Legal Proceedings.....	18
Item 6: Exhibits and Reports on Form 8-K.....	18

</TABLE>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

<TABLE>  
<CAPTION>

	July 31, 1999	October 31, 1998
	----- (Unaudited)	----- (Audited)
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and equivalents .....	\$ 41,863	\$ 26,279
Accounts and notes receivable, net .....	78,918	85,166
Inventories .....	81,824	85,397
Deferred income taxes .....	12,008	11,560
Prepaid expenses .....	2,357	1,410
	-----	-----
Total current assets .....	216,970	209,812
Property, plant and equipment .....	737,689	702,955
Less accumulated depreciation and amortization .....	(337,183)	(307,901)
	-----	-----
Property, plant and equipment, net .....	400,506	395,054
Goodwill, net .....	49,644	52,281
Other assets .....	20,362	17,141
	-----	-----
	\$ 687,482	\$ 674,288
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable .....	\$ 70,757	\$ 75,160
Accrued expenses .....	54,197	56,125
Current maturities of long-term debt .....	8,628	12,248
Income taxes payable .....	1,648	3,300
	-----	-----
Total current liabilities .....	135,230	146,833
Long-term debt .....	194,428	188,302
Deferred pension credits .....	7,113	7,832

Deferred postretirement welfare benefits .....	7,342	7,092
Deferred income taxes .....	35,295	33,412
Other liabilities .....	16,528	18,773
	-----	-----
Total liabilities .....	395,936	402,244
Stockholders' equity:		
Preferred stock, no par value .....	--	--
Common stock, \$.50 par value .....	7,134	7,090
Additional paid-in capital .....	110,270	108,624
Retained earnings .....	175,826	156,278
Unearned compensation .....	(171)	--
Cumulative foreign currency translation adjustment ...	(433)	1,132
Adjustment for minimum pension liability .....	(1,080)	(1,080)
	-----	-----
Total stockholders' equity .....	291,546	272,044
	-----	-----
	\$ 687,482	\$ 674,288
	=====	=====

</TABLE>

1

4

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

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	1999	1998	1999	1998
	-----	-----	-----	-----
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<S>	<C>	<C>	<C>	<C>
Net sales .....	\$ 206,619	\$ 204,854	\$ 592,601	\$ 589,264
Cost and expenses:				
Cost of sales .....	161,107	164,500	469,989	485,203
Selling, general and administrative expense ....	12,032	11,650	39,521	34,985
Depreciation and amortization .....	11,571	10,771	34,548	32,249
	-----	-----	-----	-----
Operating income .....	21,909	17,933	48,543	36,827
Other income (expense):				
Interest expense .....	(3,595)	(3,708)	(10,881)	(11,113)
Capitalized interest .....	383	1,057	1,204	3,753
Other, net .....	274	464	1,099	1,816
	-----	-----	-----	-----
Income from continuing operations				
before income taxes .....	18,971	15,746	39,965	31,283
Income tax expense .....	(6,640)	(5,461)	(13,988)	(10,949)
	-----	-----	-----	-----
Income from continuing operations .....	12,331	10,285	25,977	20,334
Gain on sale of discontinued operations, net				
of income taxes .....	--	--	--	13,606
	-----	-----	-----	-----
Income before extraordinary charge .....	12,331	10,285	25,977	33,940
Extraordinary gain - early				
extinguishment of debt .....	--	--	415	--
	-----	-----	-----	-----
Net income .....	\$ 12,331	\$ 10,285	\$ 26,392	\$ 33,940
	=====	=====	=====	=====
Earnings per common share:				
Basic:				
Continuing operations .....	\$ 0.86	\$ 0.73	\$ 1.82	\$ 1.44
Gain on sale of discontinued operations ....	--	--	--	0.96
Extraordinary item .....	--	--	0.03	--
	-----	-----	-----	-----
Total basic net earnings .....	\$ 0.86	\$ 0.73	\$ 1.85	\$ 2.40
	=====	=====	=====	=====
Diluted:				
Continuing operations .....	\$ 0.79	\$ 0.66	\$ 1.71	\$ 1.37
Gain on sale of discontinued operations ....	--	--	--	0.80
Extraordinary item .....	--	--	0.03	--
	-----	-----	-----	-----

Total diluted net earnings .....	\$ 0.79	\$ 0.66	\$ 1.74	\$ 2.17
Weighted average shares outstanding:				
Basic .....	14,258	14,176	14,243	14,138
Diluted .....	16,737	17,096	16,799	17,048
Common stock dividends per share .....	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.48

2

5

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)

<TABLE>  
<CAPTION>

	Nine Months Ended July 31,	
	1999	1998
	(Unaudited)	
<S>	<C>	<C>
Operating activities:		
Net income .....	\$ 26,392	\$ 33,940
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of discontinued operations .....	--	(13,606)
Extraordinary gain on early extinguishment of debt .....	(638)	--
Depreciation and amortization .....	34,957	32,674
Deferred income taxes .....	1,915	3,228
Deferred pension costs .....	(719)	(512)
Deferred postretirement welfare benefits .....	250	134
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease in accounts and notes receivable .....	5,691	12,176
Decrease (increase) in inventory .....	3,190	(5,140)
Increase/(decrease) in accounts payable .....	(4,114)	676
Decrease in accrued expenses .....	(1,661)	(974)
Other, net .....	(4,940)	(10,122)
Cash provided by operating activities .....	60,323	52,474
Investment activities:		
Proceeds from the sale of discontinued operations .....	--	31,434
Capital expenditures, net of retirements .....	(43,885)	(39,723)
Other, net .....	(842)	(2,395)
Cash used by investment activities .....	(44,727)	(10,684)
Cash provided by operating and investment activities .....	15,596	41,790
Financing activities:		
Bank borrowings (repayments), net .....	14,196	(10,377)
Purchase of subordinated debentures .....	(8,799)	--
Common dividends paid .....	(6,841)	(6,791)
Issuance of common stock, net .....	1,519	3,174
Other, net .....	(59)	--
Cash provided (used) in financing activities .....	16	(13,994)
Effect of exchange rate changes on cash and equivalents .....	(28)	20
Increase in cash and equivalents .....	15,584	27,816
Cash and equivalents at beginning of period .....	26,279	26,851
Cash and equivalents at end of period .....	\$ 41,863	\$ 54,667
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest .....	\$ 11,810	\$ 12,264
Income taxes .....	\$ 14,316	\$ 16,306

3

QUANEX CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries (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. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1998 Annual Report on Form 10-K which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1999 classifications.

2. Inventories

Inventories consist of the following:

<TABLE>

<CAPTION>

	July 31, 1999	October 31, 1998	
	-----	-----	
	(In thousands)		
<S>	<C>	<C>	
Raw materials .....	\$ 24,079	\$ 25,167	
Finished goods and work in process .....	50,935	52,485	
	-----	-----	
	75,014	77,652	
Other .....	6,810	7,745	
	-----	-----	
	\$ 81,824	\$ 85,397	
	=====	=====	

</TABLE>

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

<TABLE>

	<C>	<C>	
LIFO .....	\$ 62,923	\$ 57,594	
FIFO .....	18,901	27,803	
	-----	-----	
	\$ 81,824	\$ 85,397	
	=====	=====	

</TABLE>

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$10 million and \$12 million at July 31, 1999, and October 31, 1998, respectively.

3. Acquisition

On October 9, 1998, the Company acquired the stock of Decatur Aluminum Corp., a Decatur, Alabama based coiled aluminum sheet manufacturer, for approximately \$19 million. Included in the purchase price was debt totaling \$5 million and other specified liabilities totaling \$5 million assumed by the Company. The newly acquired company has been renamed Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama"). Based on preliminary purchase accounting, goodwill associated with Nichols Aluminum Alabama is approximately \$10 million as of July 31, 1999. Nichols Aluminum Alabama's operations include cold rolling aluminum sheet to specific gauge, annealing, leveling, custom painting and slitting to width.

4. Discontinued Operations

In December 1997, the Company completed the sale of its tubing operations, comprised of Michigan Seamless Tube, Gulf States Tube, and the Tube Group

Administrative Office ("Tubing Operations"). The sale was effective November 1, 1997. The Company recorded an after tax gain on the sale of \$12.8 million during the first quarter of fiscal 1998.

