QUANEX CORP
Form 11-K
June 30, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

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

For the fiscal year ended December 31, 2002

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:

Piper Impact 401 (k) 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

INDEPENDENT AUDITORS REPORT

The Benefits Committee

Quanex Corporation

Houston, Texas

Re: Piper Impact 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the Piper Impact 401(k) Plan (the Plan) as of December 31, 2002 and 2001, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2002 and 2001, 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 accompanying supplemental schedule of investments as of December 31, 2002 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. This supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE, LLP
DELOITTE & TOUCHE, LLP

Houston, Texas
June 25, 2003

QUANEX CORPORATION

PIPER IMPACT 401(k) PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31,			
		2002		2001
Assets:				
Investments at fair value (see Note C)	$	6,658,159	$	7,050,373
Participant loans		447,827		424,617
Employee contributions receivable		56,232		64,502
Employer contributions receivable		11,810		40,373
		68,042		104,875
Net assets available for benefits	$	7,174,028	$	7,579,865

See notes to financial statements.

QUANEX CORPORATION

PIPER IMPACT 401(k) PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31,	
	2002	**2001**
Investment income:		
Interest and dividends	$ 104,573	$ 138,081
Net depreciation in fair value of investments (see Note C)	(1,022,151)	(800,919)
	(917,578)	(662,838)
Contributions:		
Employer (net of forfeitures)	340,744	503,960
Employee	847,428	969,125
	1,188,172	1,473,085
Interest on participant loans	32,082	33,672
Total additions	302,676	843,919
Benefit payments	702,398	666,657
Administrative fees (see Note D)	6,115	6,008
Total deductions	708,513	672,665
Increase (decrease) in net assets available for benefits	(405,837)	171,254
Net assets available for benefits:		
Beginning of year	7,579,865	7,408,611
End of year	$ 7,174,028	$ 7,579,865

See notes to financial statements.

QUANEX CORPORATION

PIPER IMPACT 401(k) PLAN

Schedule H, Line 4i - Schedule of Assets (Held At End of Year)

December 31, 2002

(a)	(b) Identity of issue	(c) Description of investment	(d) Cost (1)	Current Value
*	Fidelity Puritan Fund	Mutual fund		$ 664,364
*	Fidelity Magellan Fund	Mutual fund		164,524
*	Fidelity Contrafund	Mutual fund		998,547
*	Fidelity Growth & Income Fund	Mutual fund		61,512
*	Fidelity Independence Fund	Mutual fund		462,584
*	Fidelity Overseas Fund	Mutual fund		21,844
*	Fidelity Balanced Fund	Mutual fund		56,075
*	Fidelity Blue Chip Fund	Mutual fund		1,928,576
*	Fidelity Asset Manager Fund	Mutual fund		267,463
*	Fidelity Low-Priced Stock Fund	Mutual fund		92,065
*	Fidelity Government Money Market Fund	Mutual fund		867,189
*	Fidelity Common/Commingled trust	Mutual fund		725,747
	Templeton Foreign Fund	Mutual fund		10,966
	Neuberger & Berman Partners Trust Fund	Mutual fund		1,006
	Total Mutual Fund Assets			6,322,462
*	Quanex Corporation	Unitized common stock		335,697
	Participant loans	Loans to participants, bearing interest rates from 5.25% to 9.50%, maturing within two to five years		447,827
	Total Investments			$ 7,105,986

* Party-in-Interest

(1) Cost information has been omitted because all investments are participant directed.

QUANEX CORPORATION

PIPER IMPACT 401(k) PLAN

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

A. DESCRIPTION OF THE PLAN

The following description of the Piper Impact 401(k) Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

(1) General. The Plan is a defined contribution plan which covers substantially all full-time employees of Piper Impact, a division of Quanex Corporation (the Company). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The assets of the Plan are held in trust by Fidelity Management Trust Company (Fidelity or the Trustee). The Benefits Committee (the Committee), appointed by Quanex Corporation s Board of Directors, serves as the Plan administrator.

(2) Contributions. Beginning January 1, 2002, participants may contribute to the Plan by electing salary deferrals up to 50% of compensation (20% before January 1, 2002) as defined by the Plan document. The Company contributes 25% of the first 6% of base compensation that a participant contributes to the Plan. Contributions are subject to certain limitations. Up until September 30, 2002, the Company made a contribution on behalf of employees with at least three months of service, based on company profits and calculated based on a percentage of the employee s compensation.

