

QUANEX CORP  
Form 8-K  
August 27, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 OR 15(d) of  
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) **August 26, 2004**

**QUANEX CORPORATION**

(Exact name of registrant as specified in its charter)

<b>Delaware</b>	<b>1-5725</b>	<b>38-1872178</b>
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

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

(Address of principal executive offices)

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 2.02 Results of Operations and Financial Condition**

This information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On August 26, 2004, Quanex Corporation issued a press release (the "Press Release") reporting its earnings results for the third quarter of fiscal year 2004. The foregoing is qualified by reference to the Press Release which is filed as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits.**

- (c) Exhibit 99.1. Press release dated August 26, 2004
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**Exhibit Index**

99.1 Press release dated August 26, 2004

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**SIGNATURE**

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 hereunto duly authorized.

**QUANEX CORPORATION**

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(Registrant)

**/s/ TERRY M. MURPHY**

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**August 26, 2004**

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(Date)

Terry M. Murphy

*Vice President - Finance & Chief Financial Officer  
(Principal Financial Officer)*

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Exhibit 99.1

## **Quanex Announces Fiscal Third Quarter 2004 Results**

### **Record Net Sales and Operating Income**

Increased Cash Dividend 12% and Authorized Additional Stock Buyback  
Recent Acquisitions Continued to Exceed Expectations  
Full Year Earnings Guidance \$3.25 - \$3.75

HOUSTON, Aug. 26, 2004 (PRIMEZONE) -- Quanex Corporation (NYSE:NX) announced fiscal third quarter results for the period ending July 31, 2004. Net sales were a record \$424.1 million in the quarter, up 71% over a year ago, and included net sales of \$106.5 from the Company's recent acquisitions of MACSTEEL Monroe and TruSeal Technologies. Demand at the Vehicular Products and Building Products segments was robust throughout the quarter, and backlogs remain healthy for the remainder of the fiscal year. Operating income was a record \$35.3 million, and income from continuing operations was \$21.0 million, up 40% compared to last year's third quarter. Diluted earnings per share from continuing operations were \$1.26, up 37% from a year ago.

Third quarter 2004 diluted earnings per share from continuing operations of \$1.26 include the operating results from Monroe and TruSeal of approximately \$0.34 per share and a LIFO charge of \$0.19 per share. Third quarter 2003 diluted earnings per share from continuing operations of \$0.92 include an executive life insurance benefit of \$0.13 per share and a LIFO charge of \$0.02 per share. Excluding the financial impact of the acquisitions, the LIFO charges and the life insurance benefit, results are up 36% for the third quarter 2004 over the third quarter 2003.

Net sales for the third quarter 2003 were \$247.4 million. Income from continuing operations and diluted earnings per share from continuing operations for the third quarter 2003 were \$15.0 million and \$0.92, respectively.

#### Highlights

Raymond A. Jean, chairman and chief executive officer stated, "We delivered to our investors back-to-back record quarterly operating income resulting from: (1) robust customer demand, (2) new customer programs, (3) improved

margins, (4) accretive acquisitions, and (5) ongoing company-wide lean initiatives. North American light vehicle builds in our third quarter were in line with the year-ago period. Heavy duty truck builds remain very strong compared to last year, with builds up this quarter some 40% over this time last year. Housing starts and remodeling activity remained at high levels through the quarter as well," Jean said.

"We announced an increase in our quarterly cash dividend from \$0.17 to \$0.19 per share, which equates to a \$0.76 per share dividend on an annualized basis. The Board also authorized the Company to reload its stock buyback program, increasing the existing authorization up to one million shares. These actions are consistent with our excellent financial results and our prospects for the future. Quanex historically generates very strong cash flow, and for fiscal 2004, we anticipate operating cash flow to be in the \$100 million to \$115 million range at this time. Looking out the next few years, we believe we can manage our business to generate robust cash that will enable us to continue to fund the growth of our core businesses while rewarding our long-term shareholders. Our last dividend increase occurred in the second quarter of 2003," said Jean.

