QUANEX CORP
Form 424B3
January 14, 2005

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PROSPECTUS

$125,000,000

2.50% Convertible Senior Debentures due May 15, 2034
and the Common Stock Issuable Upon Conversion of the Debentures

We issued the debentures in a private placement on May 5, 2004. The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus. See "Selling Security Holders" beginning on page 14. We will not receive any of the proceeds from the sale by the selling security holders of the securities offered by this prospectus.

The debentures are due May 15, 2034. We will pay interest on the debentures at an annual rate of 2.50% of the principal amount on May 15 and November 15 of each year, commencing November 15, 2004. Beginning on May 15, 2011, we will pay contingent interest on the debentures if the average trading price of the debentures is above a specified level, as described in this prospectus.

Holders may surrender their debentures for conversion into shares of our common stock at a conversion rate of 26.1113 shares of our common stock per $1,000 principal amount of debentures. This is equivalent to a conversion price of approximately $38.2976 per share of common stock, subject to adjustment in some events. Holders may surrender their debentures for conversion if any of the following conditions is satisfied:

- during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of our common stock on such last trading day;

- if we have called the debentures for redemption; or

- upon the occurrence of specified corporate transactions described in this prospectus.

Upon conversion of the debentures we may, in our discretion, in lieu of delivering shares of common stock, deliver cash or a combination of cash and shares of common stock.

The debentures are our general unsecured senior obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness, and senior in right of payment to any of our existing and future subordinated indebtedness. The debentures are effectively subordinated to all of our senior secured indebtedness and all indebtedness and liabilities of our subsidiaries, including trade creditors.

On or after May 15, 2011, we may redeem for cash all or part of the debentures that have not previously been converted or purchased at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, contingent interest and additional interest, if any, up to but not including the date of redemption.

Holders may require us to purchase for cash all or part of their debentures on May 15 of 2011, 2014, 2019, 2024 and 2029 at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest including contingent interest and additional interest, if any, up to but not including the date of purchase. In addition, upon a fundamental change (as described in this prospectus), each holder may require us to purchase for cash all or a portion of such holder's debentures at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest including contingent interest and additional interest, if any, up to but not including the date of purchase.

The debentures will be treated as "contingent payment debt instruments" for United States federal income tax purposes and will be subject to special rules. You should read "Material U.S. Federal Income Tax Considerations".

Shares of our common stock are listed on the New York Stock Exchange under the symbol "NX". The closing price on the New York Stock Exchange on January 13, 2005 was $43.73.

Investing in the debentures involves risks. See "Risk Factors" beginning on page 6.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 13, 2005

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You should rely only on the information contained in, or incorporated by reference into, this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using a "shelf" registration process. This means the securities described in this prospectus may be offered and sold using this prospectus from time to time as described in the "Plan of Distribution". You should carefully read this prospectus and the information described under the heading "Where You Can Find More Information". Under no circumstances should the delivery to you of this prospectus or any offering or sales made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus.

SUMMARY

This summary highlights basic information contained in this prospectus. This summary may not contain all of the information that is important to you, and it is qualified in its entirety by the more detailed information and historical consolidated financial statements, including the notes to those financial statements, that are part of our reports filed with the SEC and incorporated by reference in this prospectus. You should carefully consider the information contained in and incorporated by reference in the entire prospectus, including the information set forth under the heading "Risk Factors". In this prospectus, the terms "we", "us", "our", "the Company", and "Quanex" refer to Quanex Corporation and its subsidiaries unless the context indicates otherwise.

Business Overview

We are a technological leader in the production of value-added engineered carbon and alloy steel bars, aluminum flat-rolled products, flexible insulating glass spacer systems, and precision-formed metal wood products, which primarily serve the vehicular products and building products markets. We use state-of-the-art manufacturing technologies, low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications. Our net sales and operating income in the fiscal year ended October 31, 2004 were $1.46 billion and $99.4 million, respectively.

We operate 20 manufacturing facilities in 11 states in the United States. These facilities feature efficient plant design and flexible manufacturing processes, enabling us to produce a wide variety of custom engineered products and materials for the vehicular products and building products markets. We are able to maintain minimal levels of finished goods inventories at most locations because we typically manufacture products upon order to customer specifications.

Other Information

Quanex was founded in 1927 and has been incorporated in Delaware since 1968. Our executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. Our telephone number at that address is (713) 961-4600. Our website address is www.quanex.com. The information on our website is not part of this prospectus.

Offering Summary

This prospectus covers the resale of up to $125,000,000 aggregate principal amount of the debentures and the 2,173,989 shares of our common stock (and accompanying rights (see page 41)) issuable upon conversion of the debentures plus an indeterminate number of shares of our common stock issuable upon conversion of the debentures by means of adjustment of the conversion price pursuant to the terms of the debentures. We issued and sold a total of $125,000,000 aggregate principal amount of the debentures on May 5, 2004 in a private placement to Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated and KeyBanc Capital Markets, A Division of McDonald Investments Inc. (the "initial purchasers"). The following summary contains basic information about the debentures and is not intended to be complete. It does not contain all the information that is important to holders of the debentures. For a more complete understanding of the debentures, please refer to the section of this document entitled "Description of the Debentures". For purposes of the description of the debentures included in this prospectus, references to "the Company", "Issuer", "us", "we" and "our" refer only to Quanex Corporation.

Issuer	Quanex Corporation, a Delaware corporation.
Securities Offered	$125,000,000 aggregate principal amount of 2.50% Convertible Senior Debentures due May 15, 2034, including shares of our common stock into which the debentures are convertible.
Selling Security Holders	The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus. See "Selling Security Holders".
Issue Price	The debentures were issued at 100% of their principal amount plus accrued interest, if any, from May 5, 2004.
Maturity Date	May 15, 2034, unless earlier converted, redeemed by us at our option or repurchased by us at the option of the holders.
Interest	2.50% per annum interest rate from May 5, 2004 on the principal amount, payable semiannually, in arrears, on each May 15 and November 15 beginning November 15, 2004 to the holders of record at the close of business on the preceding May 1 and November 1, respectively. Interest generally will be computed on the basis of a 360 day year comprised of twelve 30 day months.
Contingent Interest	We will pay contingent interest to the holders of debentures during any six month period from May 15 to November 14 and from November 15 to May 14, commencing with the six month period beginning May 15, 2011 if the average "debenture price", as that term is defined on page 19, of a debenture for the five trading days ending on the third trading day immediately preceding the first day of the relevant six month period equals 120% or more of the principal amount of such debenture. The amount of contingent interest payable per debenture in respect of any such six month period will be equal to 0.25% per annum of such average debenture price of such debenture.

Ranking	The debentures are our general unsecured senior obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness, and senior in right of payment to any of our existing and future subordinated indebtedness. The debentures are effectively subordinated to all of our senior secured indebtedness and all indebtedness and liabilities of our subsidiaries, including trade creditors. As of October 31, 2004, we had no senior secured indebtedness outstanding, while our subsidiaries had approximately $90.7 million of liabilities, including approximately $2.3 million of indebtedness, outstanding. As of December 31, 2004, we had approximately $190 million of senior secured indebtedness outstanding. The increase was primarily due to the acquisition of Mikron Industries, Inc. ("Mikron"). We and our subsidiaries are not prohibited from incurring senior indebtedness or other debt under the indenture. See "Description of the Debentures General".
Conversion Rights	The debentures are convertible into shares of our common stock at a conversion rate of 26.1113 shares of our common stock per $1,000 principal amount of debentures (which represents a conversion price of approximately $38.2976 per share of common stock) under the conditions and subject to such adjustments as are described under "Description of the Debentures Conversion Rights".
	Holders may surrender their debentures for conversion into shares of our common stock prior to the stated maturity under the following circumstances:
	during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of our common stock on such last trading day;
	if we have called the debentures for redemption; or
	upon the occurrence of specified corporate transactions.
	Upon conversion of the debentures, we may, in our discretion, in lieu of delivering shares of common stock, deliver cash or a combination of cash and shares of common stock. If we elect to pay cash in lieu of shares, the payment will be based on the volume weighted average price of our common stock over a 20 trading day measurement period beginning on the third trading day following the conversion date. See "Description of the Debentures Conversion Rights".

	On the first day the debentures become convertible under the above circumstances, we will notify holders in writing of our method for settling the principal portion of the debentures upon conversion ("principal conversion settlement election"). This notification is irrevocable and legally binding with regard to any conversion of the debentures. As such, the conversion settlement election made with respect to the principal amount on that date remains effective if the debentures cease to be convertible for any period but subsequently become convertible again.
	Until the debentures are surrendered for conversion, we will not be required to notify holders of our method for settling the excess amount of our conversion obligation relating to the amount of the conversion value above the principal amount, if any.
	Except as described in "Description of the Debentures Conversion Rights", upon any conversion, you will not receive any separate cash payment representing accrued and unpaid interest including contingent interest and additional interest, if any.
Optional Redemption	On or after May 15, 2011, we may redeem for cash all or part of the debentures that have not been previously converted or purchased at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of redemption. See "Description of the Debentures Optional Redemption".
Repurchase of the Debentures at the Option of Holders	Holders may require us to purchase for cash all or part of their debentures on May 15 of 2011, 2014, 2019, 2024 and 2029 at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of purchase. See "Description of the Debentures Repurchase of Debentures at the Option of Holders Optional put".
Fundamental Change	In the event of a fundamental change, as described in this prospectus, each holder may require us to purchase for cash all or a portion of such holder's debentures at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest, including contingent interest and additional interest, if any, up to but not including the date of purchase. See "Description of the Debentures Repurchase of Debentures at the Option of Holders Repurchase of debentures at the option of holders upon a fundamental change".
Sinking Fund	None.

Use of Proceeds	We used the net proceeds from the initial offering of the debentures to repay a portion of the amounts outstanding under our revolving credit agreement and for general corporate purposes. We will not receive any proceeds from the sale by any selling security holder of the debentures or our common stock issuable upon conversion of the debentures.
Registration Rights Agreement	If we fail to comply with certain of our obligations under the registration rights agreement, additional interest will be payable on the debentures or, following conversion, additional amounts with respect to the shares of common stock issued upon conversion. See "Description of the Debentures Registration Rights".
DTC Eligibility	The debentures have been issued in book entry form and are represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the debentures will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See "Description of the Debentures Book Entry, Delivery and Form".
Listing and Trading	The debentures issued in the private placement are eligible for trading in the PORTAL[SM] Market of the NASD, Inc. The debentures sold using this prospectus, however, will no longer be eligible for trading in the PORTAL[SM] Market. We do not intend to list the debentures on any other national securities exchange or automated quotation system. Our common stock is quoted on the New York Stock Exchange under the symbol "NX".
Risk Factors	An investment in the debentures and the common stock issuable upon conversion of the debentures involves risks. Prospective investors should carefully consider the information set forth under "Risk Factors".
U.S. Federal Income Tax Considerations	The debentures and the common stock issuable upon conversion of the debentures are subject to special and complex United States federal income tax rules. Prospective investors are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the debentures and common stock issuable upon conversion of the debentures. See "Risk Factors You should consider the U.S. federal income tax consequences of owning the debentures" and "Material U.S. Federal Income Tax Considerations".

RISK FACTORS

Before you buy the debentures and the common stock issuable upon conversion of the debentures, you should carefully consider the factors described below in addition to the remainder of this prospectus and the information incorporated by reference. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected.

Risks Relating to our Business

If our raw materials or energy were to become unavailable or to significantly increase in price, we might not be able to timely produce products for our customers or maintain our profit levels.

We require substantial amounts of raw materials, substantially all of which are purchased from outside sources. Furthermore, we do not have long-term contracts for the supply of most of our raw materials. The availability and prices of raw materials may be subject to curtailment or change due to new laws or regulations, suppliers' allocations to other purchasers or interruptions in production by suppliers. For example, we experienced a steep increase in costs for steel and aluminum scrap in fiscal 2004 due to a global rebound in manufacturing and demand for steel in addition to increased demand from China and other consumers for scrap metal. In addition, the operation of our facilities requires substantial amounts of electric power and natural gas. Any change in the supply of, or price for, these raw materials or energy could affect our ability to timely produce products for our customers. Although we have contractual arrangements with many of our customers that permit us to increase our prices in response to increased raw material costs, in times of rapidly rising raw material prices the adjustments will lag the current market price.

Portions of our business are generally cyclical in nature. Lowered vehicle production, fewer housing starts, reduced remodeling expenditures or weaknesses in the economy could significantly reduce our net earnings.

Demand for our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as the automotive and construction industries.

The demand for our Vehicular Products Segment's products is largely dependent on the North American production level of vehicles. The markets for our products have historically been cyclical because new vehicle demand is dependent on, among other things, consumer spending and is tied closely to the overall strength of the economy. Declines in vehicle production could significantly reduce our net earnings. Our sales are also impacted by retail inventory levels and our customers' production schedules. If our OEM customers significantly reduce their inventory levels and reduce their orders from us, our performance would be impacted.

The primary drivers of our Building Products Segment are housing starts and remodeling expenditures. The building and construction industry is cyclical, and product demand is based on numerous factors such as interest rates, general economic conditions, consumer confidence and other factors beyond our control. Declines in housing starts and remodeling expenditures due to such factors could significantly reduce our net earnings.

Portions of our business are seasonal in nature, leading to fluctuations in our quarterly earnings that may affect our ability to pay interest on the debentures.

Portions of our business are seasonal in nature and follow activity levels in the building and construction industry. The primary markets for our Engineered Products and Nichols Aluminum divisions are in the Northeast and Midwest regions of the United States, where winter weather typically reduces homebuilding and home improvement activity. These divisions typically experience their lowest sales during the Company's first fiscal quarter. Furthermore, due to the number of holidays in the Company's first fiscal quarter, sales have historically been lower in this period as some customers reduce production schedules. Accordingly, our results for the first and second quarters of our fiscal year are not indicative of our annual profitability. If our earnings on a seasonally slow quarter fall too much, our ability to pay interest on the debentures may be impaired and the value of our common stock may decrease.

We are subject to various environmental requirements, and compliance with, or liabilities under, existing or future environmental laws and regulations could significantly increase our costs of doing business.

Our operations are subject to extensive federal, state and local laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, we must make capital and other expenditures on an ongoing basis. For example, environmental agencies continue to develop regulations implementing the Federal Clean Air Act. Depending on the nature of the regulations adopted, we may be required to incur additional capital and other expenditures in the next several years for air pollution control equipment, to maintain or obtain operating permits and approvals, and to address other air emission-related issues. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and our facilities of future regulations and government decisions. It is likely that we will be subject to increasingly stringent environmental standards and the additional expenditures related to compliance with such standards. Furthermore, if we fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

Under applicable state and federal laws, we also may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations we have owned or operated at any time. We are currently involved in environmental investigations or remediation at several such locations. From time to time, we also have been alleged to be liable for all or part of the costs incurred to clean up third-party sites where we are alleged to have arranged for disposal of hazardous substances. While we have established reserves for such liabilities, such reserves may not be adequate to cover the ultimate cost of remedial measures required by environmental authorities. Total remediation reserves, at October 31, 2004, for our current plants, former operating locations, and disposal facilities were approximately $8.5 million. Of that current remediation reserve, approximately $2.0 million represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. Approximately 60% of the total remediation reserve currently is allocated to cleanup and other corrective measures at Piper Impact. At present, the largest component is for remediation of soil and groundwater contamination from prior operators at the Piper Impact plant on Highway 15 in New Albany, Mississippi. We voluntarily implemented a state-approved remedial action plan there that includes natural attenuation together with a groundwater collection and treatment system, but we continue to investigate site conditions and evaluate performance of the remedy. The discovery of previously unknown contamination, inadequate performance of a remedy or the imposition of new clean-up requirements at any site for which we are responsible could require us to incur additional costs or become subject to significant new or increased liabilities.

We may not be able to successfully identify, manage or integrate future acquisitions, and if we are unable to do so, we are unlikely to sustain our historical growth rates and profitability.

Historically, we have grown through a combination of internal growth and external expansion through acquisitions, such as our December 2003 acquisitions of TruSeal Technologies and MACSTEEL Monroe and our December 2004 acquisition of Mikron Industries. Although we are actively pursuing our growth strategy both in our domestic target markets and overseas and expect to continue doing so in the future, we cannot provide any assurance that we will be able to identify appropriate acquisition candidates or, if we do, that we will be able to successfully negotiate the terms of an acquisition, finance the acquisition or integrate the acquired business effectively and profitably into our existing operations. Integration of Mikron Industries or future acquired businesses could disrupt our business by diverting management's attention away from day-to-day operations. Further, failure to successfully integrate any acquisition may cause significant operating inefficiencies and could adversely affect our profitability. Consummating an acquisition could require us to raise additional funds through additional equity or debt financing. Additional equity financing could depress the market price of our common stock. Additional debt financing could require us to accept covenants that limit our financial or operating flexibility, including our ability to pay dividends.

We operate in competitive markets, and our business will suffer if we are unable to adequately address potential downward pricing pressures and other factors that may reduce our operating margins.

The principal markets that we serve are highly competitive. Competition is based primarily on the precision and range of achievable tolerances, quality, price and the ability to meet delivery schedules dictated by customers. Our competition in the markets in which we participate comes from companies of various sizes, some of which have greater financial and other resources than we do and some of which have more established brand names in the markets we serve. Any of these competitors may foresee the course of market development more accurately than us, develop products that are superior to our products, have the ability to produce similar products at a lower cost than us, or adapt more quickly than us to new technologies or evolving customer requirements. Increased competition could force us to lower our prices or to offer additional services at a higher cost to us, which could reduce our gross profit and net income, particularly in lower-margin businesses such as Nichols Aluminum.

OEMs have significant pricing leverage over suppliers and may be able to achieve price reductions over time, which will reduce our profits.

Piper Impact and Temroc Metals sell directly to OEMs. Our Engineered Products division's products are sold primarily to OEMs, except for some residential building products, which are sold through distributors. MACSTEEL's and Nichols Aluminum's products are sold directly to OEMs and in smaller amounts through distributors. There is substantial and continuing pressure from OEMs in various industries, especially the automotive industry, to reduce the prices they pay to suppliers. We attempt to manage such downward pricing pressure, while trying to preserve our business relationships with our OEM customers, by seeking to reduce our production costs through various measures, including purchasing raw materials and components at lower prices and implementing cost-effective process improvements. However, our suppliers may resist pressure to lower their prices and may seek to impose price increases. If we are unable to offset OEM price reductions through these measures, our gross margins and profitability could be adversely affected. In addition, OEMs have substantial leverage in setting purchasing and payment terms, including the terms of accelerated payment programs under which payments are made prior to the account due date in return for an early payment discount.

We could lose customers and the related revenues due to the transfer of manufacturing capacity by our customers out of the United States to lower cost regions of the world.

Manufacturing activity in the United States has been on the decline over the past several years. One of the reasons for this decline is the migration by U.S. manufacturers to other regions of the world that offer lower cost labor forces. The combined effect is that U.S. manufacturers can reduce product costs by manufacturing and assembling in other regions of the world and then importing those products to the United States. Some of our customers have shifted production to other regions of the world and there can be no assurance that this trend will not continue. We will lose customers and revenues if our customers locate in areas that we choose not to serve or that we cannot economically serve.