In April 1997, the Company completed the sale of its LaSalle Steel Company ("LaSalle") subsidiary. The Company recorded an after tax gain on the sale of \$36.3 million in the second quarter of fiscal 1997 and an additional \$833 thousand in the first quarter of 1998 as a result of post-closing adjustments.

4

7

QUANEX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

5. Earnings Per Share

The following table presents information necessary to calculate basic and diluted earnings per share per FAS 128 for the periods indicated (in thousands except per share amounts):

<TABLE>  
<CAPTION>

	For the Three Months Ended July 31, 1999			For the Three Months Ended July 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per- Share Amount	Income (Numerator)	Shares (Denominator)	Per- Share Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BASIC EPS						
Income from Cont. Oper.	\$ 12,331	14,258	\$ 0.86	\$ 10,285	14,176	\$ 0.73
Extra. Gain - early debt ext.	--		--	--		--
Total basic net earnings	\$ 12,331		\$ 0.86	\$ 10,285		\$ 0.73
EFFECT OF DILUTIVE SECURITIES						
Effect of common stock Equiv. arising from stock options	--	139		--	224	
Effect of conversion of subordinated debentures	867	2,340		999	2,696	
DILUTED EPS						
Income from Cont. Oper.	\$ 13,198	16,737	\$ 0.79	\$ 11,284	17,096	\$ 0.66
Extra. Gain - early debt ext.	--		--	--		--
Total diluted net earnings	\$ 13,198		\$ 0.79	\$ 11,284		\$ 0.66

</TABLE>

<TABLE>  
<CAPTION>

	For the Nine Months Ended July 31, 1999			For the Nine Months Ended July 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per- Share Amount	Income (Numerator)	Shares (Denominator)	Per- Share Amount
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BASIC EPS						
Income from Cont. Oper.	\$ 25,977	14,243	\$ 1.82	\$ 20,334	14,138	\$ 1.44
Gain on sale of Discot. Oper.	--		--	13,606		0.96
Extra. Gain - early debt ext.	415		.03	--		--
Total basic net earnings	\$ 26,392		\$ 1.85	\$ 33,940		\$ 2.40
EFFECT OF DILUTIVE SECURITIES						
Effect of common stock Equiv. arising from stock options	--	42		--	214	
Effect of conversion of subordinated debentures	\$ 2,796	2,514		\$ 2,997	2,696	

DILUTED EPS										
Income from Cont. Oper.	\$	28,773	16,799	\$	1.71	\$	23,331	17,048	\$	1.37
Gain on sale of Discont. Oper.		--			--		13,606			0.80
Extra. Gain - early debt ext.		415			.03		--			--
		-----			-----		-----			-----
Total diluted net earnings	\$	29,188		\$	1.74	\$	36,937		\$	2.17
		=====			=====		=====			=====

</TABLE>

5

8

#### 6. Comprehensive Income

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income", which is effective for the Company's year ending October 31, 1999. SFAS No. 130 establishes standards for the reporting and displaying of comprehensive income and its components. In accordance with this new pronouncement, the Company has calculated total comprehensive income for the three and nine months ended July 31, 1999 to be \$12,513 and \$24,827, respectively. Comprehensive income for the three and nine months ended July 31, 1998 is \$10,407 and \$33,493, respectively. Included in comprehensive income is net income, the change in the cumulative foreign currency translation adjustment balance and the change in the adjustment for minimum pension liability balance.

#### 7. Extraordinary Item

During the first nine months of fiscal 1999, the Company accepted unsolicited block offers to buy back \$9.7 million principal amount of the 6.88% Convertible Subordinated Debentures for \$8.8 million in cash. An after tax extraordinary gain of \$415 thousand was recorded on these transactions in the second fiscal quarter of 1999. The principal amount of bonds outstanding as of July 31, 1999 was \$73,720,000.

#### 8. Second Amended and Restated Rights Agreement

The Company approved an amended shareholder rights plan during the second quarter of fiscal 1999. Named the Second Amended and Restated Rights Agreement, the updated plan went into effect April 15, 1999 and replaced the Amended and Restated Rights Agreement which was established 10 years earlier. The Amended and Restated Rights Agreement and the Preferred Share Purchase Rights granted pursuant thereto were scheduled to expire on April 26, 1999. With the Second Amended and Restated Rights Agreement, Quanex's shareholder rights plan has been extended 10 years to April 15, 2009. Additionally, the purchase price was increased from \$60.00 to \$90.00.

#### 9. Long-term Debt

On June 1, 1999, the Company borrowed \$3 million unsecured principal amount of Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of \$200 thousand beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest which would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month. Interest rates on these bonds for the current fiscal year period have ranged from 3.0% to 3.7%.

Long-term debt consists of the following:

<TABLE>

<CAPTION>

	July 31, 1999	October 31, 1998
	-----	-----
<S>	<C>	<C>
Revolving credit agreements .....	\$ 97,280	\$ 83,212
Convertible subordinated debentures .....	73,720	83,420
Term loan .....	6,551	8,031
Bank borrowings due within one year .....	7,403	11,120
Industrial Revenue and Economic Development Bonds, unsecured, payable in annual installments through the year 2005, bearing interest ranging from 6.50% to 8.375% .....	3,275	3,275
State of Alabama Industrial Development Bonds .....	4,755	4,755
Scott County, Iowa Industrial Waste Recycling Revenue Bonds .....	3,000	--
Other .....	7,072	6,737
	-----	-----
	\$ 203,056	\$ 200,550

Less maturities due within one year included in current



liabilities .....	8,628	12,248
	-----	-----
	\$ 194,428	\$ 188,302
	=====	=====

</TABLE>

QUANEX CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

10. Industry Segment Information

<TABLE>  
<CAPTION>

Three Months Ended July 31, 1999	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Corporate and Other (1)	Consolidated
-----	-----	-----	-----	-----	-----
		(In thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales:					
To unaffiliated companies .....	\$ 75,637	\$ 70,719	\$ 60,263	\$ 0	\$206,619
Intersegment (2) .....	1,152	5,953	0	(7,105)	--
	-----	-----	-----	-----	-----
Total .....	\$ 76,789	\$ 76,672	\$ 60,263	\$ (7,105)	\$206,619
	=====	=====	=====	=====	=====
Operating income (loss) .....	\$ 16,829	\$ 4,002	\$ 4,898	\$ (3,820)	\$ 21,909
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

Three Months Ended July 31, 1998	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Corporate and Other (1)	Consolidated
-----	-----	-----	-----	-----	-----
		(In thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales:					
To unaffiliated companies .....	\$ 80,018	\$ 63,339	\$ 61,497	\$ 0	\$ 204,854
Intersegment (2) .....	741	7,533	--	(8,274)	--
	-----	-----	-----	-----	-----
Total .....	\$ 80,759	\$ 70,872	\$ 61,497	\$ (8,274)	\$ 204,854
	=====	=====	=====	=====	=====
Operating income (loss) (3) .....	\$ 14,638	\$ 3,225	\$ 1,137	\$ (1,067)	\$ 17,933
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

Nine Months Ended July 31, 1999	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Corporate and Other (1)	Consolidated
-----	-----	-----	-----	-----	-----
		(In thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales:					
To unaffiliated companies .....	\$212,584	\$209,168	\$170,849	\$ --	\$592,601
Intersegment (2) .....	4,161	15,791	1	(19,953)	--
	-----	-----	-----	-----	-----
Total .....	\$216,745	\$224,959	\$170,850	\$ (19,953)	\$592,601
	=====	=====	=====	=====	=====
Operating income (loss) .....	\$ 42,446	\$ 9,201	\$ 7,735	\$ (10,839)	\$ 48,543
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

Nine Months Ended July 31, 1998	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Corporate and Other (1)	Consolidated
-----	-----	-----	-----	-----	-----
		(In thousands)			
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales:					
To unaffiliated companies .....	\$ 247,446	\$ 176,465	\$ 165,353	\$ --	\$ 589,264

Intersegment(2) .....	2,357	17,209	--	(19,566)	--
	-----	-----	-----	-----	-----
Total .....	\$ 249,803	\$ 193,674	\$ 165,353	\$ (19,566)	\$ 589,264
	=====	=====	=====	=====	=====
Operating income (loss)(3) .....	\$ 42,760	\$ (438)	\$ 2,944	\$ (8,439)	\$ 36,827
	=====	=====	=====	=====	=====

</TABLE>

(1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses

(2) Intersegment sales are conducted on an arm's-length basis

(3) At the start of fiscal year 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. This change has no impact on consolidated results, which remain LIFO based. Prior year's data have not been restated, however, the following information is being provided to allow comparability. The effect on operating income of switching to FIFO method of inventory valuation for segment reporting during 1998 would have been as follows:

<TABLE>

	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Corporate and Other	Consolidated
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Three months ended July 31, 1998	\$ --	\$ (1,400)	\$ --	\$ 1,400	\$ --
Nine months ended July 31, 1998	\$ --	\$ (1,891)	\$ (165)	\$ 2,056	\$ --

</TABLE>

7

10

## 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 July 31, 1999 and October 31, 1998 Consolidated Financial Statements of the Company and the accompanying notes.