(3) Participant Accounts. Each participant s account is credited with the participant s contribution and allocations of the Company s contribution and Plan earnings, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

(4) Vesting. Participants are immediately vested in their contributions and earnings thereon. Vesting in the Company s matching and discretionary contribution portion of their accounts plus actual earnings thereon is based

on years of continuous service. A participant is 20% vested for each year of credited service beginning with his or her second year and is 100% vested after six years of credited service. Forfeited balances of terminated participants non-vested accounts are used to reduce current or future Company contributions. Amounts forfeited and utilized to reduce employer contributions during 2002 and 2001 were $64,648 and $38,858, respectively. At December 31, 2002 and 2001, $2,731 and $3,257, respectively, of nonvested forfeited accounts were available to reduce future employer contributions.

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

(6) Loans. Loans may be granted to a participant of the Plan at the Committee s discretion. Loan terms range up to five years or seven years if used for the purchase of a primary residence. The loans bear a reasonable rate of interest established by the Committee. Interest on the loan is allocated to the borrower s participant 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 generally accepted accounting principles.

(2) Investment Valuation. Investments are reflected at fair value in the financial statements. Fair value of mutual fund assets is determined using a quoted net asset value. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined by using the last recorded sales price. The recorded value of the common/commingled trust is at face value, which is fair value. Participant loans are stated at cost, which approximates fair value. The sale or purchase of securities is recorded on the trade date. Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date. The net depreciation in fair value of investments consists of the net change in both the unrealized appreciation (depreciation) in fair value of investments and the net realized gains (losses) upon the sale of investments. The net change in unrealized appreciation (depreciation) and realized gains (losses) upon sale are determined using the fair values as of the beginning of the year or the purchase price if acquired since that date.

(3) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

(4) Risk and Uncertainties. The Plan, through its investment options, holds various investments including foreign and domestic corporate debt and equity securities as well as obligations of the United States government. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

(5) Administrative Expense. The Company pays all administrative expenses, except for loan set up and carrying fees and redemption fees imposed on certain Fidelity funds.

(6) Payments of Benefits. Benefit payments are recorded when paid.

C. INVESTMENTS

The following are investments that represent 5 percent or more of the Plan s net assets.

	December 31, 2002		December 31, 2001	
	Shares	Amount	Shares	Amount
Fidelity Puritan Fund	42,075	$ 664,364	38,450	$ 679,418
Fidelity Contrafund	25,869	998,547	23,642	1,011,186
Fidelity Independence Fund	35,393	462,584	30,800	485,713
Fidelity Blue Chip Fund	60,381	1,928,576	56,411	2,422,274
Fidelity Government Money Market Fund	867,189	867,189	798,918	798,918
Fidelity Common/Commingled Trust	725,747	725,747	549,357	549,357

During the years ended December 31, 2002 and 2001, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated / (depreciated) in value as follows:

	2002	2001
Mutual funds	$ (1,070,222)	$ (894,858)
Quanex unitized common stock	48,071	93,939
	$ (1,022,151)	$ (800,919)

D. RELATED PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Fidelity. Fidelity is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for the investment management services amounted to $6,115 and $6,008 for the years ended December 31, 2002 and 2001, respectively. In addition, the Plan invests in shares of Quanex Corporation unitized common stock. Quanex Corporation is the Plan sponsor as defined by the Plan and, therefore, these transactions also qualify as party-in-interest transactions. As of December 31, 2002 and 2001, the value of Quanex Corporation unitized common stock held by the Plan was $335,697 and $342,520, respectively.

E. PLAN TERMINATION

Although it has not expressed any intention to do so, the Company has the right under the Plan to terminate the Plan at any time subject to the provisions set forth in ERISA. In the event of Plan termination, the assets held by the Trustee under the Plan will be valued and fully vested, and each participant will be entitled to distributions respecting his or her account.

F. FEDERAL INCOME TAX STATUS

The Plan is subject to specific rules and regulations related to employee benefit plans under the Department of Labor and the Internal Revenue Service. The Plan has received a favorable letter of tax determination dated August 19, 2002. As such, the Plan is a qualified trust under Sections 401(a) and 401(k) of the Internal Revenue Code (the Code) and, as a result, is exempt from federal income tax under Section 501(a) of the Code. The Company believes the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. The Company believes the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

	Piper Impact 401 (k) Plan
Date: June 30, 2003	/s/ Ricardo Arredondo
	Ricardo Arredondo, Benefits Committee

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INDEX TO EXHIBITS

23.1	Independents Auditor s Consent
99.1	Certification by chief financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification by chief executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002