"Excellent progress continued with the integration of MACSTEEL Monroe and TruSeal Technologies. Both facilities continue to exceed our operating and financial expectations. On an annualized basis, we believe the two acquisitions will now generate diluted earnings per share this year of \$0.75 to \$0.85, after interest expense, up an additional \$0.15 per share from our previous estimate," continued Jean.

Quanex uses the LIFO method of accounting to enhance its cash flow, which requires the Company to revalue inventories year to year. Raw material costs, particularly steel scrap, are up substantially from the end of last year, which negatively impacts ongoing inventory valuations based on the LIFO method. For the third quarter, the Company booked a \$5.0 million pre-tax, non-cash LIFO charge.

Quarterly Financials (\$ in millions, except per share data)

	3rd 2004	3rd 2003	Inc/dcr
Net Sales	\$424.1	\$247.4	71%
Operating Income	35.3	20.3	74%
Income from Continuing Ops.	21.0	15.0	40%
Basic EPS from Continuing Ops.	\$1.28	\$ 0.93	38%
Diluted EPS from Continuing Ops	\$1.26	\$0.92	37%

Segment Commentary

VEHICULAR PRODUCTS (\$ in millions)	3rd qtr 2004	3rd qtr 2003
	-----	-----
Net Sales	\$226.0	\$98.3
Operating Income	24.9	11.7

The Vehicular Products segment is focused on providing customers with value-added, engineered steel bar products and extrusions. Key market drivers are primarily light vehicle and heavy duty truck production.

"Combined North American light vehicle builds and heavy duty truck builds remained at high levels during the quarter. Customer demand at our engineered steel products business remained strong, and our operations ran at very high utilization rates. Automotive OEMs trimmed light vehicle inventory days about 13% in July from June, to 64 days. This appears to be holding OEM build schedules to slightly below this time last year, and with our new programs, our backlog will remain strong throughout the fourth quarter," continued Jean.

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"Engineered steel bar shipments were up 92% in the quarter versus the year-ago quarter, and up 17% when you set aside shipments from our recently acquired Monroe facility. Operating income increased due to excellent demand and improved margins, the result of a higher scrap surcharge. Average raw material costs were about even with the second quarter," Jean said.

BUILDING PRODUCTS	(\$ in millions)	
	3rd qtr 2004	3rd qtr 2003
Net Sales	\$198.1	\$149.1
Operating Income	20.3	12.3

The Building Products segment is focused on providing customers with engineered products and components for window and door manufacturers, and is a large producer of common alloy aluminum sheet. Key market drivers are residential building and remodeling markets.

"Our engineered products business experienced very strong sales throughout the quarter," Jean said. "Demand for our window and door components remained high as housing starts and remodeling activity generally remained brisk. Customer demand is expected to again be strong in our fourth quarter."

"Our aluminum sheet business had an excellent quarter as both sales and operating income were up from last quarter and the year-ago quarter as well. Shipments were strong to our building and construction customers. Further benefiting the aluminum sheet business this year has been the gradual improvement in demand from our capital equipment, service center, and transportation customers. The business experienced higher prices that more than offset increases in material costs, and improved credit terms with many of its customers," said Jean.

### Outlook

Customer demand in the Company's two target markets, vehicular products and building products, is expected to remain strong through the remainder of the fiscal year, supported by an improving economy and strong market drivers.

Vehicular Products - 2004 North American light vehicle builds are expected to be essentially in line with last year's production. Heavy truck builds for 2004 could end the calendar year up 50% over 2003 builds of 175,000, while demand in the capital equipment, farm/construction and seamless tubing industry is expected to continue to improve.

The business model for our engineered steel products business is built primarily on supplying customers with engineered alloy and carbon steel bar products whose prices are based on annual contracts, with quarterly surcharge adjustments for raw material costs. In a period of escalating raw material costs, as has been experienced over the last 12 months, earnings are reduced by the inherent three (3) month lag in the surcharge adjustment. For instance, in the July/August time period, the business experienced raw material cost increases of some \$90 per ton over June. These higher costs will be recovered, but not until the new surcharge adjustment takes effect on October 1. In a period of declining scrap costs, earnings are enhanced. To appreciate the business' normalized earnings power, financial results that reach beyond quarterly timeframes will need to be considered.

Building Products - Market drivers should remain positive through the remainder of the Company's fiscal year, resulting in excellent order activity. Housing starts for 2004 are expected to be very close to last year's record 1.85 million units, while remodeling expenditures, which the Company believes account for about one half of the segment's sales, are also expected to remain at healthy levels. The engineered products business will continue to deliver excellent operating results. At the aluminum sheet business, the Company expects continued strong sales and rising income, driven by robust customer demand and a much improved aluminum sheet supply/demand balance.

Quanex's earnings outlook for the fourth quarter remains favorable when compared to year-ago results. But the volatility of steel scrap costs and its influence on the valuation of LIFO inventories at year-end make the fourth quarter earnings outlook difficult to predict. Notwithstanding the above, the Company's original, annual 2004 diluted earnings per share guidance from continuing operations of \$3.25 to \$3.75 remains appropriate.

#### Other

The Company continues to account for stock options using the current transition provisions of SFAS No. 123. Accordingly, Quanex does not reflect the option expense in its income statement or diluted earnings per share. However, the Company does disclose the impact on net income and diluted earnings per share in the footnotes to its SEC financial statements. Expensing stock options in the third quarter would have reduced net income by about \$525,000 after-tax, or \$.03 on a diluted earnings per share basis.

On March 31, 2004, Quanex announced its plans for restructuring Piper Impact and called for the sale of the business. The Company stated that while Piper Impact continued to generate positive cash flow, its market focus is no longer aligned with Quanex's strategic direction of serving the vehicular products and building products markets. As part of the restructuring effort, Piper's third quarter operating results have been reclassified as discontinued operations. Quanex has a letter of intent to sell the business, and is currently working with the buyer on a definitive agreement. At this point in the process, Quanex expects proceeds from the sale of Piper to be below the division's net book value, and accordingly, recorded a \$3.1 million after-tax write-off in discontinued operations for the third quarter.

On July 1, 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) made a preliminary proposal that would require all issuing companies of contingent convertible debentures to show the full, dilutive impact of these debentures on their financial statements. Based on the EITF proposal currently under review, this could mean an additional 2.2 million shares of earnings dilution to Quanex and have an annualized earnings per share impact of approximately \$0.30 - \$0.35 per common share. However, the Company does have the option to settle its convertible obligation with either common stock, cash or a combination of the two. If the Company chooses to settle its entire convertible obligation with cash, it would not be required to show the dilutive impact of the higher share count in the calculation of its earnings per share.

#### Cash Dividend Raised & Declared

The Board of Directors raised the quarterly cash dividend approximately 12%, or \$0.02 per share, which equates to an annualized increase of \$0.08 per share. The quarterly cash dividend of \$0.19 is payable to shareholders of record on September 15, 2004, and is payable September 30, 2004.

#### Corporate Profile

Quanex is a \$1.5 billion industry-leading manufacturer of value-added, engineered materials and components serving the Vehicular Products and Building Products markets.

#### Financial Statistics as of 7/31/04

Book value per common share: \$29.20; Total debt to capitalization: 28.69%; Return on invested capital: 8.62%; Return on common equity: 10.71%; Actual number of common shares outstanding: 16,519,457

#### Definitions

Book value per common share - calculated as total stockholders' equity as of balance sheet date divided by actual number of common shares outstanding;

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Total debt to capitalization - calculated as the sum of both the current and long term portion of debt, as of balance sheet date, divided by the sum of both the current and long term portion of debt plus total stockholders' equity as of balance sheet date;

Return on invested capital - calculated as the total of the prior 12 months net income plus prior 12 months after-tax interest expense and capitalized interest, the sum of which is divided by the trailing five quarters average total debt (current and long term) and total stockholders' equity;

Return on common equity - calculated as the prior 12 months net income, divided by the trailing five quarters average common stockholders' equity.