### PRIVATE SECURITIES LITIGATION REFORM ACT

Certain forward-looking information contained herein is being provided in accordance with the provisions of the Private Securities Litigation Reform Act. Such information is subject to certain assumptions and beliefs based on current information known to the Company and is subject to factors that could result in actual results differing materially from those anticipated in the forward-looking statements contained in this report. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, interest rates, construction delays, market conditions for the Company's customers, any material changes in purchases by the Company's principal customers, environmental regulations and 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 Year 2000 readiness efforts, 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.

### RESULTS OF OPERATIONS

#### Overview

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

<TABLE>

	THREE MONTHS ENDED JULY 31, 1999				NINE MONTHS ENDED JULY 31, 1998			
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net Sales	\$ 206.6	100%	\$ 204.9	100%	\$ 592.6	100%	\$ 589.3	100%
Cost of Sales	161.1	78	164.5	80	470.0	79	485.2	82

Sell., gen. and admin.	12.0	6	11.7	6	39.5	7	35.0	6
Deprec. and amort.	11.6	5	10.8	5	34.6	6	32.3	6
Operating Income	21.9	11%	17.9	9%	48.5	8%	36.8	6%
Interest Expense	(3.6)	(2)	(3.7)	(2)	(10.9)	(2)	(11.1)	(2)
Capitalized Interest	.4	0	1.1	1	1.2	0	3.7	1
Other, net	.2	0	.5	0	1.1	0	1.8	0
Income tax expense	(6.6)	(3)	(5.5)	(3)	(13.9)	(2)	(10.9)	(2)
Income from continuing operations	\$ 12.3	6%	\$ 10.3	5%	\$ 26.0	4%	\$ 20.3	3%

</TABLE>

The Company achieved higher earnings for the third quarter and the nine-month period of fiscal 1999 compared with the same periods of fiscal 1998. The primary contributing factors were higher sales and operating efficiencies in the Nichols Aluminum division resulting from sales by Nichols Aluminum-Alabama, Inc. ("Nichols Aluminum Alabama") which was acquired in October 1998, increased sales of value added products, lower material costs, and other operating improvements achieved at most business units. Additionally, there were some benefits realized at the engineered steel bar business which amounted to approximately \$2 million (pre-tax) as a result of an insurance

8

11

recovery and a litigation settlement received during the first quarter of fiscal 1999.

#### Business Segments

Pursuant to SFAS 131, the Company has three reportable segments: engineered steel bars, aluminum mill sheet products, and engineered products. The engineered steel bar segment consists of engineered steel bars manufacturing, steel bar and tube heat treating services and steel bar and tube wear and corrosion resistant finishing services. The aluminum mill sheet segment manufactures mill finished and coated aluminum sheet. The engineered products segment manufactures impact-extruded and machined aluminum and steel parts, aluminum window and patio door screens, window frames and other roll formed products and stamped shapes.

The following table sets forth selected operating data for the Company's three business segments:

<TABLE>  
<CAPTION>

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	1999	1998	1999	1998
	(In thousands)		(In thousands)	
<S>	<C>	<C>	<C>	<C>
<b>Engineered Steel Bars:</b>				
Net sales .....	\$ 76,789	\$ 80,759	\$ 216,745	\$ 249,803
Operating income .....	16,829	14,638	42,446	42,760
Deprec. and amort.....	4,056	3,384	12,168	10,146
Identifiable assets .....	\$ 231,962	\$ 207,496	\$ 231,962	\$ 207,496
<b>Aluminum Mill Sheet Products:(1)</b>				
Net sales .....	\$ 76,672	\$ 70,872	\$ 224,959	\$ 193,674
Operating income (loss) .....	4,002	3,225	9,201	(438)
Deprec. and amort.....	3,112	2,719	9,370	8,187
Identifiable assets .....	\$ 197,355	\$ 160,154	\$ 197,355	\$ 160,154
<b>Engineered Products:</b>				
Net sales .....	\$ 60,263	\$ 61,497	\$ 170,850	\$ 165,353
Operating income .....	4,898	1,137	7,735	2,944
Deprec. and amort.....	4,013	4,634	12,554	13,814
Identifiable assets .....	\$ 210,914	\$ 273,795	\$ 210,914	\$ 273,795

</TABLE>

(1) 1999 results include Nichols Aluminum Alabama's operations acquired October 9, 1998. (See Note 3 to financial statements)

9

12

The engineered steel bar business earned best-ever quarterly operating income in the three months ended July 31, 1999. For the nine months ended July 31, 1999, operating income was slightly below the same period ended 1998. Demand in the automotive and heavy truck markets continues to be strong, but other markets are experiencing fair to weak business conditions. This slowdown and global competition contributed to lower volumes and sales for engineered steel bars for the nine months ended July 31, 1999. Despite lower volume and net sales, operating income levels remained relatively strong. This is largely due to the lower material costs and increased sales of value-added products experienced during the first nine months of fiscal 1999 as compared to 1998. Additionally, there were some benefits realized which amounted to approximately \$2 million (pretax) as a result of an insurance recovery and a litigation settlement received during the first quarter of fiscal 1999.

The aluminum mill sheet business achieved increases in volume, net sales and operating income for the first nine months of fiscal 1999 as compared to the same period ended 1998. These increases were largely a result of the additional finishing capacity brought by the acquisition of Nichols Aluminum Alabama in October of 1998. All of Nichols' facilities are benefiting from the acquisition which allows them to realize gains and efficiencies obtainable by running at higher volumes and operating with greater flexibility. The casting plant is utilizing its two new rotary furnaces and dross recovery system to melt more economical aluminum scrap and improve the yield of scrap to molten metal. Continuous improvement projects are underway at Nichols' casting and finishing operations to identify and remove constraints throughout their manufacturing processes including restoration and improvement projects for the Alabama-based mill.

The engineered products business reported improved operating income in the first nine months ended July 31, 1999 as compared to the same prior year period. The fabricated products division (AMSCO and Homeshield) of this business continued to realize strong demand in its primary homebuilding and remodeling markets. Also contributing to the business's better results are ongoing cost management, lower amortization, new product, and productivity improvement programs. At Piper Impact, new cellular manufacturing techniques are being implemented to further reduce costs and improve customer service. As of the end of May 1999, production has ceased at the Piper Utah facility and all of its operations have been consolidated in Mississippi. The Company is beginning to see higher sales levels of new products, especially at Piper Europe which have helped to offset lower demand for the older generation aluminum air bag components. Several other new applications for impact-extrusions are in various stages of development for both Piper Impact and Piper Europe.

#### Outlook

The Company currently expects that overall business levels for the remainder of fiscal 1999 should be similar to those experienced during 1998, excluding the one-time, mostly non-cash restructuring charge taken in the fourth quarter of fiscal 1998. The engineered products segment anticipates softening demand for aluminum air bag components partially offset by seasonally strengthening demand for fabricated residential building products. The improved spreads resulting from lower steel scrap for the first nine months of 1999 may not continue for the remainder of 1999 as steel scrap prices are higher. The Company also expects continued benefits to sales and earnings for the remainder of fiscal 1999 from the acquisition of Nichols Aluminum Alabama. Domestic and global market factors will impact the Company and any slowdown in the U.S. economy could adversely affect demand and pricing for many of the Company's products.