If our relationship with our employees were to deteriorate, we may be faced with labor shortages, disruptions or stoppages, which could shut down certain of our operations, reducing our revenue and income.

Our operations rely heavily on our employees, and any labor shortage, disruption or stoppage caused by poor relations with our employees and/or renegotiation of labor contracts could shut down certain of our operations. Approximately 45% of our employees are covered by collective bargaining agreements which expire between 2006 and 2009. It is possible that we could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the future, any of which could reduce our revenue due to lost sales and income. Similarly, any failure to negotiate a new labor agreement when required might result in a work stoppage that could reduce our operating margins and income.

In addition, many OEMs and their suppliers have unionized work forces. Work stoppages or slowdowns experienced by OEMs or their suppliers could result in slowdowns or closures of assembly plants where our products are included in assembled vehicles. In the event that one or more of our customers experiences a material work stoppage, such work stoppage could prevent the customers from purchasing our products.

Changes in regulatory requirements or new technologies may render our products obsolete or less competitive.

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of our products obsolete or less competitive, preventing us from selling them at profitable prices, or at all. Our ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely and cost-efficient basis will be a significant factor in our ability to remain competitive. Our business may, therefore, require significant ongoing and recurring additional capital expenditures and investments in research and development. We may not be able to achieve the technological advances necessary for us to remain competitive or certain of our products may become obsolete. We are also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly.

Equipment failures, delays in deliveries or catastrophic loss at any of our manufacturing facilities could lead to production curtailments or shutdowns that prevent us from producing our products.

An interruption in production capabilities at any of our facilities as a result of equipment failure or other reasons could result in our inability to produce our products, which would reduce our sales and earnings for the affected period. In addition, we generally manufacture our products only after receiving the order from the customer and thus do not hold large inventories. In the event of a stoppage in production at any of our manufacturing facilities, even if only temporary, or if we experience delays as a result of events that are beyond our control, delivery times could be severely affected. Any significant delay in deliveries to our customers could lead to increased returns or cancellations and cause us to lose future sales. Our manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. We have in the past and may in the future experience plant shutdowns or periods of reduced production as a result of equipment failure, delays in deliveries or catastrophic loss, which could have a material adverse effect on our results of operations or financial condition. Although we have obtained property damage and business interruption insurance, we may not have adequate insurance to compensate us for all losses that result from any of these events.

Our business involves complex manufacturing processes that may result in costly accidents or other disruptions of our operations.

Our business involves complex manufacturing processes. Some of these processes involve high pressures, hot metal and other materials and equipment that present certain safety risks to workers employed at our manufacturing facilities. Although we employ safety procedures in the design and operation of our facilities, the potential exists for accidents involving death or serious injury. The potential liability resulting from any such accident, to the extent not covered by insurance, could cause us to incur unexpected cash expenditures, thereby reducing the cash available to us to operate our business and pay interest on the debentures. Such an accident could disrupt operations at any of our facilities, which could adversely affect our ability to deliver product to our customers on a timely basis and to retain our current business.

Flaws in the design or manufacture of our products could cause product liability or warranty claims for which we do not have adequate insurance or affect our reputation among customers.

Our products are essential components in vehicles, buildings and other applications where problems in the design or manufacture of our products could result in property damage, personal injury or death. While we believe that our liability insurance is adequate to protect us from product liability and warranty liabilities, our insurance may not cover all liabilities or be available in the future at a cost acceptable to us. In addition, if any of our products prove to be defective, we may be required to participate in a recall involving such products. A successful claim brought against us in excess of available insurance coverage, if any, or a requirement to participate in any product recall, could significantly reduce our profits or negatively affect our reputation with customers.

Risks Related to the Debentures and our Common Stock

The debentures are unsecured and future secured indebtedness, as well as all indebtedness of our subsidiaries, will rank effectively senior to the debentures.

The debentures are unsecured and rank equal in right of payment with our existing and future unsecured and senior indebtedness. The debentures are effectively subordinated to our secured debt to the extent of the value of the assets that secure that indebtedness. In the event of our bankruptcy, liquidation or reorganization or upon acceleration of the debentures, payment on the debentures could be less, ratably, than on any secured indebtedness. We may not have sufficient assets remaining to pay amounts due on any or all of the debentures then outstanding. As of October 31, 2004, we had no senior secured indebtedness outstanding. In December 2004, we borrowed approximately $190 million of senior secured indebtedness to fund the acquisition of Mikron. The debentures effectively would be subordinated to such borrowings.

The debentures are not guaranteed by any of our subsidiaries. Our right to receive any distribution of assets of any subsidiary upon that subsidiary's liquidation, reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent we are also recognized as a creditor of that subsidiary. As a result, the debentures are effectively subordinated to the claims of such creditors. As of October 31, 2004, our subsidiaries had approximately $2.3 million of aggregate indebtedness outstanding to which the debentures effectively are subordinated.

The indenture governing the debentures does not prohibit or limit us or our subsidiaries from incurring additional indebtedness, including additional secured indebtedness, and other liabilities, or from pledging assets to secure such indebtedness and liabilities. The incurrence of additional indebtedness and, in particular, the granting of a security interest to secure the indebtedness, could adversely affect our ability to pay our obligations on the debentures. As of October 31, 2004, we had $303.6 million available under our revolving credit agreement. Furthermore, our revolving credit agreement would have allowed us to incur approximately $53.5 million of additional indebtedness as of

October 31, 2004 (although additional amounts could be incurred if the banks waived certain covenants contained in the revolving credit agreement). In December 2004, the banks issued a consent adjusting the amount of indebtedness that could be incurred under the revolving credit agreement, thereby allowing us to borrow against our revolving credit agreement to fund the acquisition of Mikron. As of December 31, 2004, we had approximately $190 million of senior secured indebtedness outstanding.

We may not be able to repay or repurchase the principal amount of the debentures when required.

At maturity, the entire outstanding principal amount of the debentures will become due and payable by us. In addition, on May 15 of 2011, 2014, 2019, 2024 and 2029 or if certain designated events occur (as described in "Description of the Debentures Repurchase of Debentures at the Option of Holders"), holders of the debentures may require us to repurchase their debentures for cash. If the holders require us to repurchase the debentures as described under "Description of the Debentures Repurchase of Debentures at the Option of Holders Optional put" or in the event a fundamental change occurs, we will be required to purchase all or any part of the holder's debentures at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the date of purchase. It is possible that we will not have sufficient funds at the time of repurchase to make the required repurchases of the debentures or that restrictions in our other indebtedness may not allow these repurchases. Our failure to purchase the debentures would be a default under the indenture. We refer you to "Description of the Debentures Repurchase of Debentures at the Option of Holders".

You should consider the U.S. federal income tax consequences of owning the debentures.

Under the indenture governing the debentures, we agreed, and by acceptance of a beneficial interest in a debenture each holder of a debenture is deemed to have agreed, to treat the debentures as indebtedness for U.S. federal income tax purposes that is subject to the Treasury regulations governing contingent payment debt instruments. For U.S. federal income tax purposes, interest income on the debentures will accrue at the rate of 5.86% per year, compounded semi-annually, which rate represents our determination of the yield at which we could have issued, as of the issue date, a comparable noncontingent, nonconvertible, fixed-rate debt instrument with terms and conditions otherwise similar to the debentures. A United States Holder (as that term is defined in "Material U.S. Federal Income Tax Considerations") will be required to accrue interest income on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a United States Holder generally will recognize taxable income significantly in excess of regular interest payments received while the debentures are outstanding.

A United States Holder will also recognize gain or loss on the sale, conversion, exchange, redemption or retirement of a debenture in an amount equal to the difference between the amount realized on the sale, conversion, exchange, redemption or retirement of a debenture, including the fair market value of our common stock received, and the United States Holder's adjusted tax basis in the debenture. Any gain recognized on the sale, conversion, exchange, redemption or retirement of a debenture generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. The material U.S. federal income tax consequences relevant to persons holding the debentures are summarized in this prospectus under the heading "Material U.S. Federal Income Tax Considerations".

If we increase the cash dividend on our common stock, an adjustment to the conversion rate may result, and you may be deemed to have received a taxable dividend subject to U.S. federal income tax without the receipt of any cash. If you are a Non-United States Holder (as defined in "Material U.S. Federal Income Tax Considerations"), such deemed dividend may be subject to U.S. federal withholding tax at a 30% rate or such lower rate as may be specified by an applicable treaty. See "Material U.S. Federal Income Tax Considerations".

We expect that the trading value of the debentures will be significantly affected by the price of our common stock and other factors which may affect the price you receive if you sell the debentures.

The market price of the debentures is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the debentures than would be expected for nonconvertible debt securities. In addition, the debentures have a number of features, including conditions to conversion, that could result in a holder receiving less than the value of our common stock into which a debenture would otherwise be convertible. These features could adversely affect the value and the trading price for the debentures.

Because there is no current market for the debentures, an active trading market may not develop.

There is no established trading market for the debentures. We do not intend to list the debentures for trading on a national securities exchange. Although the debentures issued in the private placement are currently traded on the PORTAL^{SM} Market, there may be no liquidity in any market for the debentures, the holders may not be able to sell their debentures, or the prices at which holders of the debentures would be able to sell their debentures may not be acceptable. The debentures could trade at prices higher or lower than their initial purchase prices depending on many factors. Accordingly, there can be no assurance that a market for the debentures will develop. Furthermore, if a market were to develop, the market price for the debentures may be adversely affected by changes in our financial performance, changes in the overall market for similar securities and changes in performance or prospects for companies in our industry.

If we experience a fundamental change, we may be unable to purchase your debentures as required under the indenture.

Upon a fundamental change, as described in this prospectus, you will have the right to require us to repurchase your debentures. If we experience a fundamental change and do not have sufficient funds to pay the repurchase price for all of the debentures you tendered, an event of default under the indenture governing the debentures would occur as a result of such failure. Such a fundamental change would also constitute a default under our revolving credit agreement, resulting in the acceleration of the amounts due thereunder and termination of the agreement. We may not have sufficient funds to repurchase the debentures and repay the revolving credit facility simultaneously. In addition, a fundamental change may be prohibited or limited by, or create an event of default under, other agreements relating to borrowings which we may enter into from time to time. Borrowings under the revolving credit agreement will be, and other borrowings are likely to be, senior indebtedness. Therefore, a fundamental change at a time when we cannot pay for your debentures that are tendered as a result of such fundamental change could result in your receiving substantially less than the principal amount of the debentures. See "Description of the Debentures Repurchase of Debentures at the Option of Holders Repurchase of debentures at the option of holders upon a fundamental change".

The debentures are not protected by restrictive covenants, so our operation of the business may reduce the value of the debentures and we may enter into major transactions without the consent of the holders of the debentures.

The indenture governing the debentures does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness or liens or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the debentures in the event of a fundamental change involving us, except to the extent described under "Description of the Debentures Repurchase of Debentures at the Option of Holders Repurchase of debentures at the option of holders upon a fundamental change" and "Description of the Debentures Consolidation, Merger and Sale of Assets". We could enter into certain transactions, including recapitalizations, that would not constitute a fundamental change but would increase the amount of debt, including other senior indebtedness, outstanding or otherwise adversely affect the debentures.

The conditional conversion feature of the debentures could result in your receiving less than the value of the common stock into which a debenture is convertible.

The debentures are convertible into shares of our common stock only if specified conditions are met. If the specified conditions for conversion are not met, you will not be able to convert your debentures, and you will not be able to receive the value of the common stock into which the debentures would otherwise be convertible.

Upon conversion of the debentures, we may pay cash in lieu of issuing shares of our common stock or a combination of cash and shares of our common stock. Therefore, holders of the debentures may receive no shares of our common stock or fewer shares than the number into which their debentures are convertible.

We have the right to satisfy our conversion obligation to holders by issuing shares of common stock into which the debentures are convertible, the cash value of the common stock into which the debentures are convertible, or a combination thereof. Accordingly, upon conversion of a debenture, holders may not receive any shares of our common stock, or they might receive fewer shares of common stock relative to the conversion value of the debenture. Further, our liquidity may be reduced to the extent that we choose to deliver cash rather than shares of common stock upon conversion of debentures.

If we elect to settle upon conversion in cash or a combination of cash and common stock, your settlement will be delayed for an additional 22 trading days.

If we elect to settle upon conversion of debentures in cash or a combination of cash and our common stock, settlement will be delayed until the 25thtrading day following our receipt of the holder's conversion notice, unless the cash settlement averaging period is extended under certain circumstances or the holder submits its conversion notice within 30 trading days prior to maturity. See "Description of the Debentures Conversion Rights Payment Upon Conversion".

We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common stock.

The issuance of additional equity securities or securities convertible into equity securities, as well as the conversion of the debentures or any other securities convertible into equity securities, would result in dilution of existing stockholders' equity interests in us. We are authorized to issue, without stockholder approval, 1,000,000 shares of preferred stock, no par value per share, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. Our board of directors has the authority to issue, without vote or action of stockholders, shares of preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. Our board of directors has no present intention of issuing any such preferred series, but reserves the right to do so in the future. In addition, we are authorized to issue, without stockholder approval, up to 50,000,000 shares of common stock, $.50 par value per share, of which 25,127,366 were outstanding as of January 4, 2005. We are also authorized to issue, without stockholder approval, securities convertible into either common stock or preferred stock.

Trading in the debentures may result in increased short selling of our common stock, and conversion of the debentures will dilute the existing owners of our common stock.

Certain purchasers of convertible debentures pursue trading strategies which entail selling short the equity securities issuable upon conversion of the debentures; should future purchasers of our debentures pursue such trading strategies any such short sales may have a downward effect on the trading price of our common stock. Upon any conversion of the debentures into our common stock, existing shareholders of the common stock will experience dilution to the extent of the common shares issued upon conversion, and our reported earnings per share may, under certain circumstances, be less than our reported earnings per share had the conversion not occurred.

Our reported earnings per share may be more volatile because of the contingent conversion provision of the debentures, potentially affecting the price of our common stock and the amount you receive upon sale or conversion of the debentures.

Holders of the debentures are entitled to convert the debentures into our common stock (or, at our election, cash or a combination of cash and common stock), among other circumstances, during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of our common stock on such last trading day. Under the currently applicable accounting rules, until this contingency or another conversion contingency is met, the shares underlying the debentures are not included in the calculation of our basic or diluted earnings per share. Should any of these contingencies be met, diluted earnings per share would be expected to decrease as a result of the inclusion of the underlying shares in our diluted earnings per share calculation. Volatility in our stock price could cause this common stock price condition to be met in one quarter and not in a subsequent quarter, increasing the volatility of our diluted earnings per share. This volatility in our diluted earnings per share and uncertainty regarding convertibility of the debentures each quarter could negatively impact the price of our common stock and the amount you receive upon sale or conversion of the debentures.

We may be subject to a new accounting rule that would result in lower earnings per share, on a diluted basis.

At its September 2004 meeting, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a conclusion on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share", that would require the contingent shares issuable under the debentures to be included in our diluted earnings per share calculation retroactive to the date of issuance by applying the "if converted" method under FASB Statement No. 128, "Earnings Per Share" (FAS 128). We have followed the existing interpretation of FAS 128, which requires inclusion of the impact of the conversion of our debentures only when and if the conversion threshold, as described under "Description of the Debentures Conversion Rights," is reached. As the conversion threshold has not been reached, we do not include the impact of the conversion of the debentures in our computation for diluted earnings per share. The new rule was ratified by the FASB in October 2004. Issue 04-08 becomes effective for periods after December 15, 2004, which will be the Company's first fiscal quarter of 2005. Under the consensus, companies will be required to retroactively restate diluted earnings per share numbers applying the "if converted" method of accounting from the issuance date of the contingently convertible bond. As it relates to the Company, EITF Issue 04-08 would mean an additional 2.2 million shares of earnings dilution and have an annualized earnings per share impact of approximately $0.30-$0.35 per common share. However, the Company could elect to settle its convertible obligation with either common stock, cash or a combination of the two. If the Company elects to settle its entire convertible obligation with cash and can demonstrate its ability to do so, it would not be required to show the dilutive impact of the higher share count in the calculation of its earnings per share for periods after such election.

FORWARD-LOOKING STATEMENTS

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

Factors exist that could cause our actual results to differ materially from the expected results described in or underlying our company's forward-looking statements. Some of such factors are described in the "Risk Factors" section of this prospectus and include:

- worldwide political stability and domestic and international economic activity,
- availability of steel and aluminum scrap and other raw materials;
- prevailing prices of steel and aluminum scrap and other raw material costs,
- the rate of change in prices for steel and aluminum scrap,
- energy costs,
- interest rates,
- market conditions, particularly in the vehicular, home building and remodeling markets,
- any material changes in purchases by our principal customers,
- labor supply and relations,
- new environmental regulations,
- changes in estimates of costs for environmental cleanup or compliance,
- the successful implementation of our internal operating plans, and acquisition strategies and integration,
- performance issues with key customers, suppliers and subcontractors, and
- regulatory changes and legal proceedings.

Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written forward-looking statements attributable to Quanex or persons acting on our behalf are expressly qualified in their entirety by such factors.

RATIO OF EARNINGS TO FIXED CHARGES

We have computed the ratio of earnings to fixed charges for each of the following periods on a consolidated basis.

	Fiscal years ended October 31,				
	2000	2001	2002	2003	2004
Ratio of earnings to fixed charges	*	4.0x	7.3x	24.3x	15.7x

* For the fiscal year ended October 31, 2000, fixed charges exceeded earnings by approximately $14.9 million.

Ratio of earnings to fixed charges is computed by dividing income before taxes and fixed charges by fixed charges. Fixed charges consist of interest charges, capitalized interest and amortization of debt issuance costs. The computation is as follows:

	Fiscal years ended October 31,				
	2000	2001	2002	2003	2004
	(dollars in thousands, except per share data)				
Income (loss) before income taxes	$ (14,856)	$ 45,622	$ 81,614	$ 65,823	$ 88,775
Add:					
Interest expense	15,255	16,555	14,812	2,517	5,514
Debt issuance amortization	502	367	121	312	535
Capitalized interest	(1,941)	(1,666)	(1,879)		
Earnings (loss) as defined	$ (1,040)	$ 60,878	$ 94,668	$ 68,652	$ 94,824
Interest expense	$ 15,255	$ 16,555	$ 14,812	$ 2,517	$ 5,514
Debt issuance amortization	502	367	121	312	535
Capitalized interest	(1,941)	(1,666)	(1,879)		
Fixed charges as defined	$ 13,816	$ 15,256	$ 13,054	$ 2,829	$ 6,049
Ratio of earnings to fixed charges	*	4.0x	7.3x	24.3x	15.7x

* For the fiscal year ended October 31, 2000, fixed charges exceeded earnings by approximately $14.9 million.

NO PROCEEDS

On May 5, 2004, the Company issued the debentures in a private placement to Credit Suisse First Boston, Bear, Stearns & Co. Inc., Robert W. Baird & Co., and KeyBanc Capital Markets as initial purchasers. The net proceeds from the private placement, totaling approximately $122 million, were used to repay a portion of the amounts outstanding under our revolving credit agreement.

The securities to be offered and sold using this prospectus will be offered and sold by the selling security holders named in this prospectus or in any amendment to this prospectus. We will not receive any proceeds from the sale of the securities or conversion of the debentures. The shares of our common stock offered by this prospectus are issuable upon conversion of the debentures.

SELLING SECURITY HOLDERS

On May 5, 2004, we issued and sold a total of $125,000,000 aggregate principal amount of the debentures in a private placement to Credit Suisse First Boston LLC, Bear, Stearns & Co. Inc., Robert W. Baird & Co. Incorporated and KeyBanc Capital Markets, A Division of McDonald Investments Inc. (which we refer to as the initial purchasers in this prospectus). The debentures were resold in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in compliance with Rule 144A. The selling security holders, which term includes their transferees, distributees, pledgees or donees or their successors, may from time to time offer and sell pursuant to this prospectus any and all of the debentures and the shares of our common stock issuable upon conversion of the debentures.

The debentures and our shares of common stock to be issued upon conversion of the debentures are being registered pursuant to a registration rights agreement between us and the initial purchasers. In that agreement, we undertook to file a registration statement with regard to the debentures and our shares of common stock issuable upon conversion of the debentures and, subject to certain exceptions, to keep that registration statement effective for up to two years. The registration statement to which this prospectus relates is intended to satisfy our obligations under that agreement.

The selling security holders named below have advised us that they currently intend to sell the debentures and our shares of common stock set forth below pursuant to this prospectus. The selling security holders may offer all, some or none of the debentures or the common stock into which the debentures are convertible. To our knowledge, none of the selling security holders named below nor any of their affiliates, officers, directors or principal equity holders, has, during the three years prior to the date of this prospectus, held any position, office or other material relationship with us or any of our predecessors or affiliates, except as may be noted below in "Plan of Distribution".

Unless the securities were purchased pursuant to this registration statement, before a security holder not named below may use this prospectus in connection with an offering of securities, this prospectus will be amended to include the name and amount of debentures and common stock beneficially owned by the selling security holder and the amount of debentures and common stock to be offered. Any amended prospectus will also disclose whether any selling security holder selling in connection with that amended prospectus has held any position, office or other material relationship with us or any of our predecessors or affiliates during the three years prior to the date of the amended prospectus.

The following table is based solely on information provided by the selling security holders. This information represents the information provided to us by selling security holders on or prior to the last business day prior to the date of this prospectus.

Selling Security Holder	Amount of Debentures Beneficially Owned($)	Percentage of Debentures Outstanding	Amount of Debentures to be Sold($)(1)	Number of Shares of Common Stock Beneficially Owned(2)(3)	Number of Shares of Common Stock That May Be Sold(1)(3)	Number of Shares of Common Stock upon Completion of Offering(1)
Alcon 401(K) Retirement Plan(13)	800,000	*	800,000	20,889.04	20,889.04	0
American Community Mutual Insurance Company(13)	160,000	*	160,000	4,177.81	4,177.81	0
American Fidelity Assurance Co.(13)	750,000	*	750,000	19,583.48	19,583.48	0
American Founders Life Insurance Company(13)	300,000	*	300,000	7,833.39	7,833.39	0
BBT Fund, L.P.(4)(10)	16,000,000	12.80	16,000,000	417,780.80	417,780.80	0
BCS Life Insurance Co.(13)	200,000	*	200,000	5,222.26	5,222.26	0
Citadel Credit Trading Ltd.(8)(14)	1,350,000	1.08	1,350,000	35,250.26	35,250.26	0
Citadel Equity Fund Ltd.(8)(14)	7,650,000	6.12	7,650,000	199,751.45	199,751.45	0
Coda Capital Management, LLC(16)	630,000	*	630,000	16,450.12	16,450.12	0
Coda Capital ND Portfolio(4)	100,000	*	100,000	2,611.13	2,611.13	0
Coda-KHPE Convertible Portfolio(4)	300,000	*	300,000	7,833.39	7,833.39	0
Concentrated Alpha Partners, L.P.(4)(10)	4,000,000	3.20	4,000,000	104,445.20	104,445.20	0
Credit Suisse First Boston LLC(4)(5)	1,375,000	1.10	1,375,000	35,903.04	35,903.04	0
DBAG London(8)(11)	100,000	*	100,000	2,611.13	2,611.13	0
DKR SoundShore Strategic Holding Fund Ltd.(25)	2,000,000	1.60	2,000,000	52,222.60	52,222.60	0
Educators Mutual Life Insurance Co.(13)	190,000	*	190,000	4,961.15	4,961.15	0
Excelsior Master Fund LP(24)	1,000,000	*	1,000,000	26,111.30	26,111.30	0
FrontPoint Convertible Arbitrage Fund, L.P.(6)	5,000,000	4.00	5,000,000	130,556.50	130,556.50	0
Gartmore Convertible Fund(4)	570,000	*	570,000	14,883.44	14,883.44	0
Georgia Firefighter's	270,000	*	270,000	7,050.05	7,050.05	0

Selling Security Holder	Amount of Debentures Beneficially Owned($)	Percentage of Debentures Outstanding	Amount of Debentures to be Sold($)(1)	Number of Shares of Common Stock Beneficially Owned(2)(3)	Number of Shares of Common Stock That May Be Sold(1)(3)	Number of Shares of Common Stock upon Completion of Offering(1)
Pension Fund(17)						
Hannover Life Reassurance Co. of America(13)	500,000	*	500,000	13,055.65	13,055.65	0
Highbridge International LLC(8)(12)	15,000,000	12.00	15,000,000	391,669.50	391,669.50	0
Institutional Benchmarks Master Fund, Ltd., c/o Zazove Associates, LLC(13)	1,500,000	1.20	1,500,000	39,166.95	39,166.95	0
Integrity Mutual Insurance Co.(13)	150,000	*	150,000	3,916.70	3,916.70	0
James Mellor Trust(15)	35,000	*	35,000	913.90	913.90	0
KBC Financial Products USA Inc.(5)(7)	500,000	*	500,000	13,055.65	13,055.65	0
Laurel Ridge Capital, LP(19)	2,000,000	1.60	2,000,000	52,222.60	52,222.60	0
Lionhart Aurora Fund Ltd(20)	150,000	*	150,000	3,916.70	3,916.70	0
Lionhart Global Appreciation Fund Ltd(20)	775,000	*	775,000	20,236.26	20,236.26	0
Lionhart Titan Fund Ltd(20)	75,000	*	75,000	1,958.35	1,958.35	0
LW Paxson Convertible Portfolio(15)	60,000	*	60,000	1,566.68	1,566.68	0
Medico Life Insurance Co.(13)	400,000	*	400,000	10,444.52	10,444.52	0
Medmarc Insurance(13)	250,000	*	250,000	6,527.83	6,527.83	0
Midwest Medical Insurance Company(13)	460,000	*	460,000	12,011.20	12,011.20	0
New Era Life Insurance Co.(13)	160,000	*	160,000	4,177.81	4,177.81	0
Newport Alternative Income Fund(23)	960,000	*	960,000	25,066.85	25,066.85	0

NMIC Gartmore/Coda Convertible Portfolio(4)	1,265,000	1.01	1,265,000	33,030.79	33,030.79	0
Oppenheimer Convertible Securities Fund(8)(16)	2,000,000	1.60	2,000,000	52,222.60	52,222.60	0
Pennington Biomedical Research Foundation(13)	80,000	*	80,000	2,088.90	2,088.90	0
Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio(9)	10,500,000	8.40	10,500,000	274,168.65	274,168.65	0
Radian Asset Assurance, Inc.(17)	1,595,000	1.28	1,595,000	41,647.52	41,647.52	0
Radian Group Convertible Securities(17)	1,500,000	1.20	1,500,000	39,166.95	39,166.95	0
Radian Guaranty(17)	3,520,000	2.82	3,520,000	91,911.78	91,911.78	0
Radian Guaranty, Inc.(13)	800,000	*	800,000	20,889.04	20,889.04	0
Richard Mueller(15)	40,000	*	40,000	1,044.45	1,044.45	0
SDCERA Convertible Arbitrage(13)	1,500,000	1.20	1,500,000	39,166.95	39,166.95	0
San Francisco Employees' Retirement System(13)	1,300,000	1.04	1,300,000	33,944.69	33,944.69	0
Silvercreek II Limited(23)	2,580,000	2.06	2,580,000	67,367.15	67,367.15	0
Silvercreek Limited Partnership(23)	3,460,000	2.77	3,460,000	90,345.10	90,345.10	0
UBS AG London F/B/O HFS(26)	7,000,000	5.6	7,000,000	182,779.10	182,779.10	0
UBS Securities LLC(4)(5)	575,000	*	575,000	77,454.00(21)	15,014.00	62,440
University of Arkansas(17)	270,000	*	270,000	7,050.05	7,050.05	0
University of Arkansas Foundation(17)	270,000	*	270,000	7,050.05	7,050.05	0
Van Eck WW Absolute Rtn. Fund(4)	100,000	*	100,000	2,611.13	2,611.13	0
Waterstone Market Neutral MAC 51, Ltd.(18)	654,000	*	654,000	17,076.79	17,076.79	0
Waterstone Market Neutral Master Fund, Ltd.(18)	8,146,000	6.52	8,146,000	212,702.65	212,702.65	0
Zazove Convertible Arbitrage Fund, L.P.(13)	5,000,000	4.00	5,000,000	130,556.50	130,556.50	0
Zazove Convertible Securities Fund, Inc.(13)	500,000	*	500,000	13,055.65	13,055.65	0
Zazove Hedged Convertible Fund, L.P.(13)	3,000,000	2.40	3,000,000	78,333.90	78,333.90	0
Zazove Income Fund, L.P.(13)	1,000,000	*	1,000,000	26,111.30	26,111.30	0
Unidentified Security Holders	2,625,000	2.1	2,625,000	68,542.62(22)	68,542.62(22)	0
TOTAL	$ 125,000,000	100%	$ 125,000,000	3,326,353(21)	3,263,913	62,440

Reflects adjustments, as required by the anti-dilution provisions of the indenture governing the debentures, resulting from a stock split paid on December 31, 2004 in the form a 50% stock dividend on the Company's common stock to all stockholders of record on December 17, 2004 and increased cash dividends paid by the Company in September 2004 and December 2004.

*

Less than 1%

(1)

Because a selling security holder may sell all or a portion of the debentures and common stock issuable upon conversion of the debentures pursuant to this prospectus, no estimate can be given as to the number or percentage of debentures and common stock that the selling security holder will hold upon termination of any sales. The information presented assumes that all of the selling security holders will fully exchange the debentures for shares of our common stock and that the selling security holders will sell all shares of our common stock that they received pursuant to such exchange.

(2)

Includes shares of common stock issuable upon conversion of the debentures.

(3)

The number of shares of our common stock issuable upon conversion of the debentures is calculated assuming the conversion of the full amount of debentures held by such holder at a conversion rate of 26.1113 shares of our common stock per $1,000 principal amount of the debentures, which equals a conversion price of approximately $38.2976. This conversion rate is subject to adjustment as described under "Description of Debentures Conversion Rights Conversion Rate Adjustments". Accordingly, the number of shares of our common stock to be sold may increase or decrease from time to time. Fractional shares will not be issued upon conversion of the debentures. Cash will be paid instead of fractional shares, if any.

(4)
This selling security holder is a reporting company under the Securities Exchange Act.

(5)
This selling security holder has identified itself as a registered broker-dealer and, accordingly, it is, under the interpretations of the Securities and Exchange Commission, an "underwriter" within the meaning of the Securities Act of 1933. Please see "Plan of Distribution" for required disclosure regarding these selling security holders.

(6)
FrontPoint Convertible Arbitrage Fund GP LLC is the general partner of FrontPoint Convertible Arbitrage Fund, L.P. FrontPoint Partners LLC is the managing member of FrontPoint Convertible Arbitrage Fund GP, LLC and as such has voting and dispositive power over the securities held by the fund. Philip Duff, W. Gillespie Caffray and Paul Ghaffari are members of the board of managers of FrontPoint Partners LLC and are the sole members of its management committee. Messrs. Duff, Caffray and Ghaffari and FrontPoint Partners LLC and FrontPoint Convertible Arbitrage Fund GP, LLC each disclaim beneficial ownership of the securities held by the fund except for their pecuniary interest therein.

(7)
KBC Financial Products USA Inc. exercises voting and investment control over any shares of common stock issuable upon conversion of the Notes owned by this selling shareholder. Mr. Luke Edwards, Managing Director, may be deemed to be the beneficial owner of these securities since he exercises voting and investment control over them.

(8)
This selling security holder has identified itself as an affiliate of a registered broker-dealer and has represented to us that such selling security holder acquired its debentures or underlying common stock in the ordinary course of business and, at the time of the purchase of the debentures or the underlying common stock, such selling security holder had no agreements or understandings, directly or indirectly, with any person to distribute the debentures or underlying common stock. To the extent that we become aware that such selling security holder did not acquire its debentures or underlying common stock in the ordinary course of business or did have such an agreement or understanding, we will file a post-effective amendment to the registration statement of which this prospectus forms a part to designate such affiliate as an "underwriter" within the meaning of the Securities Act of 1933.

(9)
Pursuant to an investment management agreement, RG Capital Management, L.P. ("RG Capital") serves as the investment manager of Radcliffe SPC, Ltd.'s Class A Convertible Crossover Segregated Portfolio. RGC Management Company, LLC ("Management") is the general partner of RG Capital. Steve Katznelson and Gerald Stahlecker serve as the managing members of Management. Each of RG Capital, Management and Messrs. Katznelson and Stahlecker disclaims beneficial ownership of the securities owned by Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio.

(10)
Sid Bass may be deemed to be the beneficial owner of these securities since he exercises voting and investment power over them.

(11)
DBAG London is a majority owned subsidiary of Deutsche Bank Securities Inc., a reporting company under the Securities Exchange Act.

(12)
Glenn Dubin and Henry Swieca are the principals of Highbridge Capital Management, the trading advisor to Highbridge International LLC. As such, they may be deemed to be the beneficial owners of these securities since they exercise voting and investment power over them.

(13)
Gene T. Pretti, Chief Executive Officer and Senior Portfolio Manager of Zazove Associates, LLC, may be deemed to be the beneficial owner of these securities since he exercises voting and investment power over them.

(14)
Citadel Limited Partnership ("Citadel") is the trading manager of Citadel Credit Trading Ltd. and Citadel Equity Fund Ltd. and consequently has investment discretion over securities held by Citadel Credit Trading Ltd. and Citadel Equity Fund Ltd. Citadel disclaims beneficial ownership of the shares beneficially owned by Citadel Credit Trading Ltd. and Citadel Equity Fund Ltd. Kenneth C. Griffin indirectly controls Citadel and therefore has ultimate investment discretion over securities held by Citadel Credit Trading Ltd. and Citadel Equity Fund Ltd. Mr. Griffin disclaims beneficial ownership of the shares held by Citadel Credit Trading Ltd. and Citadel Equity Fund Ltd.

(15)
Coda Capital Management, LLC may be deemed to be the beneficial owner of these securities since it exercises voting and investment power over them.

(16)
This selling security holder is a registered investment company under the Investment Company Act.

(17)

Maren Lindstrom may be deemed to be the beneficial owner of these securities since she exercises voting and investment power over them.

(18) Shawn Bergerson may be deemed to be the beneficial owner of these securities since he exercises voting and investment power over them.

(19) Van Nguyen, Jon Illuzzi, Andrew Mitchell, Nathaniel Newlin, Timothy Walton and Venkatesh Reddy may be deemed to be the beneficial owners of these securities since they exercise voting and investment powers over them.

(20) Lionhart Investments Limited may be deemed to be the beneficial owner of these securities since it exercises voting and investment power over them.

(21) Includes shares of common stock beneficially owned other than shares of common stock issuable upon conversion of the debentures.

(22) Not exactly equal to 26.1113 shares of common stock per $1,000 principal amount of the debentures due to rounding.

(23) Louise Morwick may be deemed to be the beneficial owner of these securities since she exercises voting and investment power over them.

(24) Edward E. Lees, James A. White, Jr. and Robert Jordan may be deemed to be the beneficial owners of these securities since they exercise voting and investment power over them.

(25) DKR Capital Partners L.P. ("DKR LP") is a registered investment advisor with the Securities and Exchange Commission and, as such, is the investment manager to DKR SoundShore Strategic Holding Fund Ltd. (the "Fund"). DKR LP has retained certain portfolio managers to act as the portfolio manager to the Fund managed by DKR LP. As such, DKR LP and certain portfolio managers have shared dispositive and voting power over the securities. Manan Rawal has trading authority over the Fund.

(26) Dominic Lynch may be deemed to be the beneficial owner of these securities since he exercises voting and investment power over them.

Unless it is otherwise noted in the above table and the footnotes thereto, none of the selling security holders has identified itself to us as a broker-dealer or as an affiliate of a broker dealer. To our knowledge, no selling security holder who is a registered broker-dealer or an affiliate of a registered broker-dealer received any securities as underwriting compensation. Please see "Plan of Distribution" for required disclosure regarding these selling security holders.

DESCRIPTION OF THE DEBENTURES

We issued the debentures under an indenture dated as of May 5, 2004 between us and Union Bank of California, N.A., as trustee.

The following description is only a summary of the material provisions of the debentures, the indenture and the registration rights agreement. It does not purport to be complete. We urge you to read these documents in their entirety because they, and not this description, define the rights of holders of the debentures. You may request copies of these documents from us upon written request at our address, which is listed under "Summary Other Information".

For purposes of this section, references to "we", "us", "our" and "Quanex" refer solely to Quanex Corporation and not to our subsidiaries.

General

The Debentures

The debentures:

- are limited to $125,000,000 aggregate principal amount;
- mature on May 15, 2034, unless earlier converted by you, redeemed at our option or purchased by us at your option;
- bear interest at a rate of 2.50% per annum, payable semi-annually, in arrears, on each May 15 and November 15, beginning on November 15, 2004 to the holders of record at the close of business on the preceding May 1 and November 1, respectively;
- accrue contingent interest, which may be payable as set forth below under " Contingent Interest";
- bear additional interest or in the case of common stock issued upon conversion of the debentures, additional amounts, if we fail to comply with certain obligations set forth below under " Registration Rights";
- are our general unsecured senior obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness, and senior in right of payment to any of our existing and future subordinated indebtedness. The debentures are effectively subordinated to all of our senior secured indebtedness and all indebtedness and liabilities of our subsidiaries, including trade creditors;
- are convertible into our shares of our common stock at an initial conversion rate of 17.3919 shares of our common stock per $1,000 principal amount of debentures (which represents a conversion price of approximately $57.4980 per share of common stock) under the conditions and subject to such adjustments as are described under " Conversion Rights";
- are redeemable by us beginning on May 15, 2011 at any time as a whole or in part, at a redemption price in cash equal to 100% of the principal amount of the debentures to be redeemed plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date as described under " Optional Redemption";
- are subject to repurchase by us for cash at the option of the holders on May 15 of 2011, 2014, 2019, 2024 and 2029 or upon a fundamental change, at a repurchase price in cash equal to 100% of the principal amount of the debentures to be repurchased plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date as described under " Repurchase of Debentures at the Option of Holders

Optional put" and " Repurchase of debentures at the option of holders upon a fundamental change"; and

are represented by one or more registered securities in global form as described under " Book-Entry, Delivery and Form".

The indenture will not contain any financial covenants and will not restrict us or our subsidiaries from paying dividends, incurring additional senior indebtedness or any other indebtedness or issuing or repurchasing securities. The indenture will contain no covenants or other provisions to afford protection to holders of debentures in the event of highly leveraged transaction or a fundamental change of Quanex, except to the extent described under " Repurchase of Debentures at the Option of Holders Repurchase of debentures at the option of holders upon a fundamental change" and " Consolidation, Merger and Sale of Assets".

The debentures are our general unsecured senior obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness, and senior in right of payment to any of our existing and future subordinated indebtedness. The debentures are effectively subordinated to all of our senior secured indebtedness and all indebtedness and liabilities of our subsidiaries, including trade creditors. As of October 31, 2004, we had no senior secured indebtedness outstanding, while our subsidiaries had approximately $90.7 million of liabilities, including approximately $2.3 million of indebtedness, outstanding. As of December 31, 2004, we had approximately $190 million of senior secured indebtedness outstanding. The increase was primarily due to the acquisition of Mikron.

No sinking fund is provided for the debentures. The debentures are issued only in registered form, without coupons, in denominations of $1,000 principal amount and multiples thereof.

We will maintain an office where the debentures may be presented for registration, transfer, exchange or conversion. This office will initially be an office or agency of the trustee. Except under limited circumstances described below, the debentures are issued only in fully registered book-entry form, without coupons, and are represented by one or more global securities. There will be no service charge for any registration of transfer or exchange of debentures. We may, however, require holders to pay a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers or exchanges.

Holders may not sell or otherwise transfer the debentures or the common stock issuable upon conversion of the debentures except in compliance with any applicable transfer restrictions and the provisions set forth under "Selling Security Holders", "Plan of Distribution" and " Registration Rights".

Interest

The debentures will bear interest at a rate of 2.50% per annum from May 5, 2004. We will pay interest semi-annually, in arrears, on May 15 and November 15 of each year, beginning on November 15, 2004, subject to limited exceptions if the debentures are converted prior to the relevant interest payment date. Interest will be paid to the holders of record at the close of business on the preceding May 1 and November 1, as the case may be, immediately preceding the relevant interest payment date; provided that interest will be paid to a person other than the holder of record on the record date on the maturity date or, in connection with a redemption at our option or repurchase at the option of the holders, on the redemption date or repurchase date, as the case may be, if it is after a record date but on or before the corresponding interest payment date. In any such case, we will pay the accrued and unpaid interest only to the person to whom we pay the principal amount.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. We will also pay contingent interest on the debentures in the circumstances described under " Contingent Interest".

Contingent Interest

Subject to the accrual and record date provisions described below, we will pay contingent interest to the holders of debentures during any six-month period from May 15 to November 14 and from November 15 to May 14, commencing with the six-month period beginning on May 15, 2011 if the average debenture price of a debenture for the five trading days ending on the third trading day immediately preceding the first day of the relevant six-month period equals 120% or more of the principal amount of such debenture. The amount of contingent interest payable per debenture with respect to any such six-month period will equal 0.25% per annum of such average debenture price of such debenture.

We will pay contingent interest, if any, in the same manner as we will pay interest described above under " Interest".

The "debenture price" on any date of determination means the average of the secondary market bid quotations per $1,000 debenture obtained by the bid solicitation agent for $10,000,000 principal amount of debentures at approximately 4:00 p.m., New York City time, on such determination date from three unaffiliated securities dealers we select, provided that if:

at least three such bids are not obtained by the bid solicitation agent, or

in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the debentures,

then the debenture price will equal (a) the then-applicable conversion rate of the debentures multiplied by (b) the average closing sale price (as defined under " Conversion Rights") of our common stock for the last five trading days ending on such determination date.

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

The bid solicitation agent will initially be the trustee. We may change the bid solicitation agent, but it will not be one of our affiliates. The bid solicitation agent will solicit bids from nationally recognized securities dealers that are believed by us to be willing to bid for the debentures.

Upon determination that holders of debentures will be entitled to receive contingent interest which may become payable during a relevant six-month period, on or prior to the start of such six-month period, we will provide notice to all holders at their addresses shown in the register of the registrar setting forth the amount of contingent interest per $1,000 principal amount of debentures and disseminate a press release and publish it on our website.

Under the indenture governing the debentures, we and each holder of the debentures agree, for United States federal income tax purposes, to treat the debentures as indebtedness that is subject to Treasury Regulations governing contingent payment debt instruments.

Conversion Rights

General

Holders may surrender any outstanding debentures for conversion into cash or shares of our common stock at a conversion rate of 26.1113 shares per $1,000 principal amount (which represents a conversion price of approximately $38.2976 per share of common stock), subject to the conversion rate adjustments described below, under the following circumstances:

- during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of our common stock on such last trading day;
- if we have called the debentures for redemption; or
- upon the occurrence of specified corporate transactions that are described in greater detail below under " Conversion Rights Conversion upon specified corporate transactions".

We will not issue fractional shares of common stock upon conversion of the debentures. Instead, we will pay the cash value of such fractional shares based upon the closing sale price of our common stock on the trading day immediately preceding the conversion date. Holders may convert debentures only in denominations of $1,000 principal amount and integral multiples thereof.

If a holder exercises its right to require us to repurchase its debentures as described under " Repurchase of Debentures at the Option of Holders Optional put" and " Repurchase of debentures at the option of holders upon a fundamental change", such holder may convert its debentures into shares of our common stock only if it withdraws its applicable repurchase notice in accordance with the indenture.

We describe each of these circumstances in greater detail below.

Conversion upon satisfaction of common stock sale price conditions

Holders may surrender debentures for conversion into shares of our common stock prior to the stated maturity during the fiscal quarter after any fiscal quarter ending on or after April 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of our common stock on such last trading day.

The "closing sale price" of our common stock on any trading day means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) on such trading day as reported in composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if the common stock is not listed on a U.S. national or regional securities exchange, as reported by Nasdaq or, if our common stock is not quoted on Nasdaq, on the principal other market on which such common stock is then traded.

The "conversion price" per share of our common stock as of any day equals the quotient of the principal amount of a debenture divided by the number of shares of our common stock issuable upon conversion of such debenture on that day.

Conversion upon notice of redemption

A holder may surrender for conversion any debentures we call for redemption at any time prior to the close of business on the business day prior to the redemption date, even if the debentures are not otherwise convertible at that time. If a holder already has delivered a repurchase notice with respect to a debenture, however, the holder may not surrender that debenture for conversion until the holder has withdrawn the notice in accordance with the indenture.

Conversion upon specified corporate transactions

Even if the closing sale price contingency described above under " Conversion upon satisfaction of common stock sale price conditions" has not occurred, if we elect to distribute to holders of our common stock:

- certain rights or warrants entitling them to subscribe for or purchase shares of our common stock at less than the closing sale price on the record date for such issuance (excluding purchase rights governed by our stockholder rights plan), or

- cash, debt securities (or other evidence of indebtedness) or other assets (excluding dividends or distributions described in clauses (1) or (2) in the description below of adjustments to the conversion rate), which distribution has a per share value exceeding 5% of the closing sale price of the common stock on the trading day preceding the declaration date for such distribution,

we must notify the holders of debentures at least 20 days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their debentures for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place; provided that a holder may not exercise this right to convert if the holder will otherwise participate in the distribution without conversion.

The "ex-dividend date" means, with respect to any issuance or distribution on shares of our common stock, the first trading day on which the shares of our common stock trade "regular way" on the principal securities market on which the shares of common stock are then traded without the right to receive such issuance or distribution.

In addition, if we are party to a consolidation, merger, combination or binding share exchange involving Quanex or transfer or lease of all or substantially all of our assets pursuant to which our common stock would be converted into cash, securities or other assets, a holder may surrender debentures for conversion at any time from and after the date that is 15 days prior to the anticipated effective date of the transaction or event until 15 days after the actual date of such transaction or event.

In the event of any reclassification of our common stock, a consolidation, merger, combination or binding share exchange involving Quanex or transfer or lease of all or substantially all of our assets under which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a debenture into our common stock will be changed into a right to convert a debenture into the kind and amount of cash, securities or other property that the holder would have received if the holder had converted debentures immediately before the record date for the transaction. If the transaction also constitutes a "fundamental change", as defined below, a holder can require us to purchase all or a portion of its debentures as described below under " Repurchase of Debentures at the Option of Holders Repurchase of debentures at the option of holders upon a fundamental change".

Procedures

The right of conversion attaching to any debenture may be exercised (a) if such debenture is represented by a global security, by book-entry transfer to the conversion agent (which will initially be the trustee) through the facilities of The Depository Trust Company ("DTC"), or (b) if such debenture is represented by a certificated security, by delivery of such debenture at the specified office of the conversion agent, accompanied, in either case, by a duly signed and completed notice of conversion and appropriate endorsements and transfer documents if required by the conversion agent. The conversion date shall be the date on which the debenture and all of the items required for conversion shall have been so delivered and the requirements for conversion have been met.

No separate payment or adjustment will be made for accrued and unpaid interest on a converted debenture or for dividends or distributions on any of our common stock issued upon conversion of a debenture, except as provided in the indenture. By delivering to the holder the number of shares issuable or cash payable upon conversion together with a cash payment in lieu of any fractional shares, or cash or a combination of cash and shares of our common stock in lieu thereof, we will satisfy our obligation with respect to the conversion of the debentures. That is, accrued interest (including contingent interest and additional interest, if any) will be deemed to be paid in full rather than canceled, extinguished or forfeited. We will not adjust the conversion rate to account for any accrued interest, including contingent interest and additional interest, if any.

If the holder converts after a record date for an interest payment but prior to the corresponding interest payment date, such holder will receive on the interest payment date interest accrued on those debentures, notwithstanding the conversion of debentures prior to the interest payment date, assuming the holder was the holder of record on the corresponding record date. However, each holder agrees, by accepting a debenture, that if the holder surrenders any debentures for conversion during such period, such holder must pay us at the time such holder surrenders its debenture for conversion an amount equal to the interest that has accrued and that will be paid on the debentures being converted on the interest payment date. The preceding sentence does not apply, however, if (1) we have specified a redemption date that is after a record date for an interest payment but prior to the corresponding interest payment date or (2) any overdue interest exists at the time of conversion with respect to the debentures converted but only to the extent of the amount of such overdue interest. Accordingly, under the circumstances described in clause (1), a holder of debentures who chooses to convert those debentures on a date that is after a record date but prior to the corresponding interest payment date will not be required to pay us, at the time that holder surrenders those debentures for conversion, the amount of regularly scheduled interest it will receive on the interest payment date.

Holders of debentures are not required to pay any taxes or duties relating to the issuance or delivery of our common stock upon exercise of conversion rights, but they are required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than the name of the holder of the debenture. Certificates representing shares of our common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid.

The debentures will be deemed to have been converted immediately prior to the close of business on the conversion date. Delivery of shares will be accomplished by delivery to the conversion agent of certificates for the relevant number of shares, other than in the case of holders of debentures in book-entry form with DTC, which shares shall be delivered in accordance with DTC customary practices. A holder will not be entitled to any rights as a holder of our common stock, including, among other things, the right to vote and receive dividends and notices of stockholder meetings, until the conversion is effective.

If we elect to settle in common stock only, a certificate for the number of full shares of common stock into which the debentures are converted (and cash in lieu of fractional shares) will be delivered to such holder, assuming all of the other requirements have been satisfied by such holder, as soon as practicable after we issue our notification of our chosen method of settlement, which we must issue on the date that is three trading days following receipt of the conversion notice. If we elect to settle in cash or a combination of cash and common stock, the cash and, if applicable, a certificate for the number of full-shares of common stock into which the debentures are converted (and cash in lieu of fractional shares) will be delivered to such holder, assuming all of the other requirements have been satisfied by such holder and subject to any extension of the cash settlement averaging period described under "Payment Upon Conversion", on the 25^{th} trading day following receipt of the conversion notice, unless the holder submits its conversion notice within 30 trading days prior to maturity, in which case such delivery will take place on the maturity date.

Payment Upon Conversion

In lieu of delivery of shares of our common stock, and pursuant to the procedures described below, we may elect to deliver to holders surrendering debentures either cash or a combination of cash and shares of our common stock.

On the first date the debentures become convertible under the circumstances described above in " Conversion Rights", we will notify holders in writing through the trustee (followed by a press release no later than the end of the first business day thereafter) of our method for settling the principal amount of the debentures upon conversion ("principal conversion settlement election"). This notification, once provided to holders on the date the debentures first become convertible, regardless of any holder's decision to convert, is irrevocable and legally binding with regard to any conversion of the debentures. As such, the conversion settlement election made on the first date the debentures become convertible remains in force if the debentures cease to be convertible but subsequently become convertible again.

Until the debentures are surrendered for conversion, we will not be required to notify holders of our method for settling the excess amount ("excess amount"), if any, of our conversion obligation relating to the amount of the conversion value (the product of the closing sale price for our common stock on the trading day before the conversion date multiplied by the then current conversion rate) above the principal amount of the debenture ("excess conversion obligation").

Conversion On or Prior to 31 Trading Days Prior to Maturity. If we receive a holder's conversion notice on or prior to the day that is 31 trading days prior to the stated maturity of the debentures (the "final notice date"), the following procedures will apply:

Settlement of our conversion obligation relating to the principal amount of the debentures will be according to the principal conversion settlement election we will have already made.

We will notify the holder through the trustee, at any time on or before the date that is three trading days following receipt of the holder's conversion notice (the "settlement notice period"), of the method we choose to settle the excess conversion obligation, as applicable. Specifically we will indicate whether settlement of the excess conversion obligation will be 100% in common stock (other than with respect to fractional shares), 100% in cash or in a combination of cash and common stock. If we elect to settle the excess conversion obligation in a combination of cash and common stock, we will specify the percentage of the obligation to be settled in cash. We will treat all holders converting on the same trading day in the same manner. We will not, however, have any obligation to settle the excess conversion obligation arising on different trading days in the same manner. That is, we may choose on one trading day to settle in common stock only and choose on another trading day to settle in cash only or in a combination of common stock and cash.

Settlement of our conversion obligation with respect to the principal amount of the debentures and the excess amount solely in common stock (other than with respect to fractional shares) will occur as soon as practicable after we notify the holders that we have chosen this method of settlement. Settlement of any portion of our conversion obligation, including the principal amount and/or excess amount, in cash or in a combination of common stock and cash will occur on the third trading day following the final trading day of the 20-trading day period (the "cash settlement averaging period") beginning on the final trading day of the settlement notice period.

Settlement amounts will be computed as follows:

(1) If we elect to satisfy our entire conversion obligation, including principal amount and excess amount, in shares of common stock (other than with respect to fractional shares),

we will deliver to a holder, for each $1,000 original principal amount of debentures, a number of shares of common stock equal to the applicable conversion rate.

(2) If we elect to satisfy our entire conversion obligation in cash, including principal amount and excess amount, we will deliver to a holder, for each $1,000 original principal amount of debentures, cash in an amount equal to the product of (i) the applicable conversion rate multiplied by (ii) the volume weighted average price of our common stock during the cash settlement averaging period. The "volume weighted average price" per share of our common stock on any trading day will be the volume weighted average price on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal exchange or over-the-counter market on which our common stock is then listed or traded, from 9:30 a.m. to 4:00 p.m. (New York City time) on that trading day as displayed by Bloomberg (Bloomberg key-strokes: NX Equity VAP) (or if such volume weighted average price is not available, the market value of one share on such trading day as we determine in good faith using a volume weighted method).

(3) If we elect to satisfy our conversion obligation, including principal amount and excess amount, in a combination of cash and common stock, we will deliver to a holder, for each $1,000 original principal amount of debentures:

(a) a cash amount ("cash amount") (excluding any cash in lieu of fractional shares) equal to the sum of:

- the product of (i) $1,000 multiplied by (ii) the percentage of such principal amount of a debenture to be satisfied in cash; plus

- if greater than zero, the product of (i) the amount of cash that would be paid pursuant to paragraph number 2 above minus $1,000, multiplied by (ii) the percentage of the excess amount to be satisfied in cash;

and

(b) a number of shares of common stock equal to the difference between:

- the number of shares that would be issued pursuant to paragraph number 1 above; minus

- the number of shares equal to the quotient of (i) the cash amount divided by (ii) the volume weighted average price of our common stock during the cash settlement averaging period.

Conversion During 30 Trading Days Prior to Maturity. If we receive a holder's conversion notice after the "final notice date", the following procedures will apply:

- Settlement of our conversion obligation relating to the principal amount of the debentures will be according to the principal conversion settlement election we will have already made.

- We will notify the holder through the trustee of the method we choose to settle the excess conversion obligation in the same manner as set forth above under " Conversion On or Prior to 31 Trading Days Prior to Maturity", except that we will settle all of our conversion obligations arising during the 30-trading day period prior to maturity in the same manner.

- Settlement of our conversion obligation of the principal amount and the excess amount solely in common stock will occur as soon as practicable after we notify the holder that we have chosen this method of settlement. Settlement of any portion of the conversion obligation, including any portion of the principal amount or the excess amount, in cash or in a combination of common

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stock and cash will occur on the third trading day following the final trading day of the cash settlement averaging period described in the next bullet point.

The settlement amount will be computed in the same manner as set forth above under " Conversion On or Prior to 31 Trading Days Prior to Maturity", except that the "cash settlement averaging period" will be the 20-trading day period beginning on the date that is the 23rd trading day prior to the maturity date.

Extension of Cash Settlement Averaging Period. If any trading day during a cash settlement averaging period is not an undisrupted trading day, then determination of the price for that day will be delayed until the next undisrupted trading day; that is, such day will not count as one of the 20 trading days that constitute the cash settlement averaging period. If this would result in the cash settlement averaging period extending beyond the eighth trading day after the last of the original 20 trading days in the cash settlement averaging period, then we will determine all prices for all delayed and undetermined prices on that eighth trading day based on our good faith estimate of our common stock's value on that date. In the event that any trading day during the cash settlement averaging period beginning on the date that is the 23rd trading day prior to the maturity date is not an undisrupted trading day, settlement will occur after the maturity date.

An "undisrupted trading day" means a trading day on which our common stock does not experience any of the following during the one-hour period ending at the conclusion of the regular trading day:

any suspension of or limitation imposed on the trading of our common stock on any national or regional securities exchange or association or over-the-counter market;

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

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

if, in the case of the first and second bullet points above, we determine that the effect of such suspension, limitation, disruption or impairment is material.

Conversion Rate Adjustments

We will adjust the conversion rate if any of the following events occur:

(1) we issue common stock as a dividend or distribution on our common stock;

(2) we issue to all holders of our common stock any rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase shares of our common stock or securities convertible into shares of our common stock, at a price per share or a conversion price per share less than the then current market price per share of our common stock on the trading day immediately preceding the time of announcement of such issuance (other than pursuant to a stockholder rights plan);

(3) we subdivide or combine our common stock;

(4) we distribute to all holders of our common stock shares of our capital stock, dividends or other cash distributions payable in respect of our common stock that are not regular cash dividends, evidences of our indebtedness or other assets, including securities of any other person other than Quanex, or rights or warrants to subscribe for or purchase any of our securities but excluding:

- dividends or distributions and rights or warrants referred to in clauses (1) and (2) above; and
- regular cash dividends referred to in clause (5) below;

(5) we make regular cash dividends to all holders of our common stock in excess of $0.17 per share in any fiscal quarter; and

(6) we or any of our subsidiaries make purchases of shares of our common stock pursuant to a tender offer or exchange offer.