Statements that use the words "expect," "should," "believe," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above are based on current expectations. Actual results or events may differ materially from this release. Factors that could impact future results may include, without limitation, the effect of both domestic and global economic conditions, the impact of competitive products and pricing, and the availability and cost of raw materials. For a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's most recent 10-K filing (December 29, 2003) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For further information, visit the Company's website at [www.quanex.com](http://www.quanex.com).

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

Three months ended			Nine months ended	
July 31,			July 31,	
2004	2003		2004	2003
\$ 424,091	\$ 247,386	Net sales	\$1,089,535	\$ 703,012
357,059	204,466	Cost of sales	937,272	585,913
		Selling, general and administrative expense	47,337	37,047
18,129	11,784	Depreciation and amortization	39,186	33,038
13,561	10,815	Gain on sale of land	(454)	(405)
-	-			
-----	-----		-----	-----
35,342	20,321	Operating income	66,194	47,419
(1,735)	(620)	Interest expense	(4,491)	(2,344)
		Retired executive life insurance benefit	-	2,152
-	2,152	Other, net	613	2,432
(209)	468			
-----	-----		-----	-----
		Income from continuing operations		

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33,398	22,321	before taxes	62,316	49,659
(12,363)	(7,329)	Income tax expense	(23,071)	(17,234)
-----	-----		-----	-----
21,035	14,992	Income from continuing operations	39,245	32,425
(3,277)	(1,369)	Loss from discontinued operations, net of taxes	(3,516)	(2,654)
-----	-----		-----	-----
\$ 17,758	\$ 13,623	Net income	\$ 35,729	\$ 29,771
=====	=====		=====	=====
		Basic earnings per common share:		
\$ 1.28	\$ 0.93	Earnings from continuing operations	\$ 2.39	\$ 2.00
\$ (0.20)	\$ (0.08)	Loss from discontinued operations	\$ (0.21)	\$ (0.16)
-----	-----		-----	-----
\$ 1.08	\$ 0.85	Basic earnings per share	\$ 2.18	\$ 1.84
-----	-----		-----	-----
		Diluted earnings per common share:		
\$ 1.26	\$ 0.92	Earnings from continuing operations	\$ 2.35	\$ 1.98
\$ (0.20)	\$ (0.08)	Earnings from discontinued operations	\$ (0.21)	\$ (0.16)
-----	-----		-----	-----
\$ 1.06	\$ 0.84	Diluted earnings per share	\$ 2.14	\$ 1.82
-----	-----		-----	-----
		Weighted average common shares outstanding:		
16,464	16,055	Basic	16,401	16,176
16,724	16,267	Diluted	16,668	16,401
		Cash dividends per share	\$ 0.53	\$ 0.51

QUANEX CORPORATION  
INDUSTRY SEGMENT INFORMATION

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(In thousands)  
(Unaudited)

Three months ended July 31,			Nine months ended July 31,	
2004	2003		2004	2003
		Net sales:		
\$ 225,956	\$ 98,262	Vehicular Products	\$ 570,484	\$ 296,719
198,135	149,124	Building Products	519,051	406,293
\$ 424,091	\$ 247,386	Net sales	\$1,089,535	\$ 703,012
		Operating income:		
\$ 24,952	\$ 11,712	Vehicular Products	\$ 47,530	\$ 38,043
20,280	12,298	Building Products	37,862	20,683
(9,890)	(3,689)	Corporate and Other	(19,198)	(11,307)
\$ 35,342	\$ 20,321	Operating Income	\$ 66,194	\$ 47,419

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

July 31,			October 31,	
2004	2003		2003	2002
		Assets		
\$ 39,071	\$ 10,831	Cash and equivalents	\$ 22,108	\$ 18,283
185,670	118,496	Accounts and notes receivable, net	116,596	114,021
127,195	97,588	Inventories	77,261	86,649
8,203	6,268	Deferred income taxes	5,647	8,038
3,092	1,372	Other current assets	1,545	742
12,503	10,427	Current assets of discontinued operations	10,291	10,198
375,734	244,982	Total current assets	233,448	237,931
850,259	752,154	Property, plant and equipment	757,491	737,969
(484,183)	(438,040)	Less accumulated depreciation	(447,041)	(413,341)
366,076	314,114	Property, plant and equipment, net	310,450	324,628
138,924	66,436	Goodwill, net	66,436	66,436