#### Fiscal Quarter and Nine months ended July 31, 1999 vs. 1998

Net Sales - Consolidated net sales for the three and nine months ended July 31, 1999, were \$206.6 and \$592.6 million, respectively, representing an

10

13

increase of \$1.8 million, or 1%, and an increase of \$3.3 million, or 1%, when compared to consolidated net sales for the same periods in 1998. For the three months ended July 31, 1999, increased net sales in the aluminum mill sheet business were partially offset by lower net sales at the Company's engineered steel bar and engineered products businesses. For the nine months ended July 31, 1999, increased net sales at the aluminum mill sheet and engineered products businesses were partially offset by lower net sales at the Company's engineered steel bar business.

Net sales from the Company's engineered steel bar business for the three and nine months ended July 31, 1999, were \$76.8 and \$216.7 million, respectively, representing a decrease of \$4.0 million, or 5%, and \$33.1 million, or 13%, when compared to the same periods last year. This decline was principally due to the reduced demand in some of the durable goods market, inventory adjustments by some customers and pricing pressures resulting from global sourcing of engineered bars and forged components.

Net sales from the Company's aluminum mill sheet products business for the three and nine months ended July 31, 1999, were \$76.7 and \$225.0 million, respectively, representing an increase of \$5.8 million, or 8%, and \$31.3 million, or 16%, when compared to the same periods last year. This increase was largely due to the acquisition of Nichols Aluminum Alabama in October of 1998.

Net sales from the Company's engineered products business for the three and nine months ended July 31, 1999, were \$60.3 and \$170.9 million, respectively, representing a decrease of \$1.2 million, or 2%, and an increase of \$5.5 million, or 3%, when compared to the same periods last year. The decrease in the three month period ended July 31, 1999 is largely due to decreased demand for older generation aluminum airbag components at the Piper facilities, partially offset by sales of new non-airbag products as well as increased demand for building and construction products in the Fabricated Products division. The increase in net sales for the nine months ended July 31, 1999 is due to increased sales at both Piper facilities as well as the Fabricated Products division due to comparatively strong demand for residential and automotive products.

Operating income - Consolidated operating income for the three and nine months ended July 31, 1999, was \$21.9 and \$48.5 million, respectively, representing an increase of \$4.0 million, or 22%, and \$11.7 million, or 32%, when compared to the same periods last year. For the three months ended July 31, 1999, all business segments had increased operating income, partially offset by increased expenses at the corporate office. For the nine months ended July 31, 1999, the aluminum mill sheet and engineered products businesses had increased operating income, partially offset by lower operating income at the engineered steel bar business and higher expenses at the corporate office.

Included in the Company's consolidated operating income is the impact of accounting for the LIFO valuation method of inventory (See Note 2 to the financial statements). At the start of fiscal year 1999, Quanex changed its inventory valuation method for measuring segment results from LIFO to FIFO. This change has no impact on consolidated results, which remain LIFO based. Prior year's data have not been restated. See Note 10 to the financial statements for further discussion.

Operating income from the Company's engineered steel bar business for the three and nine months ended July 31, 1999, was \$16.8 and \$42.4 million, respectively, representing an increase of \$2.2 million, or 15%, and a decrease of \$.3 million, or 1%, when compared to the same periods last year. The increase in the three months ended July 31, 1999 compared to 1998 was largely due to the higher spreads resulting from lower material prices and increased sales of value-added products. The decrease in the nine months ended July 31, 1999 was due to reduced volume and net sales, largely offset by higher spreads

11

14

and productivity improvements realized from the Phase III project completed in 1998. Additionally, approximately \$2 million of benefits were realized as a result of an insurance recovery and a litigation settlement received in the first fiscal quarter of 1999.

Operating income from the Company's aluminum mill sheet products business for the three and nine months ended July 31, 1999, was \$4.0 and \$9.2 million, respectively, representing an increase of \$.8 million and \$9.6 million compared to the same periods last year. This increase was largely due to higher sales and operating efficiencies realized from the acquisition of Nichols Aluminum Alabama and improved spreads resulting from lower aluminum scrap prices as well as benefits from the new rotary furnaces and the dross recovery system.

Operating income from the Company's engineered products business for the three and nine months ended July 31, 1999, was \$4.9 and \$7.7 million, respectively, representing an increase of \$3.8 million, or 331%, and \$4.8 million, or 163%, when compared to the same periods last year. The improvement was largely due to increased sales at the Fabricated Products Division (AMSCO and Homeshield) for the three and nine month periods as well as at the Piper facilities for the nine month period. Additionally, this business experienced lower material costs which contributed to improved spreads, lower amortization expense and some success at cost management measures.

In addition to the three operating segments mentioned above, operating expenses for corporate and other for the three and nine months ended July 31, 1999 was \$3.8 and \$10.8 million, respectively, compared to \$1.1 and \$8.4 million, respectively, for the same periods last year. Included in corporate and other are the corporate office expenses, impact of LIFO valuation method of inventory accounting and intersegment eliminations. (See notes 2 and 10 to the financial statements regarding LIFO valuation method of inventory accounting.)

Selling, general and administrative expenses increased by \$.4 million, or 3%, and \$4.5 million, or 13%, respectively, for the three and nine months ended July 31, 1999, as compared to the same periods of last year. This increase is largely a result of the acquisition of Nichols Aluminum Alabama, Year 2000 readiness efforts, relocation expenses and consulting expenses for system

implementations.

Depreciation and amortization increased by \$.8 million, or 7%, and \$2.3 million, or 7%, respectively, for the three and nine months ended July 31, 1999, as compared to the same periods of last year. The increase is principally due to increased depreciation at the engineered steel bar and aluminum mill sheet products businesses for recently completed projects as well as the inclusion of Nichols Aluminum Alabama, which was acquired in October 1998, partially offset by lower amortization at the engineered products business.

Interest expense remained relatively constant for the three and nine months ended July 31, 1999, as compared to the same periods of 1998.

Capitalized interest decreased by \$.7 and \$2.5 million, respectively, for the three and nine months ended July 31, 1999, as compared to the same periods of 1998 primarily due to the completion of significant capital projects at MACSTEEL during 1998.

Other, net decreased \$.2 and \$.7 million, respectively, for the three and nine months ended July 31, 1999, as compared to the same periods of 1998 primarily as a result of decreased investment income on lower cash balances.

Income from continuing operations increased \$2.0 million, or 20%, and \$5.6 million, or 28%, respectively, for the three and nine months ended July 31,

12

15

1999, as compared to the same periods of 1998. The increase in the three month period was principally due to increased operating earnings from each of the Company's three operating segments. The increase in the nine month period was principally due to increased operating earnings from the Company's aluminum mill sheet products and the engineered products businesses while the engineered steel bar business had slightly lower operating earnings.

Net income was \$12.3 and \$26.4 million, respectively, for the three and nine months ended July 31, 1999, compared to \$10.3 and \$33.9 million for the same periods of 1998. Included in net income for the first quarter of fiscal 1998 was \$13.6 million of gain on the sale of discontinued operations, net of taxes. Included in net income for the second fiscal quarter of 1999 was \$415 thousand of extraordinary gain on the early extinguishment of debt, net of taxes.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its \$250 million unsecured Revolving Credit and Term Loan Agreement ("Bank Agreement"). There have been no significant changes to the terms of the Company's debt structure during the nine month period ended July 31, 1999. See Note 9 to the financial statements for detail regarding the outstanding borrowings under the Company's various facilities.

On June 1, 1999, the Company borrowed \$3 million unsecured principal amount of Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of \$200 thousand beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest which would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month.

During the first nine months of fiscal 1999 the Company accepted unsolicited block offers to buy back \$9.7 million principal amount of convertible subordinated debentures for \$8.8 million in cash. An after tax extraordinary gain of \$415 thousand was recorded on these transactions.

At July 31, 1999, the Company had commitments of approximately \$20 million for the purchase or construction of capital assets, primarily relating to the Company's continued expansions at MACSTEEL and Piper Impact. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

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 and dividends.