Adjustments to the conversion rate resulting from any regular cash dividends on our common stock may not cause the conversion rate (as adjusted for any other adjustment) to exceed the quotient obtained by dividing the principal amount at issuance of a debenture by the last reported closing sale price of our common stock on the cover page of this prospectus.

To the extent that our stockholder rights plan is in effect, upon conversion of the debentures into common stock, the holders will receive, in addition to the common stock, the rights described in our rights plan, whether or not the rights have separated from the common stock at the time of conversion, subject to certain limited exceptions. If we implement a new rights plan, we will be required under the indenture to provide that the holders of debentures will receive the rights upon conversion of the debentures, whether or not these rights were separated from the common stock prior to conversion, subject to certain limited exceptions.

We will not make any adjustment to the conversion rate if holders of debentures may participate in transactions without conversion, or in certain other cases.

We will not be required to make an adjustment in the conversion rate unless the adjustment would require a change of at least 1% in the conversion rate. However, we will carry forward any adjustments that are less than 1% of the conversion rate. Except as described above in this section, we will not adjust the conversion rate.

On August 26, 2004, the Company's Board of Directors authorized an annual dividend increase of $0.08 per common share outstanding, increasing the annual dividend from $0.68 to $0.76, or $0.02 per quarter. The quarterly cash dividend of $0.19 per share was paid on September 30, 2004 and December 31, 2004. On December 2, 2004 the Company's Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend, payable on December 31, 2004 to holders of record on December 17, 2004. The conversion rate of 26.1113 shares per $1,000 principal amount (and corresponding conversion price of approximately $38.2976 pr share) described herein gives effect to adjustments resulting from the increased cash dividends paid in 2004 and the December 2004 stock split. The increase of the quarterly dividend from $0.17 to $0.19 for future quarters is not expected to result in an adjustment to the conversion rate in the near future. The Company will monitor the cumulative impact of the dividend increase and will make the necessary notifications should the cumulative adjustments exceed the 1% threshold again in the future.

In the event of:

- any reclassification of our common stock;

- a consolidation, merger, combination or binding share exchange involving Quanex; or
- a transfer or lease of all or substantially all of the assets of Quanex,

under which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a debenture into our common stock will be changed into a right to convert a debenture into the kind and amount of cash, securities or other property that the holder would have received if the holder had converted debentures immediately before the record date for the transaction.

To the extent permitted by law, we may, from time to time, increase the conversion rate for a period of at least 20 days if our board of directors has made a determination that this increase would be in our best interest or to avoid or diminish income tax to holders of our common stock in connection with a dividend or distribution of stock or similar event. Any such determination by our board will be conclusive. We would give holders at least 15 days' notice of any increase in the conversion rate.

A holder may, in some circumstances, including the distribution of cash dividends to stockholders, be deemed to have received a distribution or dividend subject to United States federal income tax as a result of an adjustment or the nonoccurrence of an adjustment to the conversion rate. See "Material U.S. Federal Income Tax Considerations Tax Consequences to United States Holders Constructive Dividends" and " Tax Consequences to Non-United States Holders Distributions on Common Stock".

Optional Redemption

Prior to May 15, 2011, the debentures will not be redeemable at our option. On or after May 15, 2011, we may redeem the debentures in cash at any time as a whole or in part, at a redemption price in cash equal to 100% of the principal amount of the debentures to be redeemed plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date.

We will give at least 30 days' but not more than 60 days' notice of redemption by mail to holders of debentures. Debentures or portions of debentures called for redemption are convertible by the holder until the close of business on the business day prior to the redemption date.

If we do not redeem all of the debentures, the trustee will select the debentures to be redeemed in principal amounts of $1,000 or multiples thereof by lot, on a pro rata basis or by any other method the trustee considers fair and appropriate. If any debentures are to be redeemed in part only, we will issue a new debenture or debentures with a principal amount equal to the unredeemed principal portion thereof. If a portion of a holder's debentures is selected for partial redemption and the holder converts a portion of its debentures, the converted portion will be deemed to be taken from the portion selected for redemption.

If the paying agent holds cash sufficient to pay the redemption price of the debentures for which a redemption notice has been delivered on the redemption date in accordance with the terms of the indenture, then, immediately after the redemption date, the debentures will cease to be outstanding and interest (including contingent interest and additional interest, if any) on such debentures shall cease to accrue, whether or not the debentures are delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the redemption price upon delivery of the debentures.

Repurchase of Debentures at the Option of Holders

Optional put

On May 15 of 2011, 2014, 2019, 2024 and 2029, a holder may require us to repurchase for cash any outstanding debentures for which the holder has properly delivered and not withdrawn a written repurchase notice, subject to certain additional conditions, at a purchase price in cash equal to 100% of the principal amount of those debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. Holders may submit their debentures for repurchase to the paying agent at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the business day immediately preceding the relevant repurchase date.

Unless we have elected to redeem all of the debentures on or before the repurchase date (to the extent permitted by the indenture), we are required to give notice at least 20 business days prior to each repurchase date to all holders at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law stating, among other things, the procedures that holders must follow to require us to repurchase their debentures as described below. The repurchase notice given by each holder electing to require us to repurchase debentures shall be given so as to be received by the paying agent no later than the close of business on the business day immediately preceding the repurchase date and must state:

- if certificated debentures are to be delivered, the certificate numbers of the holder's debentures to be delivered for repurchase;
- the portion of the principal amount of debentures to be repurchased, which must be $1,000 or a multiple thereof; and
- that the debentures are to be repurchased by us pursuant to the applicable provisions of the debentures and the indenture.

A holder may withdraw any repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the business day immediately preceding the repurchase date. The notice of withdrawal shall state:

- if certificated debentures are to be withdrawn, the certificate numbers of the debentures being withdrawn;
- the principal amount of debentures being withdrawn; and
- the principal amount, if any, of the debentures that remain subject to the repurchase notice.

If debentures are not in certificated form, the foregoing notices must comply with appropriate DTC procedures.

In connection with any repurchase, we will, to the extent applicable:

- comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act that may then be applicable;
- file a Schedule TO or any other required schedule under the Exchange Act; and
- otherwise comply with all federal and state securities laws in connection with any offer by us to purchase the debentures.

Our obligation to pay the purchase price for debentures for which a repurchase notice has been delivered and not validly withdrawn is conditioned upon the holder delivering the debentures, together with necessary endorsements, to the paying agent at any time after delivery of the repurchase notice.

We will cause the purchase price for the debentures to be paid promptly following the later of the repurchase date or the time of delivery of the debentures, together with such endorsements.

If the paying agent holds cash sufficient to pay the purchase price of the debentures for which a repurchase notice has been delivered on the repurchase date in accordance with the terms of the indenture, then, immediately after the repurchase date, the debentures will cease to be outstanding and interest (including contingent interest and additional interest, if any) on such debentures shall cease to accrue, whether or not the debentures are delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the purchase price upon delivery of the debentures.

Our ability to repurchase debentures may be limited by restrictions on the ability of Quanex to obtain funds for such repurchase and the terms of our then existing agreements. Our failure to repurchase the debentures when required would result in an event of default with respect to the debentures. We cannot assure you that we will have the financial resources, or will be able to arrange financing, to pay the purchase price for all the debentures that might be delivered by holders of debentures seeking to exercise the repurchase right. See "Risk Factors We may not be able to repay or repurchase the principal amount of the debentures when required".

Repurchase of debentures at the option of holders upon a fundamental change

In the event a fundamental change (as defined below) occurs, each holder will have the right, at its option, subject to the terms and conditions of the indenture, to require us to repurchase all or any part of the holder's debentures in integral multiples of $1,000 principal amount, at a price in cash for each $1,000 principal amount of such debentures equal to 100% of the principal amount of such debentures tendered, plus any accrued and unpaid interest (including contingent interest and additional interest, if any) to, but excluding, the repurchase date. We will be required to repurchase the debentures on the date that is 30 business days after the occurrence of a fundamental change.

Within 10 business days after the occurrence of a fundamental change, we must mail to all holders of debentures at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law a notice regarding the fundamental change, which notice must state, among other things:

- the events causing a fundamental change;
- the date of such fundamental change;
- the last date on which a holder may exercise the repurchase right;
- the repurchase price;
- the repurchase date;
- the name and address of the paying and conversion agents;
- the conversion rate, and any adjustments to the conversion rate that will result from the fundamental change;
- that debentures with respect to which a repurchase notice is given by the holder may be converted, if otherwise convertible, only if the repurchase notice has been withdrawn in accordance with the terms of the indenture; and
- the procedures that holders must follow to exercise these rights.

To exercise this right, the holder must transmit to the paying agent a written notice, and such repurchase notice must be received by the paying agent no later than the close of business on the business day immediately preceding the repurchase date. The repurchase notice must state:

- the certificate numbers of the debentures to be delivered by the holder, if applicable;
- the portion of the principal amount of debentures to be repurchased, which portion must be $1,000 or an integral multiple of $1,000; and
- that such debentures are being tendered for repurchase pursuant to the fundamental change provisions of the indenture.

A holder may withdraw any repurchase notice by delivering to the paying agent a written notice of withdrawal prior to the close of business on the business day immediately preceding the purchase date. The notice of withdrawal must state:

- the certificate numbers of the debentures being withdrawn, if applicable;
- the principal amount of debentures being withdrawn; and
- the principal amount, if any, of the debentures that remain subject to a repurchase notice.

If the debentures are not in certificated form, the foregoing notices from holders must comply with the applicable DTC procedures.

We will under the indenture:

- comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act that may then be applicable;
- file a Schedule TO or any other required schedule under the Exchange Act; and
- otherwise comply with all federal and state securities laws in connection with any offer by us to repurchase the debentures upon a fundamental change.

Our obligation to pay the repurchase price for a debenture for which a repurchase notice has been delivered and not validly withdrawn is conditioned upon delivery of the debenture, together with necessary endorsements, to the paying agent at any time after the delivery of such repurchase notice. We will cause the repurchase price for such debenture to be paid promptly following the later of the repurchase date or the time of delivery of such debenture.

If the paying agent holds money sufficient to pay the repurchase price of a debenture on the repurchase date in accordance with the terms of the indenture, then, immediately after the repurchase date, interest on such debenture will cease to accrue, whether or not the debenture is delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the repurchase price upon delivery of the debenture.

A "fundamental change" shall be deemed to have occurred upon the occurrence of any of the following:

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

(2)

we consolidate with, or merge with or into, another person or we sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets, or any person consolidates with, or merges with or into, us, in any such event other than pursuant to a transaction in which the persons that "beneficially owned" directly or indirectly, the shares of our voting stock immediately prior to such transaction beneficially own, directly or indirectly, shares of voting stock representing a majority of the total voting power of all outstanding classes of voting stock of the surviving or transferee person;

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

(4) the holders of our capital stock approve any plan or proposal for our liquidation or dissolution (whether or not otherwise in compliance with the indenture); or

(5) our common stock ceases to be listed on a national securities exchange or quoted on The Nasdaq National Market or another established automated over-the-counter trading market in the United States.

However, a fundamental change will not be deemed to have occurred if:

(a) the closing sale price of our common stock for any five trading days during the ten trading days immediately preceding the fundamental change is equal to or exceeds 105% of the conversion price in effect on such trading day; and

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

For purposes of this fundamental change definition:

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

a "beneficial owner" will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of the indenture;

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

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

"capital stock" means: (1) in the case of a corporation, corporate stock; (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; or (4) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person;

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

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

The term "all or substantially all" as used in the definition of change in control will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot assure you how a court would interpret this phrase under applicable law if you elect to exercise your rights following the occurrence of a transaction which you believe constitutes a transfer of "all or substantially all" of our assets.

This fundamental change repurchase feature may make more difficult or discourage a takeover of us and the removal of incumbent management. We are not, however, aware of any specific effort to accumulate shares of our common stock or to obtain control of us by means of a merger, tender offer, solicitation or otherwise. In addition, the fundamental change repurchase feature is not part of a plan by management to adopt a series of anti-takeover provisions. Instead, the fundamental change repurchase feature is a result of negotiations between us and the initial purchasers.

We could, in the future, enter into certain transactions, including recapitalizations, that would not constitute a fundamental change but would increase the amount of debt, including other senior indebtedness, outstanding or otherwise adversely affect a holder. Neither we nor our subsidiaries are prohibited from incurring debt, including other senior indebtedness, under the indenture. The incurrence of significant amounts of additional debt could adversely affect our ability to service our debt, including the debentures.

Our ability to repurchase debentures may be limited by restrictions on the ability of Quanex to obtain funds for such repurchase through dividends from our subsidiaries and the terms of our then existing borrowing agreements. Our failure to repurchase the debentures when required would result in an event of default with respect to the debentures. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the purchase price for all the debentures that might be delivered by holders of debentures seeking to exercise the repurchase right. See "Risk Factors We may not be able to repay or repurchase the principal amount of the debentures when required".

Events of Default

Each of the following constitutes an event of default with respect to the debentures:

(1) default in the payment when due of any principal of any of the debentures at maturity, upon redemption or exercise of a repurchase right or otherwise;

(2) default in the payment of any interest, contingent interest or additional interest when due under the debentures, which default continues for 30 days;

(3) default in our obligation to satisfy our conversion obligation upon exercise of a holder's conversion right;

(4) default in our obligation to provide notice of the occurrence of a fundamental change when required by the indenture;

(5) our failure to comply with any of our other agreements in the debentures or the indenture upon our receipt of notice to us of such default from the trustee or to us and the trustee from holders of not less than 25% in aggregate principal amount at maturity of the debentures, and our failure to cure (or obtain a waiver of) such default within 60 days after we receive such notice;

(6) default under any indebtedness for money borrowed by us or any of our subsidiaries that is a "significant subsidiary" (as defined in Rule 1-02 of Regulation S-X under the Securities Act or the Exchange Act) the aggregate outstanding principal amount of which is in an amount in excess of $10 million, for a period of 30 days after written notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amount of theight:120%;text-align:center;font-size:10pt;">

RAMCO GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$7,460	$13,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,112	22,817
Amortization of deferred financing fees	380	346
Income tax provision	18	28
Earnings from unconsolidated joint ventures	(71)	(86)
Distributions received from operations of unconsolidated joint ventures	222	374
Provision for impairment	—	5,717
Gain on sale of real estate	—	(11,375)
Amortization of premium on mortgages, net	(260)	(292)
Service-based restricted share expense	724	645
Long-term incentive cash and equity compensation expense	71	(118)
Changes in assets and liabilities:		
Accounts receivable, net	891	(2,872)
Acquired lease intangibles and other assets, net	206	277
Accounts payable, acquired lease intangibles and other liabilities	(3,205)	(3,388)
Net cash provided by operating activities	27,548	25,487
INVESTING ACTIVITIES		
Acquisition of real estate	(6,365)	(168,763)
Development and capital improvements	(22,816)	(13,656)
Net proceeds from sales of real estate	—	27,422
Net cash used in by investing activities	(29,181)	(154,997)
FINANCING ACTIVITIES		
Repayments of mortgages and notes payable	(642)	(806)
Proceeds on revolving credit facility	25,000	178,000
Repayments on revolving credit facility	—	(6,000)
Proceeds, net of costs, from issuance of common stock	—	(24)
Redemption of operating partnership units for cash	(7)	—
Shares used for employee taxes upon vesting of awards	(411)	(485)
Dividends paid to preferred shareholders	(1,675)	(1,675)
Dividends paid to common shareholders and deferred shares	(17,573)	(17,533)
Distributions paid to operating partnership unit holders	(421)	(422)
Net cash provided by financing activities	4,271	151,055
Net change in cash, cash equivalents and restricted cash	2,638	21,545
Cash, cash equivalents and restricted cash at beginning of period	12,891	14,726
Cash, cash equivalents and restricted cash at end of period	$15,529	$36,271
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (net of capitalized interest of $245 and $54 in 2018 and 2017, respectively)	$6,078	$6,714
Deferred gain recognized in equity	$2,160	$—

The accompanying notes are an integral part of these condensed consolidated financial statements.

RAMCO-GERSHENSON PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Basis of Presentations

Organization

Ramco-Gershenson Properties Trust, together with its subsidiaries (the “Company” or "RPT"), is a real estate investment trust (“REIT”) engaged in the business of owning, developing, redeveloping, acquiring, managing and leasing large multi-anchored shopping centers primarily in a number of the largest metropolitan markets in the central United States. As of March 31, 2018, our property portfolio consisted of 56 wholly owned shopping centers comprising approximately 13.6 million square feet. We also have ownership interests of 7%, 20%, 30% and 30%, respectively, in four joint ventures. Our joint ventures are reported using equity method accounting. We earn fees from two joint ventures for managing, leasing and redeveloping the shopping centers they own. In addition, we own interests in several land parcels that are available for development or sale. Most of our properties are anchored by supermarkets and/or national chain stores. Our credit risk, therefore, is concentrated in the retail industry.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and our majority owned subsidiary, the Operating Partnership, Ramco-Gershenson Properties, L.P. (the "OP") (97.7% owned by the Company at March 31, 2018 and December 31, 2017), and all wholly-owned subsidiaries, including entities in which we have a controlling financial interest.

We have elected to be a REIT for federal income tax purposes. All intercompany balances and transactions have been eliminated in consolidation. The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented, and all such adjustments are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of our unaudited financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and reported amounts that are not readily apparent from other sources. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In February 2017, the FASB issued ASU 2017-05 "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. ASU 2017-05 also defines the term "in substance nonfinancial asset". In addition, ASU 2017-05 eliminates the guidance specific to real estate sales in ASC 360-20. It is effective for annual periods beginning after December 15, 2017, therefore we adopted the standard on January 1, 2018. In doing so, the Company recorded an adjustment under the modified retrospective method of approximately $2.2 million to shareholders' equity associated with a transaction that occurred in the fourth quarter of 2017. The adjustment had no impact on earnings or cash flows.

In May 2017, the FASB issued ASU 2017-09 "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 clarifies guidance about what changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows." This new guidance is effective January 1, 2018, with early adoption permitted, and requires amounts that are generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The pronouncement requires a retrospective transition method of adoption.

The adoption of this standard resulted in the reclassification of approximately $26.1 million of proceeds from real estate dispositions during the three months ended March 31, 2017 that were held in escrow as restricted cash. The amount was reclassified as net proceeds from sales of real estate from a non cash investing activity.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balances sheets that reconciles to the total shown within the consolidated statements of cash flows.

	As of March 31,	
	2018	2017
Cash and cash equivalents	$10,315	$4,486
Restricted cash and escrows	5,214	31,785
	$15,529	$36,271

Restricted cash generally consists of funds held in escrow by lenders to pay real estate taxes, insurance premiums and certain capital expenditures. In limited instances, restricted cash may include deposits on potential future acquisitions and/or proceeds related to dispositions of real estate.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. The adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 is a comprehensive revenue recognition standard that superseded nearly all prior GAAP revenue recognition guidance as well as prior GAAP guidance governing the sale of non-financial assets. The standard’s core principle is that a company should recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies need to exercise more judgment and make more estimates than under prior GAAP guidance. ASU 2014-09 became effective for public entities for annual and interim reporting periods beginning after December 15, 2017 and early adoption was permitted in periods ending after December 15, 2016. The guidance permited two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect initially applying the guidance recognized at the date of initial application (modified retrospective method). We adopted the standard and the related updates subsequently issued by the FASB using the modified retrospective method on January 1, 2018. ASU 2014-09 applies only to certain revenue included in Other Property Income and Management and Other Fee Income in our Consolidated Statement of Operations which totaled $0.9 million, or less than 2.0% of total revenue, for the quarter ended March 31, 2018. The adoption of the standard did not result in a cumulative adjustment recognized as of January 1, 2018.

Recent Accounting Pronouncements

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." These amendments add SEC guidance, among other things, to the FASB Accounting Standards Codification regarding the Tax Cuts and Jobs Act. This standard is effective for all public companies upon addition to the FASB Codification. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-04, "Investments-Debt Securities (Topic 320 and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273". These amendments supersede previous SEC guidance in the Codification in SAB Topic 5.M, Other-Than-Temporary Impairment of Certain Investments in Equity Securities and special balance sheet requirements in Regulation S-X Rule 3A-05 for Public Utility Holding Companies. This standard is effective for all public companies upon addition to the FASB Codification. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", that clarifies the guidance in ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10). For public business entities, ASU 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. We are

currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". These amendments provide financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. This standard is effective for for fiscal years beginning after December 15, 2018 and interim periods within those financial years. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842". The standard provides an optional transition practical expedient for the adoption of ASU 2016-02 that, if elected, would not require an organization to reconsider its accounting for existing land easements that are not currently accounted for under the old leases standard. Also under this new pronouncement, non-lease components of new or modified leases, including common area maintenance reimbursements, will be accounted for under the Revenue from Contracts with Customers guidance. Additionally, only incremental direct leasing costs may be capitalized under this new guidance. This standard is effective along with ASU 2016-02, for periods after December 15, 2018. The Company expects to adopt this new guidance on January 1, 2019 and will continue to evaluate the impact of this guidance until it becomes effective.

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on our consolidated financial statements.

In June 2016, the FASB updated Accounting Standards Codification ("ASC") Topic 326 "Financial Instruments - Credit Losses" with ASU 2016-13 “Measurement of Credit Losses on Financial Instruments” ("ASU 2016-13"). ASU 2016-13 enhances the methodology of measuring expected credit losses to include the use of forward-looking information to better inform credit loss estimates. ASU 2016-13 is effective for annual periods (including interim periods within those periods) beginning after December 15, 2019. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In February 2016, the FASB updated ASC Topic 842 "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not direct leasing costs. ASU 2016-02 is effective for periods beginning after December 15, 2018, with early adoption permitted using a modified retrospective approach. The Company continues to evaluate the effect the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures. However, we currently believe the adoption of ASU 2016-02 will not have a material impact for operating leases where we are a lessor and we will continue to record revenues from rental properties for operating leases on a straight-line basis. In addition, for leases where the Company is a lessee, primarily the Company’s ground lease and administrative office lease, the Company believes it will record a lease liability and a right of use asset at fair value upon adoption related to these items. Additionally, only incremental direct leasing costs may be capitalized under this new guidance. The Company expects to adopt this new guidance on January 1, 2019 and will continue to evaluate the impact of this guidance until it becomes effective.

2. Real Estate

Included in our net real estate assets are income producing properties that are recorded at cost less accumulated depreciation and amortization, construction in process and land available for development or sale.

We review our investment in real estate, including any related intangible assets, for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of the property may not be recoverable. These changes in circumstances include, but are not limited to, changes in occupancy, rental rates, tenant sales, net operating income, geographic location, real estate values and expected holding period.

For the three months ended March 31, 2018, we recorded no impairment provision and for the three months ended March 31, 2017, we recorded an impairment provision of $5.7 million on shopping centers classified as income producing. The 2017 adjustment was triggered by changes in the associated market price and expected holding period assumptions related to these shopping centers. To estimate fair value, we use discounted cash flow models that include assumptions of the discount rates that market participants would use in pricing an asset or market pricing from potential or comparable transactions.

Land available for development or sale includes real estate projects where vertical construction has yet to commence, but which have been identified by us and are available for future development when market conditions dictate the demand for a new shopping center. The viability of all projects under construction or development, including those owned by unconsolidated joint ventures, is regularly evaluated under applicable accounting requirements, including requirements relating to abandonment of assets or changes in use. Land available for development or sale was $32.3 million and $31.6 million at March 31, 2018 and December 31, 2017, respectively.

Construction in progress represents existing development, redevelopment and tenant build-out projects. When projects are substantially complete and ready for their intended use, balances are transferred to land or building and improvements as appropriate. Construction in progress was $38.9 million and $26.6 million at March 31, 2018 and December 31, 2017, respectively. The increase in construction in progress from December 31, 2017 to March 31, 2018 was due primarily to the ongoing redevelopment and expansion projects across the portfolio.

Pursuant to the criteria established under ASC Topic 360 we classify properties as held for sale when executed purchase and sales agreement contingencies have been satisfied thereby signifying that the sale is legally binding. As of March 31, 2018, we had no properties and no parcels classified as held for sale.

3. Property Acquisitions and Dispositions

Acquisitions

The following table provides a summary of our acquisition activity for the three months ended March 31, 2018:

Property Name	Location	GLA (in thousands)	Acreage	Date Acquired	Gross Purchase Price (In thousands)	Assumed Debt
Leasehold Interest (West Oaks)	Novi, MI	60	N/A	01/05/18	$ 6,365	$ —
Total consolidated income producing acquisitions		60	—		$ 6,365	$ —
Total Acquisitions		60	—		$ 6,365	$ —

The aggregate fair value of our 2018 acquisition through March 31, 2018, was allocated and is reflected in the following table.

	Allocated Fair Value (In thousands)
Buildings and improvements	$ 6,427
Above market leases	237
Lease origination costs	633
Other liabilities	(353)
Below market leases	(579)
Total purchase price allocated	$ 6,365

Total revenue and net income for the 2018 acquisition included in our condensed consolidated statement of operations for the three months ended March 31, 2018 were as follows:

	Three Months Ended March 31, 2018 (In thousands)
Total revenue from 2018 acquisition	$ 188
Net income from 2018 acquisition	$ 188

Unaudited Proforma Information

If the 2018 acquisition had occurred on January 1, 2017, our consolidated revenues and net income for the three months ended March 31, 2018 and 2017 would have been as follows:

	Three Months Ended March 31, 2018 (In thousands)	2017
Consolidated revenue	$62,726	$68,021
Consolidated net income available to common shareholders	$5,619	$11,619

Dispositions

There was no disposition activity for the three months ended March 31, 2018.

4. Equity Investments in Unconsolidated Joint Ventures

We have four joint venture agreements whereby we own 7%, 20%, 30% and 30%, respectively, of the equity in each joint venture.

Under three of the joint ventures, we and the joint venture partners have joint approval rights for major decisions, including those regarding property operations. We cannot make significant decisions without our partner's approval. Accordingly, we account for our interest in the joint ventures using the equity method of accounting.

The fourth joint venture was created in November 2017. The Company became a 30% equity investor in the entity for $3.0 million. The operating agreement of the joint venture does not provide the equity investors substantive kick-out rights or substantive participating rights, therefore we have concluded it is a variable interest entity. The Company has evaluated all explicit and implicit interests and further concluded we do not control the entity, nor are we the primary beneficiary. Because we do not control the joint venture we do not consolidate it as a variable interest entity, but instead account for it using the equity method. As of March 31, 2018, the Company's exposure to loss in the variable interest joint venture approximated the carrying value of its equity investment of $3.0 million.

The combined condensed financial information for our unconsolidated joint ventures is summarized as follows:

Balance Sheets	March 31, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Investment in real estate, net	$93,290	$ 93,801
Other assets	3,810	4,099
Total Assets	$97,100	$ 97,900
LIABILITIES AND OWNERS' EQUITY		
Mortgage notes payable	$41,805	$ 42,330
Other liabilities	$376	$ 220
Owners' equity	54,919	55,350
Total Liabilities and Owners' Equity	$97,100	$ 97,900
RPT's equity investments in unconsolidated joint ventures	$5,494	$ 3,493

	Three Months Ended March 31,	
Statements of Operations	2018	2017
	(In thousands)	
Total revenue	$1,187	$1,163
Total expenses	748	708
Net income	$439	$455
RPT's share of earnings from unconsolidated joint ventures	$71	$86

Acquisitions

There was no acquisition activity in the three months ended March 31, 2018 by any of our unconsolidated joint ventures.

Dispositions

There was no disposition activity in the three months ended March 31, 2018 by any of our unconsolidated joint ventures.

Joint Venture Management and Other Fee Income

We are engaged by two of our joint ventures to provide asset management, property management, leasing and investing services for such ventures' respective properties. We receive fees for our services, including a property management fee calculated as a percentage of gross revenues received, and recognize these fees as the services are rendered.

The following table provides information for our fees earned which are reported in our condensed consolidated statements of operations:

	Three Months Ended March 31, 2018	2017
	(In thousands)	
Management fees	$ 46	$ 74
Leasing fees	40	79
Total	$ 86	$ 153

5. Debt

The following table summarizes our mortgages and notes payable and capital lease obligation as of March 31, 2018 and December 31, 2017:

Notes Payable and Capital Lease Obligation	March 31, 2018	December 31, 2017
	(In thousands)	
Senior unsecured notes	$ 610,000	$ 610,000
Unsecured term loan facilities	210,000	210,000
Fixed rate mortgages	120,302	120,944
Unsecured revolving credit facility	55,000	30,000
Junior subordinated notes	28,125	28,125
	1,023,427	999,069
Unamortized premium	3,707	3,967
Unamortized deferred financing costs	(3,646)	(3,821)
Total notes payable	$ 1,023,488	$ 999,215
Capital lease obligation	$ 1,022	$ 1,022

Senior unsecured notes and unsecured term loans

Our $820.0 million of senior unsecured notes and unsecured term loans have interest rates ranging from 2.79% to 4.74% and are due at various maturity dates from May 2020 through December 2029.

Mortgages

Our $120.3 million of fixed rate mortgages have interest rates ranging from 3.76% to 7.38% and are due at various maturity dates from December 2019 through June 2026. The fixed rate mortgages are secured by properties that have an approximate net book value of $190.3 million as of March 31, 2018. It is our intent to repay the mortgages maturing in 2019 and beyond using cash, borrowings under our unsecured line of credit, or other sources of financing which may include long-term unsecured notes.

The mortgage loans encumbering our properties are generally nonrecourse, subject to certain exceptions for which we would be liable for any resulting losses incurred by the lender. These exceptions vary from loan to loan but generally include fraud or a material misrepresentation, misstatement or omission by the borrower, intentional or grossly negligent conduct by the borrower that harms the property or results in a loss to the lender, filing of a bankruptcy petition by the borrower, either directly or indirectly and certain environmental liabilities. In addition, upon the occurrence of certain events, such as fraud or filing of a bankruptcy petition by the borrower, we or our joint ventures would be liable for the entire outstanding balance of the loan, all interest accrued thereon and certain other costs, including penalties and expenses.

We have entered into mortgage loans which are secured by multiple properties and contain cross-collateralization and cross-default provisions. Cross-collateralization provisions allow a lender to foreclose on multiple properties in the event that we default under the loan. Cross-default provisions allow a lender to foreclose on the related property in the event a default is declared under another loan.

Revolving Credit Facility

As of March 31, 2018, we had $55.0 million outstanding under our revolving credit facility, an increase of $25.0 million from December 31, 2017, as a result of borrowings for general corporate purposes. After adjusting for outstanding letters of credit issued under our revolving credit facility, not reflected in the accompanying condensed consolidated balance sheets, totaling $0.7 million, we had $294.3 million of availability under our revolving credit facility. The interest rate as of March 31, 2018 was 3.01%.

Junior Subordinated Notes

Our junior subordinated notes have a variable rate of LIBOR plus 3.30%. The maturity date is January 2038.

The following table presents scheduled principal payments on mortgages and notes payable as of March 31, 2018:

Year Ending December 31,	(In thousands)
2018	$ 1,920
2019	5,859
2020	102,269
2021 [1]	169,508
2022	77,397
Thereafter	666,474
Subtotal debt	1,023,427
Unamortized premium	3,707
Unamortized deferred financing costs	(3,646)
Total debt	$ 1,023,488

[1] Scheduled maturities in 2021 include the $55.0 million balance on the unsecured revolving credit facility drawn as of March 31, 2018. The unsecured revolving credit facility has two six-month extensions available at the Company's option provided compliance with financial covenants is maintained.

Our unsecured revolving credit facility, senior unsecured notes, and unsecured term loan facilities contain financial covenants relating to total leverage, fixed charge coverage ratio, unencumbered assets, tangible net worth and various other calculations. As of March 31, 2018, we were in compliance with these covenants.

6. Fair Value

We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Derivative instruments (interest rate swaps) are recorded at fair value on a recurring basis. Additionally, we, from time to time, may be required to record other assets at fair value on a nonrecurring basis. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes three fair value levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The assessed inputs used in determining any fair value measurement could result in incorrect valuations that could be material to our condensed consolidated financial statements. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of valuation methodologies used for our assets and liabilities recorded at fair value.

Derivative Assets and Liabilities

All of our derivative instruments are interest rate swaps for which quoted market prices are not readily available. For those derivatives, we measure fair value on a recurring basis using valuation models that use primarily market observable inputs, such as yield curves. We classify these instruments as Level 2. Refer to Note 7 Derivative Financial Instruments of the notes to the condensed consolidated financial statements for additional information on our derivative financial instruments.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017.

	Balance Sheet Location	Total Fair Value	Level 2
March 31, 2018		(In thousands)	
Derivative assets - interest rate swaps	Other assets	$5,377	$5,377
Derivative liabilities - interest rate swaps	Other liabilities	$(10)	$(10)
December 31, 2017			
Derivative assets - interest rate swaps	Other assets	$3,133	$3,133
Derivative liabilities - interest rate swaps	Other liabilities	$(208)	$(208)

The carrying values of cash and cash equivalents, restricted cash, receivables and accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

We estimated the fair value of our debt based on our incremental borrowing rates for similar types of borrowing arrangements with the same remaining maturity and on the discounted estimated future cash payments to be made for other debt. The discount rates used approximate current lending rates for loans or groups of loans with similar maturities and credit quality, assume the debt is outstanding through maturity and consider the debt’s collateral (if applicable). Since such amounts are estimates that are based on limited available market information for similar transactions (Level 3), there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument.

Fixed rate debt (including variable rate debt swapped to fixed through derivatives) with carrying values of $940.3 million and $940.9 million as of March 31, 2018 and December 31, 2017, respectively, had fair values of approximately $931.6 million and $940.8 million, respectively. Variable rate debt’s fair value is estimated to be the carrying values of $83.1 million and $58.1 million as of March 31, 2018 and December 31, 2017, respectively.

The following is a description of valuation methodologies used for our assets and liabilities recorded at fair value on a nonrecurring basis:

Net Real Estate

Our net investment in real estate, including any identifiable intangible assets, is subject to impairment testing on a nonrecurring basis. To estimate fair value, we use discounted cash flow models that include assumptions of the discount rates that market participants would use in pricing the asset or pricing from potential or comparable market transactions. To the extent impairment has occurred, we charge to expense the excess of the carrying value of the property over its estimated fair value. We classify impaired real estate assets as nonrecurring Level 3. During the three months ended March 31, 2018, we did not incur any impairment for income producing shopping centers that are required to be measured at fair value on a nonrecurring basis. We did not have any material liabilities that were required to be measured at fair value on a nonrecurring basis during the period.

7. Derivative Financial Instruments

We utilize interest rate swap agreements for risk management purposes to reduce the impact of changes in interest rates on our variable rate debt. We may also enter into forward starting swaps to set the effective interest rate on planned variable rate financing. On the date we enter into an interest rate swap, the derivative is designated as a hedge against the variability of cash flows that are to be paid in connection with a recognized liability. Subsequent changes in the fair value of a derivative designated as a cash flow hedge that is determined to be effective are recorded in other comprehensive income ("OCI") until earnings are affected by the variability of cash flows of the hedged transaction. The differential between fixed and variable rates to be paid or received is accrued, as interest rates change, and recognized currently as interest expense in the condensed consolidated statements of operations. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. Our cash flow hedges become ineffective, for example, if critical terms of the hedging instrument and the debt do not perfectly match such as notional amounts, settlement dates, reset dates and calculation period and LIBOR rate. Changes in the fair values are immediately included in other income and expenses. At March 31, 2018, all of our hedges were effective.

The following table summarizes the notional values and fair values of our derivative financial instruments as of March 31, 2018:

Underlying Debt	Hedge Type	Notional Value (In thousands)	Fixed Rate	Fair Value (In thousands)	Expiration Date
Derivative Assets					
Unsecured term loan	Cash Flow	$ 25,000	1.850 %	$ 17	10/2018
Unsecured term loan	Cash Flow	5,000	1.840 %	4	10/2018
Unsecured term loan	Cash Flow	15,000	2.150 %	64	05/2020
Unsecured term loan	Cash Flow	10,000	2.150 %	43	05/2020
Unsecured term loan	Cash Flow	50,000	1.460 %	942	05/2020
Unsecured term loan	Cash Flow	20,000	1.498 %	588	05/2021
Unsecured term loan	Cash Flow	15,000	1.490 %	445	05/2021
Unsecured term loan	Cash Flow	40,000	1.480 %	1,200	05/2021
		$ 180,000		$ 3,303	
Derivative Assets - Forward Swaps					
Unsecured term loan	Cash Flow	60,000	1.770 %	2,074	03/2023
Total Derivative Assets		$ 240,000		$ 5,377	
Derivative Liabilities					
Unsecured term loan	Cash Flow	$ 30,000	2.048 %	$ (10)	10/2018
Total Derivative Liabilities		$ 30,000		$ (10)	

The effect of derivative financial instruments on our condensed consolidated statements of operations for the three months ended March 31, 2018 and 2017 is summarized as follows:

Derivatives in Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended March 31,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended March 31,	
	2018	2017		2018	2017
	(In thousands)			(In thousands)	
Interest rate contracts - assets	$2,278	$522	Interest Expense	$(33)	$(154)
Interest rate contracts - liabilities	277	648	Interest Expense	(80)	(293)
Total	$2,555	$1,170	Total	$(113)	$(447)

8. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per share ("EPS"):

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Net income	$7,460	$13,414
Net income attributable to noncontrolling interest	(174)	(316)
Allocation of income to restricted share awards	(108)	(94)
Income attributable to RPT	7,178	13,004
Preferred share dividends	(1,675)	(1,675)
Net income available to common shareholders	5,503	11,329
Net income available to common shareholders - Diluted	$5,503	$11,329
Weighted average shares outstanding, Basic	79,423	79,299
Restricted stock awards using the treasury method	147	182
Weighted average shares outstanding, Diluted	79,570	79,481
Income per common share, Basic	$0.07	$0.14
Income per common share, Diluted	$0.07	$0.14

We exclude certain securities from the computation of diluted earnings per share because the inclusion of these securities would have been anti-dilutive. The following table presents the outstanding securities that were excluded from the computation of diluted earnings per share and the number of common shares each was convertible into (in thousands):

	Three Months Ended March 31,			
	2018		2017	
	Issued	Converted	Issued	Converted
Operating Partnership Units	1,916	1,916	1,917	1,917
Series D Preferred Shares	1,849	6,772	1,849	6,657
Performance Share Units	196	—	104	—
	3,961	8,688	3,870	8,574

9. Share-based Compensation Plans

As of March 31, 2018, we have one share-based compensation plan in effect, the 2012 Omnibus Long-Term Incentive Plan ("2012 LTIP") under which our compensation committee may grant, subject to any Company performance conditions as specified by the compensation committee, restricted shares, restricted share units, options and other awards to trustees, officers and other key employees. The 2012 LTIP allows us to issue up to 2.0 million shares of our common stock, units or stock options, of which 1.0 million remained available for issuance as of March 31, 2018.

