

QUANEX CORP
Form 10-Q
May 31, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2007

OR

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

For the transition period from to .

Commission File Number 1-5725

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

38-1872178

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

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

(Address of principal executive offices and zip code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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

Class	Outstanding at May 24, 2007
Common Stock, par value \$0.50 per share	37,098,097

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PART I. FINANCIAL INFORMATION*Item 1. Financial Statements*

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30,	October 31,
	2007	2006
	(In thousands except share data)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 63,961	\$ 105,708
Short-term investments	40,000	—
Accounts and notes receivable, net of allowance of \$4,953 and \$4,180	211,685	184,311
Inventories	164,131	142,788
Deferred income taxes	12,429	12,218
Other current assets	5,792	5,584
Total current assets	497,998	450,609
Property, plant and equipment, net	443,031	432,058
Goodwill	201,732	196,350
Cash surrender value insurance policies	29,588	29,108
Intangible assets, net	90,740	75,285
Other assets	15,577	18,742
Total assets	\$ 1,278,666	\$ 1,202,152
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 181,438	\$ 137,564
Accrued liabilities	51,950	54,943
Income taxes payable	5,351	13,185
Current maturities of long-term debt	1,464	2,721
Total current liabilities	240,203	208,413
Long-term debt	129,416	130,680
Deferred pension credits	1,457	1,115
Deferred postretirement welfare benefits	7,426	7,300
Deferred income taxes	64,203	66,189
Non-current environmental reserves	13,254	14,186
Other liabilities	16,902	15,754
Total liabilities	472,861	443,637
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	—	—
Common stock, \$0.50 par value, shares authorized 100,000,000 and 50,000,000; issued 38,301,033 and 38,319,960	19,152	19,160
Additional paid-in-capital	210,929	208,714
Retained earnings	621,155	579,753
Accumulated other comprehensive income (loss)	(1,718)	(1,736)
	849,518	805,891
Less treasury stock, at cost, 1,104,232 and 1,200,617 shares	(41,965)	(45,628)
Less common stock held by Rabbi Trust, 130,329 shares	(1,748)	(1,748)

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Total stockholders' equity	805,805	758,515
Total liabilities and stockholders' equity	\$ 1,278,666	\$ 1,202,152

The accompanying notes are an integral part of the financial statements.

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Net sales	\$ 519,438	\$ 507,236	\$ 937,079	\$ 951,805
Cost and expenses:				
Cost of sales (exclusive of items shown separately below)	424,457	396,541	767,022	748,625
Selling, general and administrative expense	24,872	23,940	50,571	44,813
Depreciation and amortization	19,567	17,910	38,563	35,298
Operating income	50,542	68,845	80,923	123,069
Interest expense	(1,024)	(1,215)	(2,059)	(2,455)
Other, net	1,733	356	3,707	467
Income from continuing operations before income taxes	51,251	67,986	82,571	121,081
Income tax expense	(18,451)	(25,155)	(29,726)	(44,800)
Income from continuing operations	32,800	42,831	52,845	76,281
Income (loss) from discontinued operations, net of taxes	—	19	—	(406)
Net income	\$ 32,800	\$ 42,850	\$ 52,845	\$ 75,875
Basic earnings per common share:				
Earnings from continuing operations	\$ 0.89	\$ 1.14	\$ 1.43	\$ 2.02
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ (0.01)
Basic earnings per share	\$ 0.89	\$ 1.14	\$ 1.43	\$ 2.01
Diluted earnings per common share:				
Earnings from continuing operations	\$ 0.84	\$ 1.07	\$ 1.38	\$ 1.93
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ (0.01)
Diluted earnings per share	\$ 0.84	\$ 1.07	\$ 1.38	\$ 1.92
Weighted-average common shares outstanding:				
Basic	36,943	37,677	36,920	37,677
Diluted	39,416	40,327	39,113	40,131
Cash dividends per share	\$ 0.1400	\$ 0.1200	\$ 0.2800	\$ 0.2233

The accompanying notes are an integral part of the financial statements.

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Six Months Ended	
	April 30,	
	2007	2006
	(In thousands)	
Operating activities:		
Net income	\$ 52,845	\$ 75,875
Loss (income) from discontinued operations	—	406
Adjustments to reconcile net income to cash provided by operating activities from continuing operations:		
Depreciation and amortization	38,697	35,612
Deferred income taxes	(2,200)	1,180
Stock-based compensation	3,685	2,797
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
(Increase) decrease in accounts and notes receivable	(22,716)	(42,506)
(Increase) decrease in inventory	(19,853)	(22,874)
Increase (decrease) in accounts payable	42,626	33,669
Increase (decrease) in accrued liabilities	(4,134)	(11,686)
Increase (decrease) in income taxes payable	(7,718)	(1,575)
Increase (decrease) in deferred pension and postretirement benefits	2,888	632
Other, net	264	