#### Operating Activities

Cash provided by operating activities during the nine months ended July 31, 1999 was \$60.3 million. This represents an increase of \$7.8 million, or 15%, compared to the nine months ended July 31, 1998. This increase is primarily a result of

several factors including:

- 1) increased cash resulting from the improved operating earnings of the first nine months of fiscal 1999 compared to the same period of 1998 and
- 2) lower taxes paid in the nine month period ended July 31, 1999 compared to 1998, (higher tax payments were made in the nine months ended 1998 due largely to the gain on the sale of discontinued operations).

13

16

#### Investment Activities

Net cash used by investment activities during the nine months ended July 31, 1999 was \$44.7 million compared to \$10.7 million for the same period of 1998. Fiscal 1998 cash from investing activities included proceeds from the sale of the Tubing Operations of \$31.4 million. Capital expenditures and other investment activities increased \$2.6 million in the nine month period ended July 31, 1999 as compared to the same period of 1998. The Company estimates that fiscal 1999 capital expenditures will approximate \$55 to \$60 million.

#### Financing Activities

Net cash provided by financing activities for the nine months ended July 31, 1999 was \$16 thousand, compared to \$14.0 million used for the same prior year period. The Company borrowed \$14.2 million during the first nine months of fiscal 1999, as compared to the repayment of \$10.4 million during the same period last year. During 1999, the Company purchased \$9.7 million principal value of its subordinated debentures for \$8.8 million in cash. In addition, cash provided by the issuance of common stock was \$1.7 million less in the nine months ended July 31, 1999 as compared to the same prior year period.

#### NEW ACCOUNTING PRONOUNCEMENTS

In February 1998, the FASB issued SFAS No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits", which is effective for the Company's year ending October 31, 1999. This statement defines new disclosure requirements for pension and other postretirement benefits in an effort to facilitate financial analysis by adding useful information and deleting disclosures that the FASB considers no longer useful. The Company continues to analyze SFAS No. 132 to determine what additional disclosures will be required.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is effective for the Company's year ending October 31, 2001. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company will analyze SFAS No. 133 to determine what, if any, impact or additional disclosure requirements this pronouncement will have.

#### YEAR 2000

The Company, like other businesses, is facing the Year 2000 issue. Many computer systems and equipment with embedded chips or processors use only two digits to represent the calendar year. This could result in computational or operational errors as dates are compared across the century boundary causing possible disruptions in business operations. The Year 2000 issue can arise at any point in the Company's supply, manufacturing, processing, distribution, and financial chains.

#### State of Readiness

The Company began addressing the Year 2000 issue in 1997, with an initial assessment of Year 2000 readiness efforts at each of its operating units. Based on responses from the operating units, a standardized Year 2000 Plan format was developed. By July 1998, each operating unit had developed a Year 2000 Plan that included the following components:

1. Inventory of all systems - identifying them as critical and non-critical
2. Assessment of all systems for Year 2000 compliance
3. Development of a project schedule for remediation or replacement of non-compliant systems
4. Development of a project schedule for testing the compliant systems

14

17

5. Development of a list of significant vendors/suppliers for surveying their

The Year 2000 issue is being addressed within the Company by its individual business units, and progress is reported periodically to management. The Company has committed necessary resources to conduct risk assessment and to take corrective actions, where required.

#### Business and Information Systems (Information Technology Systems)

##### Engineered Steel Bars Segment:

Engineered Steel Bars Segment has completed the inventory, assessment, remediation/replacement and testing phases for all systems with the exception of the Payroll and Human Resources Management system. The Payroll and Human Resources Management system is expected to be remediated and tested by October 1999 for this segment.

##### Aluminum Mill Sheet Products Segment:

Aluminum Mill Sheet Products segment upgraded its main business system and tested it for Y2K compliance as planned in July 1999. All other critical business systems, with the exception of the Payroll and Human Resources Management system, have been inventoried, assessed, remediated or replaced and tested for Y2K compliance. The Payroll and Human Resources Management system is expected to be remediated or replaced and tested by October 1999.

##### Engineered Products Segment:

Engineered Products Segment has finished the inventory and assessment phases for all business systems. Fabricated Products Division has remediated or replaced 95 percent of its critical business systems. Upgrading the balance of the systems, and testing of all IT Systems is scheduled to be complete by October 1999. Piper Impact is approximately 90 percent finished in the process of implementing an Enterprise Resource Planning ("ERP") system. Completion of this implementation, including testing, is projected to occur by the end of September 1999. Remediation/replacement and testing of remaining business systems at Piper are at different stages of completion, ranging from 75 to 90 percent. It is anticipated that remediation, replacement and testing of all critical business systems will be complete by October 1999.

#### Non-Information Technology Systems

For Non-IT systems, the inventory phase is complete at all business segments. The Company is relying on a combination of vendor certification and internal testing for assessment phase. At Engineered Steel Bars Segment, assessment, replacement, and testing phases have been completed on all the critical systems. Assessment and testing, with corrective action as required, at the other two business segments is ranging between 60 and 80 percent accomplished, with anticipated completion by October 31, 1999.

#### Third Party Relationships

The Company's business units are in the process of surveying the Year 2000 readiness efforts of critical external parties, including suppliers and customers. Approximately 700 major suppliers have been contacted. Over 70 percent have responded, with varying levels of readiness being reported. Follow-up surveys and risk assessments are expected to be complete by the end of September 1999. Monitoring risk in this area will continue through the fourth quarter of 1999, as many suppliers will not have completed their Year 2000 readiness efforts until such time.

A survey of major customers' Year 2000 readiness efforts is in progress. Approximately 500 major customers have been contacted. Less than 50 percent

have responded. Monitoring and risk assessment will continue through the fourth quarter of 1999.

#### Contingency Planning

The Company is developing contingency plans intended to mitigate possible disruption in business operations that may result from the Year 2000 issue. All of the business units have completed an initial draft of such plans. These plans include stockpiling necessary materials and inventories, securing alternate sources of supply, adjusting facility shutdown and start-up schedules, development of manual procedures to execute transactions and complete processes and other appropriate measures. Once developed, contingency plans will be continually refined, as additional information becomes available.

#### Independent Verification and Validation

The Company commissioned a third party review of its Y2K program. Detailed



interviews were conducted at the Company's Group and Corporate offices, and at most plant locations. The results of this review highlighted the progress being made and pointed out areas where additional resources were needed. As a result of the review, the Company augmented the staff resources working on the Y2K program with several experienced Y2K project managers and technicians in order to address the requirements identified. The Company also retained a consultant to provide Y2K Program coordination support for the Corporate Office, and to assist in the audit of readiness efforts at the business segments.

#### Cost

Year 2000 activities and associated costs are being managed within each business unit. The historical costs of remediation and other activities directly connected with Year 2000 issues incurred as of July 31, 1999 were \$1.8 million. The timing of these expenses may vary and is not necessarily indicative of readiness efforts or progress to date. Not included in these historical costs are expenditures associated with normal upgrades and acquisition or implementation of new business systems planned for other business reasons and not accelerated due to Year 2000 issues. As of now, the Company's best estimate of total costs directly related to Year 2000 issues, is between \$2 and \$3 million.

#### Risks

The Company is a diversified and decentralized company comprised of three business segments. Each of these segments has multiple operating units, resulting in thirteen separate Year 2000 Plans. The Company does not have standardized systems throughout Quanex Corporation and its subsidiaries. This diversification has allowed the Company to spread the risk of the Year 2000 issue, since no one system is responsible for the entire financial and operational needs of the Company.

While the diversification reduces the risk of a material Year 2000 issue affecting the entire Company, this same diversification increases the possibility that the Year 2000 issue will cause a problem at one or more units since many more systems exist than in a centralized environment. Management is addressing this issue by requiring regular periodic reporting from each business unit and monitoring the progress with follow-up review by independent consultants. However, if implementation of the ERP systems at Piper Impact is not completed in a timely manner, contingency plans will be implemented to minimize disruptions in business operations that may result from the Year 2000 issue.

The Company relies on third party suppliers for raw materials, water, utilities, transportation and other key services. Interruption of supplier

16

19

operations due to Year 2000 issues could affect the Company's operations. While each business unit is evaluating the status of its major suppliers' Year 2000 readiness efforts and develop contingency plans to manage the risk, it cannot eliminate the potential for disruption due to third party failures.

The Company is also dependent upon its customers for sales and cash flow. Year 2000 interruptions in the operations of its major customers could result in reduced sales, increased inventory or receivable levels and cash flow reductions. The Company is in the process of surveying its major customers' Year 2000 readiness efforts to assess risk and develop plans to minimize the impact on its operations.

The Company believes that it is taking all reasonable steps to ensure Year 2000 readiness. Its ability to meet the projected goals, including the costs of addressing the Year 2000 issue and the dates upon which compliance will be attained, depends on the availability and cost of personnel trained in this area, the timing and success of Year 2000 remediation and testing efforts, the Year 2000 readiness of its key suppliers and customers and the successful development and implementation of contingency plans. Although these and other unanticipated Year 2000 issues could have an adverse effect on the results of operations or financial condition of the Company, it is not possible to anticipate the extent of impact or the worst case scenario at this time, since the contingency plans are still under development.

ALL STATEMENTS REGARDING YEAR 2000 MATTERS CONTAINED IN THIS QUARTERLY REPORT ON FORM 10-Q ARE "YEAR 2000 READINESS DISCLOSURES" WITHIN THE MEANING OF THE YEAR 2000 INFORMATION AND READINESS DISCLOSURE ACT.

#### EUROPEAN MONETARY UNION

Within Europe, the European Economic and Monetary Union (the "EMU") introduced a new currency, the Euro, on January 1, 1999. The new currency was introduced in response to the EMU's policy of economic convergence to harmonize trade policy, eliminate business costs associated with currency exchange and to promote the free flow of capital, goods and services among the participating countries.

On January 1, 1999, the participating countries adopted the Euro as their local currency, initially available for currency trading on currency exchanges and non-cash (banking) transactions. The existing local currencies, or legacy currencies, will remain legal tender through January 1, 2002. Beginning on January 1, 2002, Euro-denominated bills and coins will be issued for cash transactions. For a period of six months from this date, both legacy currencies and the Euro will be legal tender. On or before July 1, 2002, the participating countries will withdraw all legacy currency and use exclusively the Euro.

At the current time, the Company does not believe that the conversion to the Euro will have a material impact on its business or its financial statements.

17

20

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company holds certain floating-rate obligations. The exposure of these obligations to increases in short-term interest rates is limited by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate on all of the Company's variable rate debt, thus limiting the potential impact that increasing interest rates would have on earnings. At October 31, 1998 the unrealized losses related to the interest rate swap agreements were \$8.5 million. As of July 31, 1999, the unrealized losses related to the interest rate swap agreements were \$1.7 million. It should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item.

Other than the item mentioned above, there were no other material quantitative or qualitative changes during the first nine months of fiscal 1999 in the Company's market risk sensitive instruments.

## PART II. OTHER INFORMATION

### Item 1 - Legal Proceedings

On or about May 26, 1999, the federal government filed in the United States District court for the Southern District of Texas a complaint and proposed consent decree with respect to alleged violations of the Clean Water Act by the Company and Vision Metals, Inc. at the Company's former facility in Rosenberg, Texas. Among other things, the complaint alleged that during the Company's ownership the plant had discharged water which contained pollutants at levels greater than applicable effluent limits, had not appropriately monitored its discharges, and had not adequately notified the federal Environmental Protection Agency of exceedances. Under the consent decree, which is subject to public comment and approval of the court, all of the complaint's allegations against the Company would be settled by payment of a civil penalty in the amount of \$466,421. The Company tendered this matter to Vision Metals for defense and indemnification pursuant to the purchase agreement by which Vision Metals acquired the Rosenberg facility and assumed certain environmental liabilities. Vision Metals has accepted the Company's tender without reservation. The court approved and entered the consent decree on or about August 2, 1999.

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

Exhibit 3 Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999.

Exhibit 27 Financial Data Schedule - July 31, 1999.

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 Registrant 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.

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

18

21

## SIGNATURES

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

QUANEX CORPORATION

/s/ Viren M. Parikh

-----  
Viren M. Parikh  
Controller (Chief Accounting Officer)

Date September 10, 1999

22

INDEX TO EXHIBITS

<TABLE>  
<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----
<S>	<C>
3	Amended and Restated Bylaws of the Registrant, as amended through August 26, 1999.
27	Financial Data Schedule - July 31, 1999.

</TABLE>

AMENDED AND RESTATED (August 26, 1999)

BY-LAWS

of

QUANEX CORPORATION  
(a Delaware Corporation)

Offices

1. The Corporation shall at all times maintain a registered office in the State of Delaware.

2. The Corporation may also have offices at such other places within or outside of the State of Delaware as the Board of Directors shall from time to time appoint or the business of the Corporation require.

Capital Stock

3. The Board of Directors may authorize the issuance of the capital stock of the Corporation at such times, for such consideration, and on such terms and conditions as the Board may deem advisable, subject to any restrictions and provisions of law, the Certificate of Incorporation of the Corporation or any other provisions of these by-laws.

4. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. The certificates shall

otherwise be in such form as may be determined by the Board of Directors, shall be issued in numerical order, shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and number of shares.

5. The shares of the capital stock of the Corporation are transferable only on the books of the Corporation upon surrender, in the case of certificated shares, of the certificates

2

therefor properly endorsed for transfer, or otherwise properly assigned, and upon the presentation of such evidences of ownership of the shares and validity of the assignment as the Corporation may require.

6. The Corporation shall be entitled to treat the person in whose name any share of stock is registered as the owner thereof for purposes of dividends and other distributions in the course of business or in the course of recapitalization, consolidation, merger, reorganization, liquidation, or otherwise, and for the purpose of votes, approvals and consents by shareholders, and for the purpose of notices to shareholders, and for all other purposes whatsoever, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not the Corporation shall have notice thereof, save as expressly required by the laws of the State of Delaware.

7. The Board of Directors may appoint one or more transfer agents and registrars, and may require certificates for shares to bear the signature of such transfer agent(s) and registrar(s).

8. Upon the presentation to the Corporation of a proper affidavit attesting the loss, destruction or mutilation of any certificate for shares of stock of the Corporation, the Board of Directors may direct the issuance of a new certificate or uncertificated shares in lieu of and to replace the certificate so alleged to be lost, destroyed or mutilated. The Board of Directors may require as a condition precedent to the issuance of a new certificate or uncertificated shares any or all of the following: (a) additional evidence of the loss, destruction or mutilation claimed; (b) advertisement of the loss in such manner as the Board of Directors may direct or approve; (c) a bond or agreement of indemnity, in such form and amount and with such surety (or without surety) as the Board of Directors may direct or approve; and (d) the order of approval of a court.

#### Shareholders and Meetings of Shareholders

9. All meetings of shareholders shall be held at such place within or outside of the State of Delaware as shall be fixed by the Board of Directors and stated in the notice of meeting.

10. The Annual Meeting of Shareholders of the Corporation shall be

held on such date and at such time as is fixed by the Board of Directors and stated in the notice of meeting. Directors shall be elected in accordance with the provisions of the Certificate of Incorporation of the Corporation and these by-laws and such other business shall be transacted as may properly come before the meeting.

11. The Annual Meeting of Shareholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from

3

time to time and place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

12. At an Annual Meeting of the Shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an Annual Meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (c) otherwise properly brought before the meeting by a shareholder of the Company. For business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 60 days nor more than 180 days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the date of the annual meeting is more than 45 days later than the anniversary date of the immediately preceding annual meeting, notice by the shareholder to be timely must be received not later than the close of business on the tenth day following the earlier of the date on which a written statement setting forth the date of the annual meeting was mailed to shareholders or the date on which it is first disclosed to the public. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the shareholder proposing such proposal, (c) the class and number of shares of the Corporation which are beneficially owned by the shareholder and (d) any material interest of the shareholder in such business. In addition, if the shareholder's ownership of shares of the Corporation, as set forth in the notice, is solely beneficial, documentary evidence of such ownership must accompany the notice. Notwithstanding anything in the by-laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 12. The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that any business which was not properly brought before the

meeting is out of order and shall not be transacted at the meeting.

13. Except as otherwise required by law and subject to the rights of the holders of any claim or series of stock having a preference over the Common Stock as to dividends or on liquidation, a special meeting of shareholders may be called only by the President or Secretary and then only at the written request of a majority of the directors, provided that, if as of the date of the request for such special meeting there is a Related Holder as defined in Article FOURTEENTH of the Certificate of Incorporation, such majority shall include a majority of the Continuing Directors, as defined in Article FOURTEENTH of the Certificate of Incorporation or by the holders of four-fifths (80%) of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of directors. The request shall state the purpose or purposes for which the meeting is to be called. The notice

4

of every special meeting of shareholders shall state the purpose for which it is called. At any special meeting of shareholders, only such business shall be conducted as shall be provided for in the resolution or resolutions calling the special meeting or, where no such resolution or resolutions have been adopted, only such business shall be conducted as shall be provided in the notice to shareholders of the special meeting. Any special meeting of shareholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from time to time and from place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

14. Written notice of each meeting of shareholders shall be mailed to each shareholder of record at his last address as it appears on the books of the Corporation at least ten days prior to the date of the meeting.

15. The Board of Directors shall have power to close the stock transfer books of the Corporation for a period not more than sixty nor less than ten days preceding the date of any meeting of shareholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect; provided, however, that in lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date not more than sixty nor less than ten days preceding the date of any meeting of shareholders, or the date for any payment of dividends, or the date for allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the shareholders entitled to vote at any such meeting or entitled to receive payment of any such dividend or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in

such cases only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. This by-law shall in no way affect the rights of a shareholder and his transferee or transferor as between themselves.

16. The holders of a majority of the outstanding shares of stock of the Corporation having voting power with respect to a subject matter (excluding shares held by the Corporation for its own account) present or represented by proxy shall constitute a quorum at the meeting of shareholders for the transaction of business with respect to such subject matter. In the absence of a quorum, the shareholders present in person or by proxy shall have power to adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting. At such adjourned meeting, any

5

business may be transacted which might have been transacted at the meeting as originally notified.

17. When a quorum is present or represented at any meeting of shareholders, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the shareholders in all matters, unless the matter is one upon which, by express provision of the corporation laws of the State of Delaware, of the Certificate of Incorporation or of these by-laws, a different vote is required, in which case such express provision shall govern and control the decision of that matter. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors.

18. Every shareholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such shareholder (which for purposes of this paragraph may include a signature and form of proxy pursuant to a facsimile or telegraphic form of proxy or any other instruments acceptable to the Judge of Election), bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation before, or at the time of, the meeting. If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide to the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting thereby conferred, or if only one be present, then such powers may be exercised by that



one; or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the same portion of the shares as he is of the proxies representing such shares.

19. Unless otherwise provided by the Certificate of Incorporation or by the corporation laws of the State of Delaware, each shareholder of the Corporation shall, at every meeting of shareholders, be entitled to one vote in person or by proxy for each share of capital stock of the Corporation registered in his name.

20. Any other corporation owning voting shares in this Corporation may vote the same by its President or by proxy appointed by him, unless some other person shall be appointed to vote such shares by resolution of the Board of Directors of such shareholder corporation. A partnership holding shares of this Corporation may vote such shares by any general partner or by proxy appointed by any general partner.

21. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no such fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of

6

a receiver may be voted by such receiver. A shareholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

22. The order of business and all other matters of procedure at every meeting of the shareholders may be determined by the presiding officer of the meeting, who shall be the Chairman of the Board of Directors, the President or such other officer of the Corporation as designated by the Board. The presiding officer of the meeting shall have all the powers and authority vested in a presiding officer by law or practice without restriction, including, without limitation, the authority, in order to conduct an orderly meeting, to impose reasonable limits on the amount of time at the meeting taken up in remarks by any one shareholder and to declare any business not properly brought before the meeting to be out of order.

23. The Board shall appoint one or more Judges of Election to serve at every meeting of the shareholders.

#### Directors and Meetings of Directors

24. The business of the Corporation shall be managed by a Board of Directors who shall exercise all the powers of the Corporation not reserved to or conferred on the shareholders by statute, the Certificate of Incorporation or the by-laws of the Corporation.

25. Except as otherwise fixed pursuant to the provisions of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors shall be as fixed from time to time by resolution of the Board, provided the number shall be not less than three. The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. The term of office of each director shall expire at the third Annual Meeting after election of the class to which he belongs. During the intervals between Annual Meetings of Shareholders, any vacancy occurring in the Board of Directors caused by resignation, removal, death or other incapacity, and any newly-created directorships resulting from an increase in the number of directors, shall be filled by a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurs. Each director chosen to fill a newly-created directorship shall hold office until the next election of the class for which such director shall have been chosen.

7

26. No person may be elected or re-elected a director of the Corporation if at the time of his election or reelection he shall have attained the age of 70 years, provided however, that a director who shall attain the age of 70 years while serving as a director shall continue in office until the expiration of the term for which he was elected and, provided further that with respect to any person who was a director on November 1, 1996, the reference to "70 years" shall be changed to "72 years."

27. Subject to the rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, nominations for the election of directors may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors generally. However, any shareholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Corporation not later than (i) with respect to an election to be held at an Annual Meeting of Shareholders, 90 days prior to the anniversary date of the date of the immediately preceding

annual meeting, and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the tenth day following the date on which a written statement setting forth the date of such meeting is first mailed to shareholders provided that such statement is mailed no earlier than 120 days prior to the date of such meeting. Notwithstanding the foregoing if an existing director is not standing for reelection to a directorship which is the subject of an election at such meeting or if a vacancy exists as to a directorship which is the subject an election, whether as a result of resignation, death, an increase in the number of directors, or otherwise, then a shareholder may make a nomination with respect to such directorship at anytime not later than the close of business on the tenth day following the date on which a written statement setting forth the fact that such directorship is to be elected and the name of the nominee proposed by the Board of Directors is first mailed to shareholders. Each notice of a nomination from a shareholder shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations); and (e) the consent of each nominee to serve as a director of the Corporation if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

8

28. Any director may be removed from office as a director at any time, but only for cause, by the affirmative vote of shareholders of record holding a majority of the outstanding shares of stock of the Corporation entitled to vote in elections of directors at a meeting of the shareholders called for that purpose.

29. Regular meetings of the Board of Directors shall be held at such times and at such place or places as the directors shall, from time to time, determine at a prior meeting. Special meetings of the Board may be called by the Chairman of the Board or President of the Corporation and shall be called by either of said officers upon the written request of any two directors. Special meetings shall be held at the office of the Corporation or at such place as is stated in the notice of the meeting. No notice shall be required for regular meetings of the Board. Notices of special meetings shall be given by mail at least five days before the meeting or by telephone, telecopy or telegram at least 24 hours before the meeting. Notices may be waived. Notices

need not include any statement of the purpose of the meeting.

30. When all of the directors shall be present at any meeting, however called or notified, they may act upon any business that might lawfully be transacted at regular meetings of the Board, or at special meetings duly called, and action taken at such meetings shall be as valid and binding as if legally called and notified. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment to the full extent and with the same effect as authorized and permitted by Delaware law.

31. One-third of the total number of the members of the Board of Directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at any meeting at which there is a quorum present shall be the acts of the Board; provided, however, that the directors may act in such other manner, with or without a meeting, as may be permitted by the laws of the State of Delaware and provided further, that if all of the directors shall consent in writing to any action taken by the Corporation, such action shall be as valid as though it had been authorized at a meeting of the Board.

32. Directors shall receive such compensation and such fees for attendance at meetings of the Board or of committees thereof and such other compensation as shall be fixed by a majority of the entire Board.

#### Committees of Directors

33. The Board of Directors may designate one or more committees of the Board as may be established from time to time by resolution of a majority of the whole Board. Each of such committees shall consist of one or more members of the Board. Members of committees of the Board of Directors shall be elected annually by vote of a majority of the Board. Presence of

9

one-half of the committee members, shall constitute a quorum. Committees may act by majority vote of the members present at a meeting. Each of such committees shall have and may exercise such of the powers of the Board of Directors in the management of the business and affairs of the Corporation as may be provided in these by-laws or by resolution of the Board of Directors. Each of such committees may authorize the seal of the Corporation to be affixed to all papers which may require it. The Board of Directors may designate one or more directors as alternate members of any such committee, who may replace any absent or disqualified member at any meeting of such committee. Meetings of committees may be called by any member of a committee by written, telegraphic or telephonic notice and shall be held at such time and place as shall be stated in the notice of meeting. Any member of a committee may participate in any meeting by means of conference telephone or similar communications

equipment. In the absence or disqualification of a member of any committee the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum may, if deemed advisable, unanimously appoint another member of the Board to act at the meeting in the place of the disqualified or absent member. Each committee may fix such other rules and procedures governing conduct of meetings as it shall deem appropriate.