As of March 31, 2018, we had 503,534 unvested share awards granted under the 2012 LTIP and other plans which terminated when the 2012 LTIP became effective. These awards have various expiration dates through March 2023.

During the three months ended March 31, 2018, we had the following awards:

- granted 213,611 shares of service-based restricted stock. The service-based awards were valued based on our closing stock price as of the grant date; and
- granted performance-based equity awards that are earned subject to a future performance measurement based on a three-year shareholder return peer comparison ("TSR Grants").

The service-based restricted share awards to employees vest over five years and the compensation expense is recognized on a graded vesting basis. The service-based restricted share awards to trustees vest over one year. We recognized expense related to restricted share grants of $0.7 million and $0.6 million for the three months ended March 31, 2018 and March 31, 2017, respectively.

Pursuant to ASC 718 – Stock Compensation, we determine the grant date fair value of TSR Grants that will be settled in cash, and any subsequent re-measurements, based upon a Monte Carlo simulation model. We will recognize the compensation expense ratably over the requisite service period. We are required to re-value the cash awards at the end of each quarter using the same methodology as was used at the initial grant date and adjust the compensation expense accordingly. If at the end of the three-year measurement period the performance criterion is not met, compensation expense related to the cash awards previously recognized would be reversed. Compensation benefit related to the cash awards was $(23.0) thousand and $(0.1) million for the three months ended March 31, 2018 and March 31, 2017, respectively.

The Company also determines the grant date fair value of the TSR Grants that will be settled in equity based upon a Monte Carlo simulation model and recognizes the compensation expense ratably over the requisite service period. These equity awards are not re-valued at the end of each quarter. The compensation cost will be recognized regardless of whether the performance criterion are met, provided the requisite service has been provided. Compensation expense related to the equity awards was an expense of $0.1 million for the three months ended March 31, 2018 and $26.0 thousand for the three months ended March 31, 2017, respectively.

We recognized total share-based compensation expense of $0.8 million and $0.5 million for the three months ended March 31, 2018 and March 31, 2017, respectively.

As of March 31, 2018, we had $6.5 million of total unrecognized compensation expense related to unvested restricted shares and performance based equity and cash awards. This expense is expected to be recognized over a weighted-average period of 3.2 years.

10. Taxes

Income Taxes

We conduct our operations with the intent of meeting the requirements applicable to a REIT under sections 856 through 860 of the Internal Revenue Code. In order to maintain our qualification as a REIT, we are required to distribute annually at least 90% of our REIT taxable income, excluding net capital gain, to our shareholders. As long as we qualify as a REIT, we will generally not be liable for federal corporate income taxes.

Certain of our operations, including property management and asset management, as well as ownership of certain land, are conducted through our taxable REIT subsidiaries ("TRSs") which allows us to provide certain services and conduct certain activities that are not generally considered as qualifying REIT activities.

Deferred tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the bases of such assets and liabilities as measured by tax laws. Deferred tax assets are reduced by a valuation allowance to the amount where realization is more likely than not assured after considering all available evidence, including expected taxable earnings and potential tax planning strategies. Our temporary differences primarily relate to deferred compensation, depreciation, land basis differences, and net operating loss carry forwards.

As of March 31, 2018, we had a federal and state deferred tax asset of $6.9 million and a valuation allowance of $6.9 million. Our deferred tax assets are reduced by an offsetting valuation allowance where there is uncertainty regarding their realizability. We believe that it is more likely than not that the results of future operations will not generate sufficient taxable income to recognize the deferred tax assets. These future operations are primarily dependent upon the profitability of our TRSs, the timing and amounts of gains on land sales, and other factors affecting the results of operations of the TRSs.

If in the future we are able to conclude it is more likely than not that we will realize a future benefit from a deferred tax asset, we will reduce the related valuation allowance by the appropriate amount. The first time this occurs, it will result in a net deferred tax asset on our balance sheet and an income tax benefit of equal magnitude in our statement of operations in the period we make the determination.

We recorded income tax provisions of approximately $18.0 thousand and $28.0 thousand for the three months ended March 31, 2018 and 2017, respectively.

Sales Taxes

We collect various taxes from tenants and remit these amounts, on a net basis, to the applicable taxing authorities.

11. Commitments and Contingencies

Construction Costs

In connection with the development and expansion of various shopping centers as of March 31, 2018, we had entered into agreements for construction costs of approximately $18.4 million.

Litigation

From time to time, we are involved in certain litigation arising in the ordinary course of business; however, we do not believe that any of this litigation will have a material effect on our consolidated financial statements.

Leases

Operating Leases

We lease office space for our corporate headquarters under an operating lease that expires in August 2019. We also have a ground lease at Centennial Shops located in Edina, Minnesota. The ground lease includes rent escalations throughout the lease period and expires in April 2105.

We recognized rent expense related to these operating leases of $0.4 million and $0.4 million for the three months ended March 31, 2018 and 2017, respectively.

Capital Lease

We have a ground lease at Buttermilk Towne Center which we have recorded as a capital lease that expires in December 2032. Interest expense for this capital lease was negligible for the three months ended March 31, 2018 and 2017, respectively.

12. Subsequent Events

We have evaluated subsequent events through the date that the condensed consolidated financial statements were issued.

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

Where we say "we," "us," or "our," we mean Ramco-Gershenson Properties Trust.

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements, including the respective notes thereto, which are included in this Form 10-Q.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations, plans or beliefs concerning future events and may be identified by terminology such as “may,” “will,” “should,” “believe,” “expect,” “estimate,” “anticipate,” “continue,” “predict” or similar terms. Although the forward-looking statement made in this document are based on our good faith beliefs, reasonable assumptions and our best judgment based upon current information, certain factors could cause actual results to differ materially from those in the forward-looking statements, including: our success or failure in implementing our business strategy; economic conditions generally and in the commercial real estate and finance markets specifically; the cost and availability of capital, which depends in part on our asset quality and our relationships with lenders and other capital providers; our business prospects and outlook; changes in governmental regulations, tax rates and similar matters; our continuing to qualify as a REIT; and other factors discussed elsewhere in this document and our other filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017. Given these uncertainties, you should not place undue reliance on any forward-looking statements. Except as required by law, we assume no obligation to update these forward-looking statements, even if new information becomes available in the future.

Overview

We are a fully integrated, self-administered, publicly-traded equity REIT specializing in the ownership, development and redevelopment of community shopping centers. Most of our properties are multi-anchored by super markets and/or national chain stores. Our primary business is managing and leasing space to tenants in the shopping centers we own. We also manage certain centers for our unconsolidated joint ventures for which we charge fees. Our credit risk, therefore, is concentrated in the retail industry.

As of March 31, 2018, our property portfolio consisted of 56 wholly owned shopping centers comprising approximately 13.6 million square feet. We also have ownership interests of 7%, 20%, 30% and 30%, respectively, in four joint ventures, for which we manage an additional 0.7 million square feet. In addition, we own interests in several land parcels that are available for development or sale, the majority of which are adjacent to certain of our existing developed properties. Our consolidated portfolio was 93.6% leased at March 31, 2018 as compared to 94.3% at March 31, 2017. The decline in leased occupancy is primarily a result of the Gander Mountain, MC Sporting Goods and rue21 bankruptcies, offset partially by the impact of property disposals in the last nine months of 2017.

We accomplished the following activity during the three months ended March 31, 2018:

Operating Activity

For our consolidated properties we reported the following leasing activity:

	Leasing Transactions	Square Footage	Base Rent/SF [1]	Prior Rent/SF [2]	Tenant Improvements/SF [3]	Leasing Commissions/SF
Renewals	47	318,705	$18.47	$17.06	$2.52	$0.16
New Leases - Comparable	2	3,000	$18.13	$9.63	$1.33	$9.88
New Leases - Non-Comparable [4]	21	109,638	$15.08	N/A	$43.61	$5.19
Total	70	431,343	$17.61	N/A	$12.96	$1.50

(1) Base rent represents contractual minimum rent under the new lease for the first 12 months of the term.
(2) Prior rent represents minimum rent, if any, paid by the prior tenant in the final 12 months of the term.
(3) Includes tenant improvement cost, tenant allowances, and landlord costs. Excludes first generation space and new leases related to development and redevelopment activity.

(4) Non-comparable lease transactions include leases for space vacant for greater than 12 months, leases for space which has been combined from smaller spaces or demised from larger spaces and leases structured differently from the prior lease. As a result, there is no comparable prior rent per square foot to compare to the base rent per square foot of the new lease.

Investing Activity

At March 31, 2018, we have six properties under redevelopment, expansion or re-anchoring that have an estimated cost of $74.3 million, of which $21.4 million remains to be invested. Completion for these projects is expected over the next fifteen months.

Financing Activity

Debt

As of March 31, 2018 we had net debt to total market capitalization of 48.2% as compared to 48.9% at March 31, 2017. The decrease is attributable to declines in the price of our common and preferred stock, as well as a decrease in net debt primarily attributable to a decline in the outstanding balance on our revolving credit.

At March 31, 2018 and March 31, 2017, we had $294.3 million and $91.5 million, respectively, available to draw under our unsecured revolving line of credit.

Equity

For the three months ended March 31, 2018, we did not issue any common shares through our equity distribution arrangement. The shares issuable are registered with the Securities and Exchange Commission (“SEC”) on our registration statement on Form S-3 (No. 333-211925).

Land Available for Development or Sale

At March 31, 2018, our three largest development sites, Hartland Towne Square, Lakeland Park Center and Parkway Shops, each had phase one completed. We estimate that if we proceed with the development of the projects, up to approximately 420,000 square feet of gross leasable area ("GLA") could be developed, excluding various outparcels of land. It is our policy to start vertical construction on new development projects only after the project has received entitlements, significant anchor commitments and construction financing, if appropriate.

Our development and construction activities are subject to risks such as our inability to obtain the necessary governmental approvals for a project, our determination that the expected return on a project is not sufficient to warrant continuation of the planned development, or our change in plan or scope for the development. If any of these events occur, we may record an impairment provision.

Accounting Policies and Estimates

Our 2017 Annual Report on Form 10-K contains a description of our critical accounting policies, including policies for the initial adoption of accounting policies, revenue recognition and accounts receivable, real estate investment, off balance sheet arrangements, fair value measurements and deferred charges.

Comparison of three months ended March 31, 2018 to March 31, 2017

The following summarizes certain line items from our unaudited condensed consolidated statements of operations that we believe are important in understanding our operations and/or have significantly changed in the three months ended March 31, 2018 as compared to the same period in 2017:

	Three Months Ended March 31,			
	2018	2017	Dollar Change	Percent Change
	(In thousands)			
Total revenue	$62,718	$67,825	$(5,107)	(7.5)%
Real estate taxes	10,157	10,993	(836)	(7.6)%
Recoverable operating expense	6,806	7,608	(802)	(10.5)%
Non-recoverable operating expense	1,001	1,148	(147)	(12.8)%
Depreciation and amortization	21,112	22,817	(1,705)	(7.5)%
General and administrative expense	5,887	6,451	(564)	(8.7)%
Provision for impairment	—	5,717	(5,717)	(100.0)%
Gain on sale of real estate	—	11,375	(11,375)	(100.0)%
Earnings from unconsolidated joint ventures	71	86	(15)	(17.4)%
Interest expense	10,601	10,799	(198)	(1.8)%
Preferred share dividends	1,675	1,675	—	— %

Total revenue for the three months ended March 31, 2018, decreased $5.1 million, or (7.5)%, from 2017. The decrease is primarily due to the following:
- $7.1 million decrease related to properties sold in 2017; offset by
- $2.1 million increase related to acquisitions completed in February 2017

Real estate tax expense for the three months ended March 31, 2018 decreased $0.8 million, or (7.6)% from 2017, primarily due to properties sold during 2017, net of additional expense from acquisitions completed in February 2017.

Recoverable operating expense in 2018 decreased $0.8 million, or (10.5)%, from 2017 primarily due to properties sold during 2017 and lower expense at existing properties, net of additional expense from acquisitions completed in February 2017.

Non-recoverable operating expense for the three months ended March 31, 2018 decreased $0.1 million, or (12.8)% from 2017. The decrease is primarily the result of the properties sold during 2017.

Depreciation and amortization expense for the three months ended March 31, 2018 decreased $1.7 million, or (7.5)%, from 2017. The decrease is primarily a result of properties sold during 2017 and assets written off in the first quarter of 2017 related to a bankruptcy tenant, offset partially by higher depreciation expense from acquisitions completed in February 2017.

General and administrative expense for the three months ended March 31, 2018 decreased $0.6 million or (8.7)% from 2017. The decrease was primarily due to lower bonus compensation and lower professional fees, offset partially by higher recruiting fees attributable to the Chief Executive Officer search which concluded in April 2018.

During the three months ended March 31, 2017, we recorded an impairment provision totaling $5.7 million on shopping centers classified as income producing. The adjustment was triggered by changes in the associated market price and expected holding period assumptions related to these shopping centers. There was no impairment provision recorded during the three months ended March 31, 2018.

The Company had no real estate disposals during the three months ended March 31, 2018. Real estate disposals during the three months ended March 31, 2017 produced a gain $11.4 million.

Interest expense for the three months ended March 31, 2018 decreased $0.2 million or (1.8)% from 2017. The decrease is primarily a result of an 8.0% decrease in our average outstanding debt and higher capitalized interest, offset partially by a 20 basis point increase in our weighted average interest rate.

Liquidity and Capital Resources

Our primary uses of capital include principal and interest payments on our outstanding indebtedness, recurring capital expenditures such as tenant improvements, leasing commissions, improvements made to individual properties, shareholder dividends, redevelopments, operating expenses of our business, debt maturities, acquisitions and developments. We generally strive to cover our principal and interest payments, operating expenses, shareholder distributions, and recurring capital expenditures from cash flow from operations, although from time to time we may borrow or sell assets to finance a portion of those uses. We believe the combination of cash flow from operations, cash balances, available borrowings under our Unsecured Credit Facility, issuance of long-term debt, property dispositions, and issuance of equity securities will provide adequate capital resources to fund all of our expected uses over at least the next 12 months. Although we believe that the combination of factors discussed above will provide sufficient liquidity, no such assurance can be given.

We believe our current capital structure provides us with the financial flexibility to fund our current capital needs. We intend to continue to enhance our financial and operational flexibility by extending the duration of our debt, laddering our debt maturities and further expanding our unencumbered asset base. In addition, we believe we have access to multiple forms of capital which includes unsecured corporate debt, and preferred and common equity, including our at-the-market equity program we have in place.

At March 31, 2018 and 2017, we had $15.5 million and $36.3 million, respectively, in cash and cash equivalents and restricted cash. Restricted cash generally consists of funds held in escrow by lenders to pay real estate taxes, insurance premiums and certain capital expenditures, in addition to deposits on potential future acquisitions. At March 31, 2017 restricted cash and escrows included $26.1 million of disposition proceeds that were subsequently used to complete an Internal Revenue Code section 1031 exchange. As of March 31, 2018 we had no debt maturing for the remainder of 2018 and we had $294.3 million available to be drawn on our $350.0 million unsecured revolving credit facility subject to our compliance with certain covenants.

Our long-term liquidity needs consist primarily of funds necessary to pay indebtedness at maturity, potential acquisitions of properties, redevelopment of existing properties, the development of land and non-recurring capital expenditures. We continually search for investment opportunities that may require additional capital and/or liquidity. We will continue to pursue the strategy of selling mature properties or non-core assets that no longer meet our investment criteria. Our ability to obtain acceptable selling prices and satisfactory terms and financing will impact the timing of future sales. We anticipate using net proceeds from the sale of properties to reduce outstanding debt and support current and future growth initiatives. To the extent that asset sales are not sufficient to meet our long-term liquidity needs, we expect to meet such needs by incurring debt or issuing equity.

For the three months ended March 31, 2018, our cash flows were as follows compared to the same period in 2017:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Net cash provided by operating activities	$27,548	$25,487
Net cash used in by investing activities	(29,181)	(154,997)
Net cash provided by financing activities	4,271	151,055

Operating Activities

Net cash flow provided by operating activities increased $2.1 million in 2018 compared to 2017 primarily due to the following:

- Favorable change in net accounts receivable of $3.8 million; and
- Lower net income of $2.0 million after adjusting for depreciation and amortization, gains on the sale of real estate and provisions for impairment.

Investing Activities

Net cash used in investing activities decreased $125.8 million compared to 2017 primarily due to:

- Acquisitions of real estate decreased $162.4 million;

- Development and capital improvements to real estate increased $9.2 million; and
- Net proceeds from the sale of real estate decreased $27.4 million.

In the first quarter of 2018 we acquired the leasehold interest in a ground lease at our existing West Oaks shopping center for approximately $6.4 million and made a deposit of $1.5 million on a potential shopping center acquisition. In the first quarter of 2017 we acquired two properties at a combined gross purchase price of $164.3 million, net of $4.0 million paid in the previous year as deposits.

At March 31, 2018, we had six properties under redevelopment or expansion that have an estimated cost of $74.3 million, of which $21.4 million remains to be invested. Completion for these projects is expected over the next fifteen months.

Financing Activities

Net cash provided by financing activities decreased $146.8 million compared to 2017 primarily because net borrowings on our revolving credit facility decreased $147.0 million.

As of March 31, 2018, $294.3 million was available to be drawn on our $350.0 million unsecured revolving credit facility subject to our compliance with certain covenants. It is anticipated that additional funds borrowed under our credit facilities will be used for general corporate purposes, including working capital, capital expenditures, the repayment of indebtedness or other corporate activities. For further information on the credit facility and other debt, refer to Note 5 Debt of notes to the consolidated financial statements.

Dividends and Equity

We currently qualify, and intend to continue to qualify in the future, as a REIT under the Code. As a REIT, we must distribute to our shareholders at least 90% of our REIT taxable income annually, excluding net capital gain. Distributions paid are at the discretion of our Board and depend on our actual net income available to common shareholders, cash flow, financial condition, capital requirements, restrictions in financing arrangements, the annual distribution requirements under REIT provisions of the Code and such other factors as our Board deems relevant.

On February 28, 2018 our Board of Trustees declared a quarterly cash dividend of of $0.22 per common share to shareholders of record as of March 20, 2018. Our dividend policy is to make distributions to shareholders of at least 90% of our REIT taxable income, excluding net capital gain, in order to maintain qualification as a REIT. On an annualized basis, our current dividend is above our estimated minimum required distribution. Distributions paid by us are expected to be funded from cash flows from operating activities. To the extent that cash flows from operating activities are insufficient to pay total distributions for any period, alternative funding sources could be used. Examples of alternative funding sources may include proceeds from sales of real estate and bank borrowings. As of March 31, 2018 we had $294.3 million available to be drawn on our $350.0 million unsecured revolving credit facility subject to compliance with certain covenants.

Additionally, we declared a quarterly cash dividend of $0.90625 per preferred share to preferred shareholders of record as of March 20, 2018.

We have an equity distribution agreement that registered up to 8.0 million common shares for issuance from time to time, in our sole discretion. For the three months ended March 31, 2018, we did not issue any common shares through the arrangement. The shares issuable in the new distribution agreement are registered with the Securities and Exchange Commission (“SEC”) on our registration statement on Form S-3 (No. 333-211925).

Debt

At March 31, 2018, we had $55.0 million outstanding on our revolving credit facility, $120.3 million of fixed rate mortgage loans encumbering certain properties, $210.0 million of unsecured term loan facilities, $610.0 million in senior unsecured notes and $28.1 million of junior subordinated notes.

In addition, we had interest rate swap derivative instruments in effect for an aggregate notional amount of $270.0 million converting a portion of our floating rate corporate debt to fixed rate debt. After taking into account the impact of converting our variable rate debt to fixed rate debt by use of the interest rate swap agreements, at March 31, 2018, we had $83.1 million of variable rate debt outstanding.

Off Balance Sheet Arrangements

Real Estate Joint Ventures

We consolidate entities in which we own less than 100% equity interest if we have a controlling interest or are the primary beneficiary in a variable interest entity, as defined in the Consolidation Topic of FASB ASC 810. From time to time, we enter into joint venture arrangements from which we believe we can benefit by owning a partial interest in one or more properties.

As of March 31, 2018, our investments in unconsolidated joint ventures were approximately $5.5 million representing our ownership interest in four joint ventures. We accounted for these entities under the equity method. Refer to Note 4 Equity Investments in Unconsolidated Joint Ventures of the notes to the condensed consolidated financial statements for more information.

We review our equity investments in unconsolidated entities for impairment on a venture-by-venture basis whenever events or changes in circumstances indicate that the carrying value of the equity investment may not be recoverable. In testing for impairment of these equity investments, we primarily use cash flow models, discount rates, and capitalization rates to estimate the fair value of properties held in joint ventures, and we also estimate the fair value of the debt of the joint ventures based on borrowing rates for similar types of borrowing arrangements with the same remaining maturity. Considerable judgment by management is applied when determining whether an equity invest in an unconsolidated entity is impaired and, if so, the amount of the impairment. Changes to assumptions regarding cash flows, discount rates, or capitalization rates could be material to our condensed consolidated financial statements.

We are engaged by our joint ventures to provide asset management, property management, leasing and investing services for such venture's respective properties. We receive fees for our services, including a property management fee calculated as a percentage of gross revenues received.

Contractual Obligations

The following are our contractual cash obligations as of March 31, 2018:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year (1)	1-3 years	4-5 years	More than 5 years
	(In thousands)				
Mortgages and notes payable:					
Scheduled amortization	$14,429	$1,920	$7,771	$2,277	$2,461
Payments due at maturity	1,008,998	—	269,865	204,508	534,625
Total mortgages and notes payable (2)	1,023,427	1,920	277,636	206,785	537,086
Interest expense (3)	276,611	31,951	116,920	54,826	72,914
Employment contracts	2,513	1,050	1,463	—	—
Capital lease (4)	1,500	100	300	200	900
Operating leases	100,257	1,121	2,997	1,712	94,427
Construction commitments	18,363	18,363	—	—	—
Development obligations	4,840	583	1,399	571	2,287
Total contractual obligations	$1,427,511	$55,088	$400,715	$264,094	$707,614

(1) Amounts represent balance of obligation for the remainder of 2018.
(2) Excludes $3.7 million of unamortized mortgage debt premium and $3.6 million in net deferred financing costs.
(3) Variable-rate debt interest is calculated using rates at March 31, 2018.
(4) Includes interest payments associated with the capital lease obligation.

At March 31, 2018, we did not have any contractual obligations that required or allowed settlement, in whole or in part, with consideration other than cash.

Mortgages and notes payable

See the analysis of our debt included in "Liquidity and Capital Resources."

Employment Contracts

At March 31, 2018, we had employment contracts with our Chief Executive, Chief Financial and Chief Operating Officers that contain minimum guaranteed compensation. All other employees are subject to at-will employment.

Operating and Capital Leases

We lease office space for our corporate headquarters under an operating lease that expires in August 2019.

We have a capital lease at our Buttermilk Towne Center with the City of Crescent Springs, Kentucky. The lease provides for fixed annual payments of $0.1 million through maturity in December 2032, at which time we can acquire the center for one dollar.

We also have a ground lease at Centennial Shops located in Edina, Minnesota. The lease includes rent escalations throughout the lease period and expires in April 2105.

Construction Costs

In connection with the development and expansion of various shopping centers as of March 31, 2018, we have entered into agreements for construction activities with an aggregate cost of approximately $18.4 million.

Planned Capital Spending

We are focused on our core strengths of enhancing the value of our existing portfolio of shopping centers through successful leasing efforts and the completion of our development and redevelopment projects currently in process.

For remainder of 2018, we anticipate spending between $60.0 million and $70.0 million for capital expenditures, of which $18.4 million is reflected in the construction commitments in the contractual obligations table. The total anticipated spending relates to redevelopment projects, tenant improvements and leasing costs. Estimates for future spending will change as new projects are approved.

Capitalization

At March 31, 2018 our total market capitalization was $2.1 billion and is detailed below:

	(In thousands)	
Net debt (including property-specific mortgages, unsecured revolving credit facility, term loans and capital lease obligation net of $10.3 million in cash)	$1,026,833	
Common shares, OP units, and dilutive securities based on market price of $12.36 at March 31, 2018	1,007,810	
Convertible perpetual preferred shares based on market price of $52.21 at March 31, 2018	96,536	
Total market capitalization	$2,131,179	
Net debt to total market capitalization[1]	48.2	%

At March 31, 2018, the non-controlling interest in the Operating Partnership was approximately 2.3%. The OP Units outstanding may, under certain circumstances, be exchanged for our common shares of beneficial interest on a one-for-one basis. We, as sole general partner of the Operating Partnership, have the option, but not the obligation, to settle exchanged OP Units held by others in cash based on the current trading price of our common shares of beneficial interest. Assuming the exchange of all OP Units, there would have been approximately 81.5 million common shares of beneficial interest outstanding at March 31, 2018, with a market value of approximately $1.0 billion.

Inflation

Inflation has been relatively low in recent years and has not had a significant detrimental impact on the results of our operations. Should inflation rates increase in the future, substantially all of our tenant leases contain provisions designed to mitigate the negative impact of inflation in the near term. Such lease provisions include clauses that require our tenants to reimburse us for real estate taxes and many of the operating expenses we incur. Also, many of our leases provide for periodic increases in base rent which are either of a fixed amount or based on changes in the consumer price index and/or percentage rents (where the tenant pays us rent based on percentage of its sales). Significant inflation rate increases over a prolonged period of time may have a material adverse impact on our business.

Non-GAAP Financial Measures

Certain of our key performance indicators are considered non-GAAP financial measures. Management uses these measures along with our GAAP financial statements in order to evaluate our operations results. We believe these additional measures provide users of our financial information additional comparable indicators of our industry, as well as, our performance.

Funds from Operations

We consider funds from operations, also known as "FFO," to be an appropriate supplemental measure of the financial performance of an equity REIT. Under the NAREIT definition, FFO represents net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property and impairment provisions on depreciable real estate or on investments in non-consolidated investees that are driven by measurable decreases in the fair value of depreciable real estate held by the investee, plus depreciation and amortization, (excluding amortization of financing costs). Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis.

In addition to FFO available to common shareholders, we include Operating FFO available to common shareholders as an additional measure of our financial and operating performance. Operating FFO excludes acquisition costs and periodic items such as impairment provisions on land available for development or sale, bargain purchase gains, contingent gains, accelerated amortization of debt premiums and gains or losses on extinguishment of debt that are not adjusted under the current NAREIT definition of FFO. We provide a reconciliation of FFO to Operating FFO. FFO and Operating FFO should not be considered alternatives to GAAP net income available to common shareholders or as alternatives to cash flow as measures of liquidity.

While we consider FFO available to common shareholders and Operating FFO available to common shareholders useful measures for reviewing our comparative operating and financial performance between periods or to compare our performance to different REITs, our computations of FFO and Operating FFO may differ from the computations utilized by other real estate companies, and therefore, may not be comparable.

We recognize the limitations of FFO and Operating FFO when compared to GAAP net income available to common shareholders. FFO and Operating FFO available to common shareholders do not represent amounts available for needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. In addition, FFO and Operating FFO do not represent cash generated from operating activities in accordance with GAAP and are not necessarily indicative of cash available to fund cash needs, including the payment of dividends. FFO and Operating FFO are simply used as additional indicators of our operating performance. The following table illustrates the calculations of FFO and Operating FFO:

The following table illustrates the reconciliation of net income available to common shareholders to FFO to Operating FFO:

	Three Months Ended March 31, 2018	2017
	(In thousands, except per share data)	
Net income	$7,460	$13,414
Net income attributable to noncontrolling partner interest	(174)	(316)
Preferred share dividends	(1,675)	(1,675)
Net income available to common shareholders	5,611	11,423
Adjustments:		
Rental property depreciation and amortization expense	21,050	22,758
Pro-rata share of real estate depreciation from unconsolidated joint ventures	72	73
Gain on sale of depreciable real estate	—	(11,190)
Provision for impairment on income-producing properties	—	5,717
FFO available to common shareholders	26,733	28,781
Noncontrolling interest in Operating Partnership [(1)]	174	316
Preferred share dividends (assuming conversion)	1,675	1,675
FFO available to common shareholders and dilutive securities	28,582	30,772
Gain on sale of land	—	(185)
Severance expense	14	12
Contingent gain in other income (expense)	(398)	—
Operating FFO available to common shareholders and dilutive securities	$28,198	$30,599
Weighted average common shares	79,423	79,299
Shares issuable upon conversion of Operating Partnership Units [(1)]	1,916	1,917
Dilutive effect of restricted stock	147	182
Shares issuable upon conversion of preferred shares [(2)]	6,772	6,657
Weighted average equivalent shares outstanding, diluted	88,258	88,055
Diluted earnings per share [(3)]	$0.07	$0.14
Per share adjustments for FFO available to common shareholders and dilutive securities	0.25	0.21
FFO available to common shareholders and dilutive securities per share, diluted	$0.32	$0.35
Per share adjustments for Operating FFO available to common shareholders and dilutive securities	—	—
Operating FFO available to common shareholders and dilutive securities per share, diluted	$0.32	$0.35

(1) The total non-controlling interest reflects OP units convertible 1:1 into common shares.

(2) Series D convertible preferred shares are paid annual dividends of $6.7 million and are currently convertible into approximately 6.8 million shares of common stock. They are dilutive only when earnings or FFO exceed approximately $0.25 per diluted share per quarter, which was the case for FFO for the three months ended March 31, 2018 and 2017. The conversion ratio is subject to adjustment based upon a number of factors, and such adjustment could affect the dilutive impact of the Series D convertible preferred shares on earnings per share and FFO in future periods.

(3) The denominator to calculate diluted earnings per share excludes shares issuable upon conversion of OP units and preferred shares for the three months ended March 31, 2018 and 2017.

Same Property Operating Income

Same Property Operating Income ("Same Property NOI with Redevelopment") is a supplemental non-GAAP financial measure of real estate companies' operating performance. Same Property NOI with Redevelopment is considered by management to be a relevant performance measure of our operations because it includes only the NOI of comparable properties for the reporting period. Same Property NOI with Redevelopment excludes acquisitions and dispositions. Same Property NOI with Redevelopment is calculated using consolidated operating income and adjusted to exclude management and other fee income, depreciation and amortization, general and administrative expense, provision for impairment and non-comparable income/expense adjustments such as straight-line rents, lease termination fees, above/below market rents, and other non-comparable operating income and expense adjustments.

In addition to Same Property NOI with Redevelopment, the Company also believes Same Property NOI without Redevelopment to be a relevant performance measure of our operations. Same Property NOI without Redevelopment follows the same methodology as Same Property NOI with Redevelopment, however it excludes redevelopment activity that significantly impacts the entire property, as well as lesser redevelopment activity where we are adding GLA or retenanting a specific space. A property is designated as redevelopment when projected costs exceed $1.0 million, and the construction impacts approximately 20% or more of the income producing property's gross leasable area ("GLA") or the location and nature of the construction significantly impacts or disrupts the daily operations of the property. Redevelopment may also include a portion of certain properties designated as same property for which we are adding additional GLA or retenanting space.

Same Property NOI should not be considered an alternative to net income in accordance with GAAP or as a measure of liquidity. Our method of calculating Same Property NOI may differ from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

The following is a summary of our wholly owned properties for the periods noted with consistent classification in the prior period for presentation of Same Property NOI:

Property Designation	Three Months Ended March 31, 2018	2017
Same-property	52	52
Acquisitions [1]	2	2
Redevelopment [2]	2	2
Total wholly owned properties	56	56

[1] Includes the following properties not owned in both comparable periods: Providence Marketplace and Webster Place.
[2] Includes the following properties: Woodbury Lakes and Deerfield Towne Center.

The entire property indicated for each period is completely excluded from same property NOI.

The following is a reconciliation of our net income available to commons shareholders to Same Property NOI:

	Three Months Ended March 31, 2018	2017
	(in thousands)	
Net income available to common shareholders	$5,611	$11,423
Adjustments to reconcile to Same Property NOI:		
Preferred share dividends	1,675	1,675
Net income attributable to noncontrolling interest	174	316
Income tax provision	18	28
Interest expense	10,601	10,799
Earnings from unconsolidated joint ventures	(71)	(86)
Gain on sale of real estate	—	(11,375)
Other expense, net	(253)	311
Management and other fee income	(86)	(153)
Depreciation and amortization	21,112	22,817
General and administrative expenses	5,887	6,451
Provision for impairment	—	5,717
Amortization of lease inducements	43	44
Amortization of acquired above and below market lease intangibles	(1,122)	(959)
Lease termination fees	—	(33)
Straight-line ground rent expense	70	70
Amortization of acquired ground lease intangibles	6	6
Straight-line rental income	(878)	(810)
NOI	42,787	46,241
NOI from Other Investment Properties	(2,535)	(6,189)
Same Property NOI with Redevelopment	40,252	40,052
NOI from Redevelopment	(3,263)	(2,925)
Same Property NOI without Redevelopment	$36,989	$37,127
Period-end Occupancy percent with Redevelopment	92.3 %	93.1 %

The following table summarizing GLA and NOI at properties for which we are adding additional GLA or retenanting space. The property is included in same property NOI with Redevelopment, however a portion of GLA and NOI is excluded.

		Three Months Ended March 31, 2018		2017	
Property	Stable GLA	GLA	NOI	GLA	NOI
River City Marketplace	557	6	$(39)	6	$—
Buttermilk Towne Center	278	13	(56)	13	—
Shops on Lane Avenue	168	6	(31)	6	(27)
Spring Meadows	266	49	(140)	49	(25)
The Shoppes at Fox River II	288	48	(150)	48	(85)
Town & Country	165	20	(74)	20	—
Troy Marketplace	214	4	(2)	4	—
Total adjustments		146	$(492)	146	$(137)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to interest rate risk on our variable rate debt obligations. Based on market conditions, we may manage our exposure to interest rate risk by entering into interest rate swap agreements to hedge our variable rate debt. We are not subject to any foreign currency exchange rate risk or commodity price risk, or other material rate or price risks. Based on our variable rate debt, interest rates and interest rate swap agreements in effect at March 31, 2018, a 100 basis point change in interest rates would impact our future earnings and cash flows by approximately $0.8 million annually. We believe that a 100 basis point increase in interest rates would decrease the fair value of our total outstanding debt by approximately $43.2 million at March 31, 2018.

We had derivative instruments outstanding with an aggregate notional amount of $270.0 million as of March 31, 2018. The agreements provided for swapping one-month LIBOR to fixed interest rates ranging from 1.46% to 2.15% and had expirations ranging from 2018 to 2023. The following table sets forth information as of March 31, 2018 concerning our long-term debt obligations, including principal cash flows by scheduled amortization payment and scheduled maturity, weighted average interest rates of maturing amounts and fair market value:

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
(In thousands)								
Fixed-rate debt	$1,920	$5,859	$102,269	$114,508	$77,397	$638,349	$940,302	$931,570
Average interest rate	6.0 %	6.8 %	3.9 %	3.2 %	5.7 %	3.8 %	3.8 %	4.4 %
Variable-rate debt	$—	$—	$—	$55,000	$—	$28,125	$83,125	$83,125
Average interest rate	— %	— %	— %	3.0 %	— %	5.1 %	3.7 %	4.6 %

We estimated the fair value of our fixed rate mortgages using a discounted cash flow analysis, based on borrowing rates for similar types of borrowing arrangements with the same remaining maturity. Considerable judgment is required to develop estimated fair values of financial instruments. The table incorporates only those exposures that exist at March 31, 2018 and does not consider those exposures or positions which could arise after that date or firm commitments as of such date. Therefore, the information presented therein has limited predictive value. Our actual interest rate fluctuations will depend on the exposures that arise during the period and on market interest rates at that time.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended ("Exchange Act"), such as this report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives, and therefore management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an assessment as of March 31, 2018 of the effectiveness of the design and operation of our disclosure controls and procedures. This assessment was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on such evaluation, our management, including our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2018.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in certain litigation arising in the ordinary course of business. We do not believe that any of this litigation will have a material effect on our consolidated financial statements. There are no material pending governmental proceedings.

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 6. Exhibits

Exhibit No.	Description
12.1*	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends.
31.1*	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2*	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
101.INS(1)	XBRL Instance Document.
101.SCH(1)	XBRL Taxonomy Extension Schema.
101.CAL(1)	XBRL Taxonomy Extension Calculation.
101.DEF(1)	XBRL Taxonomy Extension Definition.
101.LAB(1)	XBRL Taxonomy Extension Label.
101.PRE(1)	XBRL Taxonomy Extension Presentation.

* Filed herewith

(1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability thereunder.

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.

	RAMCO-GERSHENSON PROPERTIES TRUST
Date: May 7, 2018	By: /s/ DENNIS GERSHENSON Dennis Gershenson President and Chief Executive Officer (Principal Executive Officer)
Date: May 7, 2018	By: /s/ RAYMOND J. MERK Raymond J. Merk Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)

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