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		Cash surrender value insurance policies, net		
24,972	24,651		24,536	25,799
28,137	2,784	Intangibles, net	2,755	2,870
9,601	3,442	Other assets	3,521	5,251
		Long-term assets of discontinued operations		
27,431	43,205		42,321	49,905
-----	-----		-----	-----
\$970,875	\$699,614	Total assets	\$683,467	\$712,820
=====	=====		=====	=====
		Liabilities and stockholders' equity		
\$143,876	\$ 73,476	Accounts payable	\$ 86,285	\$ 74,169
		Accrued liabilities		
46,480	34,807		35,926	44,096
		Income taxes payable		
8,603	2,884		8,098	6,969
		Other current liabilities		
12	--		46	3,970
		Current maturities of long-term debt		
3,554	425		3,877	434
		Current liabilities of discontinued operations		
4,817	5,675		6,433	7,296
-----	-----		-----	-----
		Total current liabilities		
207,342	117,267		140,665	136,934
190,558	69,394	Long-term debt	15,893	75,131
		Deferred pension credits		
6,444	5,605		7,781	4,928
		Deferred postretirement welfare benefits		
7,864	8,035		7,845	7,928
		Deferred income taxes		
68,193	51,991		51,782	50,760
		Non-current environmental reserves		
5,000	13,624		13,517	15,353
2,776	286	Other liabilities	283	359
		Long-term liabilities of discontinued operations		
252	414		542	32
-----	-----		-----	-----
		Total liabilities		
488,429	266,616		238,308	291,425
		Total stockholders' equity		
482,446	432,998		445,159	421,395
-----	-----		-----	-----
		Total liabilities and stockholders' equity		
\$970,875	\$699,614		\$683,467	\$712,820
=====	=====		=====	=====

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

	Nine months ended July 31,	
	----- 2004 -----	----- 2003 -----
Operating activities:		
Net income	\$ 35,729	\$ 29,771
Loss from discontinued operations	3,516	2,654
Net income from continuing operations		
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	(454)	(405)
Retired executive life insurance benefit	-	(2,152)
Depreciation and amortization	39,585	33,301
Deferred income taxes	11,308	3,263
Deferred pension and postretirement benefits	(1,318)	784
	----- 88,366	----- 67,216
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	(46,026)	(4,054)
(Increase) in inventory	(10,237)	(10,939)
Increase in accounts payable	35,670	(693)
Increase (Decrease) in accrued liabilities	4,496	(9,289)
Increase (Decrease) in income taxes payable	(2,723)	(4,085)
Other, net	1,395	(5,136)
Operating cash flow from discontinued operations	----- 2,576	----- 8,917
Cash provided by operating activities	73,517	41,937
Investment activities:		
Acquisitions, net of cash acquired	(214,579)	-
Proceeds from sale of land	637	2,832
Capital expenditures, net of retirements	(12,672)	(22,413)
Other, net	(491)	(3,383)
Cash used for investment activities from discontinued operations	----- (557)	----- (339)
Cash used for investment activities	(227,662)	(23,303)

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Financing activities:		
Bank borrowings (repayments), net	175,000	(5,000)
Purchases of Quanex common stock	-	(13,515)
Common dividends paid	(8,386)	(8,120)
Issuance of common stock, net	9,667	2,809
Other, net	(5,182)	(2,260)
Cash used for financing activities	171,099	(26,086)
	-----	-----
Effect of exchange rate changes on cash and equivalents	9	-
Increase (Decrease) in cash	16,963	(7,452)
Beginning of period cash and equivalents	22,108	18,283
	-----	-----
End of period cash and equivalents	\$ 39,071	\$ 10,831
	=====	=====

CONTACT:

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 Media Contact: Valerie Calvert, 713/877-5305