34. Any action required or permitted to be taken at any meeting of any committee of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by all of the members of such committee.

#### Officers

35. The Board of Directors shall elect a Chief Executive Officer, a President, who may also be the Chief Executive Officer, and a Secretary, and may elect a Chairman, a Treasurer, one or more vice presidents, including an Executive Vice President and a Vice President-Finance, a Controller, a Controller-Operations, and one or more assistant secretaries and assistant treasurers. The Chief Executive Officer of the Corporation shall be a director of the Corporation. Any two of the above offices, except those of President and Vice President, may be held by the same person but no officers shall execute, acknowledge or verify any instrument in more than one capacity.

36. Officers of the Corporation shall hold office until they resign or until their successors are chosen and qualified; provided, however, that no person shall serve as an officer of the Corporation beyond the last day of the fiscal year of the Corporation during which such person reaches age 65. Any officer, agent or employee may be removed at any time, with or without cause, by the Board but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Vacancy occurring in any office or position at any time may be filled by the Board. All officers, agents and employees of the Corporation shall respectively have such authority and perform such duties in the conduct and management of the Corporation as may be delegated by the Board of Directors or by these Bylaws.

10

37. Officers shall receive such compensation as may from time to time be determined by the Board of Directors. Agents and employees shall receive such compensation as may from time to time be determined by the President of the Company or, if the Board of Directors has elected a Chairman of the Board and has designated such Chairman of the Board to be the Chief Executive Officer of the Company, by the Chairman of the Board.

38. The Chairman of the Board shall preside at all meetings of the shareholders and at all meetings of the directors. In the absence of the

Chairman of the Board, the President shall so preside.

39. The Board of Directors shall designate either the Chairman of the Board or the President as the Chief Executive Officer of the Company. The Chief Executive Officer of the Company shall supervise and direct the operations of the business in accordance with the policies determined by the Board of Directors. If the President is not designated the Chief Executive Officer, the President shall be the Chief Operating Officer of the Company and shall be responsible for the general supervision and control of the business and the affairs of the Company subject to the directions of the Chairman of the Board and the Board of Directors. The Chief Operating Officer, in the absence or incapacity of the Chief Executive Officer, shall perform the duties of that office.

40. The Vice President, in the absence or incapacity of the President, shall perform the duties of that office. If there be an executive vice president, he shall perform the duties of the President in the event of his absence or incapacity. If there be more than one vice president, and no executive vice president, the Board of Directors may designate the Vice President who is to perform the duties of the President in the event of his absence or incapacity. Each Vice President shall have such other duties and authority as shall be assigned by the President or may be delegated by the Board of Directors. The Vice President-Finance shall be responsible for and direct the Treasurer, Controller, and Director of Data Processing of the Corporation in all treasury, accounting, cost and budgeting, and data collection functions. He will report directly to the President with a report and policy relationship to the Chairman of the Board and the Board of Directors.

41. The Secretary shall attend all meetings of the Board of Directors and all meetings of shareholders and shall record all votes and minutes from all proceedings in a book to be kept for that purpose. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary. The Secretary shall perform such other duties and have such other authorities as are delegated to him by the Board of Directors.

42. The Treasurer shall be responsible for the care and custody of all funds and other financial assets, taxes, corporate debt, order entry and sales invoicing including credit memos,

11

credit and collection of accounts receivable, cash receipts, and the banking and insurance functions of the Corporation. He shall report directly to and perform such other duties as shall be assigned by the Vice President-Finance.

43. The Controller shall be responsible for the installation and

supervision of all general accounting records of the Corporation, preparation of financial statements and the annual and operating budgets and profit plans, continuous audit of accounts and records of the Corporation, preparation and interpretation of statistical records and reports, taking and costing of all physical inventories and administering the inventory levels, supervision of accounts payable and cash disbursements function and hourly and salary payrolls. He shall report directly to and perform such other functions as shall be assigned him by the Vice President-Finance.

44. The Board of Directors of the Corporation may require any officer, agent or employee to give bond for the faithful discharge of his duty and for the protection of the Corporation, in such sum and with such surety as the Board deems advisable.

#### Banking, Checks and Other Instruments

45. The Board of Directors shall by resolution designate the bank or banks in which the funds of the Corporation shall be deposited, and such funds shall be deposited in the name of the Corporation and shall be subject to checks drawn as authorized by resolution of the Board of Directors.

46. The Board of Directors may in any instance designate the officers and agents who shall have authority to execute any contract, conveyance, or other instrument on behalf of the Corporation; or may ratify or confirm any execution. When the execution of any instrument has been authorized without specification of the executing officer or agents, the Chairman of the Board, if designated as the Chief Executive Officer of the Corporation, President or any Vice President, and the Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may execute the same in the name and on behalf of the Corporation and may affix the corporate seal thereto.

#### Fiscal Year

47. The fiscal year of the Corporation shall begin on the first day of November and end on the thirty-first day of October.

#### Books and Records

48. The proper officers and agents of the Corporation shall keep and maintain such books, records and accounts of the Corporation's business and affairs and such stock ledgers and

lists of shareholders as the Board of Directors shall deem advisable and as shall be required by the laws of the State of Delaware or other states or jurisdictions empowered to impose such requirements.

## Indemnification

49. Each director or officer of the Corporation who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (the "DGCL"), (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the DGCL requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under the applicable provisions of the DGCL. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

50. The indemnification and advancement of expenses provided in paragraph 53 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders, vote of disinterested directors, insurance arrangement or otherwise, both as to action in his or her official capacity and as to action in another capacity or holding such officer.



51. These Bylaws may be altered, amended or repealed and new by-laws may be adopted at any regular meeting of the shareholders or Board of Directors; or at any special meeting of the shareholders or Board of Directors; provided that notice of such proposed making, alteration or repeal be included in the notice of such special meeting. The Board of Directors may take such action by the vote of a majority of those Directors present and voting at a meeting where a quorum is present, provided that if there is a Related Holder as defined in Article FOURTEENTH of the Certificate of Incorporation, such majority shall include a majority of the Continuing Directors, as defined in Article FOURTEENTH of the Certificate of Incorporation. In accordance with the provisions of the Certificate of Incorporation, the shareholders may make new by-laws, or adopt, alter, amend, or repeal by-laws adopted by either the shareholders or the Board of Directors by the affirmative vote of the holders of not less than four-fifths of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally for the election of directors. The power of the shareholders and the Board shall include the fixing and appointing of the number of directors in accordance with the provisions of the Certificate of Incorporation.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AS OF JULY 31, 1999 AND THE INCOME STATEMENT FOR THE NINE MONTHS ENDED JULY 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	OCT-31-1999
<PERIOD-START>	NOV-01-1998
<PERIOD-END>	JUL-31-1999
<CASH>	41,863
<SECURITIES>	0
<RECEIVABLES>	78,918
<ALLOWANCES>	0
<INVENTORY>	81,824
<CURRENT-ASSETS>	216,970
<PP&E>	737,689
<DEPRECIATION>	(337,183)
<TOTAL-ASSETS>	687,482
<CURRENT-LIABILITIES>	135,230
<BONDS>	194,428
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	7,134
<OTHER-SE>	284,412
<TOTAL-LIABILITY-AND-EQUITY>	687,482
<SALES>	592,601
<TOTAL-REVENUES>	592,601
<CGS>	509,510
<TOTAL-COSTS>	509,510
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	10,881
<INCOME-PRETAX>	39,965
<INCOME-TAX>	13,988
<INCOME-CONTINUING>	25,977
<DISCONTINUED>	0
<EXTRAORDINARY>	415
<CHANGES>	0
<NET-INCOME>	26,392
<EPS-BASIC>	1.85
<EPS-DILUTED>	1.74

</TABLE>