QUANEX CORP
Form 11-K
June 29, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

Commission File Number 1-5725

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Quanex Corporation Employee Savings Plan

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

Quanex Corporation
1900 West Loop South, Suite 1500
Houston, TX 77027

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

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NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Benefits Committee
Quanex Corporation

Re: Quanex Corporation Employee Savings Plan

We have audited the accompanying statements of net assets available for benefits of Quanex Corporation Employee Savings Plan (the Plan) as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) at December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. Such supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

As discussed in Note B to the financial statements, the Plan adopted FASB Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans,* for the years ended December 31, 2006 and 2005.

As discussed in Note B, the financial statements include investments valued at $4,539,739 and $2,454,587 as of December 31, 2006 and 2005, respectively, whose fair values have been calculated by management based on adjustment factors and other information provided by the fund managers or trustee.

/s/DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
June 21, 2007

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2006 AND 2005

	2006	**2005**
ASSETS:		
Investments at fair value:		
Participant-directed investments	$ 137,162,519	$ 52,082,655
Receivables:		
Employer contribution	418,727	131,746
Participant contributions	760,311	453,692
Total receivables	1,179,038	585,438
Total assets	138,341,557	52,668,093
LIABILITIES:		
Benefits Payable	52,970	92,044
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	138,288,587	52,576,049
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	45,628	27,866
NET ASSETS AVAILABLE FOR BENEFITS	$ 138,334,215	$ 52,603,915

See notes to financial statements.

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
ADDITIONS:		
Contributions:		
Participant contributions	$ 3,710,404	$ 3,375,120
Employer contributions	1,113,151	796,178
Total contributions	4,823,555	4,171,298
Investment income:		
Net appreciation (depreciation) in fair value of investments	(312,072)	1,773,313
Interest and Dividends	4,915,735	2,118,546
Net investment income	4,603,663	3,891,859
Interest on Participant Loans	153	250
Total Additions	9,427,371	8,063,407
DEDUCTIONS:		
Benefits paid to participants	6,322,420	3,927,439
Administrative expenses	986	81
Total deductions	6,323,406	3,927,520
TRANSFERS BETWEEN PLANS	82,626,335	423,151
INCREASE IN NET ASSETS	85,730,300	4,559,038
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	52,603,915	48,044,877
End of year	$ 138,334,215	$ 52,603,915

See notes to financial statements.

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QUANEX CORPORATION EMPLOYEES SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006 AND 2005, AND FOR THE YEAR ENDED DECEMBER 31, 2006

A. DESCRIPTION OF THE PLAN

The following brief description of the Quanex Corporation Employee Savings Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for more complete information.

(1) General. The Plan is a defined contribution plan which covers employees of the Company s MACSTEEL and Corporate office locations, excluding those employees who are covered by a collective bargaining agreement. Effective December 29, 2006 the Plan also covers substantially all salaried and non-union hourly employees at the Nichols Aluminum and Homeshield locations. The Plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Fidelity Management Trust Company (Fidelity or the Trustee) holds the assets of the Plan in trust. The Benefits Committee (the Committee), appointed by the Company s Board of Directors, serves as the Plan administrator.

(2) Contributions. Participants may elect to contribute up to 50% of their compensation as defined by the Plan, subject to certain Internal Revenue Code (IRC) limitations, on either a pre-tax or after-tax basis. The Company contributes 50% of the first 5% of compensation that a participant contributes to the Plan.

(3) Participants Account. Individual accounts are maintained for each Plan participant. Each participant s account is credited with the participant s contribution, the Company s contribution, and the participant s pro rata share of investment earnings. Participant accounts are also charged with withdrawals, administrative expenses and an allocation of any Plan losses. Investment earnings and losses allocations are based on individual participant account balances as of the end of the period in which the income is earned. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

(4) Investments. Participants direct the investment of contributions into various investment options offered by the Plan. The Plan currently offers 33 mutual funds, one common/commingled trust and unitized Quanex stock as investment options for participants.

(5) Vesting and Forfeitures. Participants are immediately vested in their voluntary contributions and the related earnings. Vesting in the employer s matching contributions for employees is 20% for each year of credited service and fully vests after five years. Upon death, retirement or total and permanent disability, the participant or beneficiary becomes immediately fully vested in the employer s contribution. In the event of termination, nonvested portions of employer s contributions are immediately forfeited by participants and utilized to reduce future employer matching contributions. Amounts forfeited during 2006 and 2005 were $20,728 and $23,076, respectively. In 2006 and 2005, respectively, $22,094 and $24,299 of forfeited amounts were used to offset employer contributions. There were $1,630 and $0 available for future use in the forfeiture account at December 31, 2006 and 2005, respectively.

(5) Payment of Benefits. The Plan is intended for long-term savings but provides for early withdrawals and loan arrangements under certain conditions. Upon termination of service, the participant may elect to receive a lump-sum amount equal to the amount of vested benefits in his or her account. Terminated employees with an account balance of less than $1,000 will automatically receive a lump sum distribution ($5,000 before March 28,

2005).

(6) Participant Loans. No loans shall be made to participants under the Plan. Employees of MACSTEEL Monroe, Inc. who had a loan outstanding under the Cargill Partnership Plan on December 31, 2003 were allowed to roll over the loan to the Plan. Loans mature within 5 years and bear interest at 5.75%. The interest rate was determined based on prime plus a certain percentage as defined by the Plan document. Effective December 29, 2006, the Quanex Corporation 401(K) Savings Plan was merged into the Plan. Loan balances of $2,194,986 were transferred into the Plan as a result of this merger. Loans mature within 1.5 to 7 years and bear interest at 5% to 9.25%. Interest on a participant s loan is allocated to the borrower s account

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting Basis. The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(2) Investment Valuation. Investments are reflected at fair value in the financial statements. The Plan recognizes net appreciation or depreciation in the fair value of its investments. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined using the last recorded sales price. The common/commingled trust is stated at fair value as determined by the issuer of the common/collective trust fund based on the fair market value of the underlying investments. Common/collective trust funds with underlying investments in investment contracts are valued at fair market value of the underlying investments and then adjusted by the issuer to contract value. Participant loans are valued at the outstanding loan balances.

The Managed Income Portfolio is a stable value fund that is a commingled pool of the Fidelity Managed Income Portfolio Fund. The fund may invest in fixed interest insurance investment contracts, money market funds, corporate and government bonds, mortgage-backed securities, bond funds, and other fixed income securities. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. Contract value represents contributions made to the fund, plus earnings, less participant withdrawals.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend da