

TREX CO INC  
Form 10-Q  
November 09, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2009

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: 001-14649

**Trex Company, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**54-1910453**  
(I.R.S. Employer  
Identification No.)

**160 Exeter Drive**

**Winchester, Virginia**  
(Address of principal executive offices)

**22603-8605**  
(Zip Code)

**Registrant's telephone number, including area code: (540) 542-6300**

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding at October 30, 2009 was 15,388,017 shares.

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**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****TREX COMPANY, INC.****Condensed Consolidated Balance Sheets**

(In thousands, except share and per share data)

	December 31, 2008	September 30, 2009 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 23,189	\$ 39,791
Accounts receivable, net	13,555	14,961
Inventories	69,397	37,676
Prepaid expenses and other assets	5,518	2,531
Income taxes receivable	2,554	201
Deferred income taxes	2,141	2,141
<b>Total current assets</b>	<b>116,354</b>	<b>97,301</b>
Property, plant, and equipment, net	176,336	140,425
Goodwill	6,837	6,837
Other assets	7,557	5,831
<b>Total assets</b>	<b>\$ 307,084</b>	<b>\$ 250,394</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 15,427	\$ 10,239
Accrued expenses	22,239	16,231
Accrued warranty	12,310	12,342
Current portion of long-term debt	1,293	1,376
<b>Total current liabilities</b>	<b>51,269</b>	<b>40,188</b>
Deferred income taxes	3,531	3,531
Accrued taxes	2,640	2,224
Non-current accrued warranty	9,546	1,994
Debt-related derivatives	2,069	950
Long-term debt	100,201	79,204
<b>Total liabilities</b>	<b>169,256</b>	<b>128,091</b>
Stockholders equity:		

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Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value, 40,000,000 shares authorized; 15,310,343 and 15,388,017 shares issued and outstanding at December 31, 2008 and September 30, 2009, respectively	153	154
Additional paid in capital	92,825	95,207
Accumulated other comprehensive loss	(1,092)	(800)
Retained earnings	45,942	27,742
<b>Total stockholders' equity</b>	<b>137,828</b>	<b>122,303</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 307,084</b>	<b>\$ 250,394</b>

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).

**Table of Contents****TREX COMPANY, INC.****Condensed Consolidated Statements of Operations**

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2009	2008	2009
Net sales	\$ 85,379	\$ 61,949	\$ 299,905	\$ 221,054
Cost of sales	62,406	43,467	217,038	157,257
Gross profit	22,973	18,482	82,867	63,797
Selling, general and administrative expenses	14,533	13,964	52,672	47,937
Impairment of long-lived assets		23,251		23,251
Income (loss) from operations	8,440	(18,733)	30,195	(7,391)
Interest expense, net	3,536	3,930	11,135	11,012
Income (loss) before income taxes	4,904	(22,663)	19,060	(18,403)
Provision (benefit) for income taxes	(261)	(201)	10	(203)
Net income (loss)	\$ 5,165	\$ (22,462)	\$ 19,050	\$ (18,200)
Basic earnings (loss) per common share	\$ 0.35	\$ (1.49)	\$ 1.27	\$ (1.21)
Basic weighted average common shares outstanding	14,964,110	15,082,047	14,952,210	15,048,467
Diluted earnings (loss) per common share	\$ 0.34	\$ (1.49)	\$ 1.26	\$ (1.21)
Diluted weighted average common shares outstanding	15,253,680	15,082,047	15,082,325	15,048,467

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).

**Table of Contents****TREX COMPANY, INC.****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2009</b>
<b>Operating Activities</b>		
Net income (loss)	\$ 19,050	\$ (18,200)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	19,522	18,776
Debt discount amortization	4,234	5,050
Impairment of long-lived assets		23,251
Equity method losses	17	141
Unrealized (gains) losses on derivatives	107	(827)
Deferred income taxes	225	
Stock-based compensation	1,618	2,687
Loss on disposal of property, plant and equipment	21	29
Changes in operating assets and liabilities:		
Accounts receivable	(12,590)	(1,406)
Inventories	43,517	31,721
Prepaid expenses and other assets	(559)	3,337
Accounts payable	(9,011)	(5,187)
Accrued expenses	(15,439)	(13,945)
Income taxes receivable	(85)	2,353
Net cash provided by operating activities	50,627	47,780
<b>Investing Activities</b>		
Expenditures for property, plant and equipment	(6,214)	(5,022)
Proceeds from sales of property, plant and equipment	42	45
Notes receivable, net	(702)	72
Net cash used in investing activities	(6,874)	(4,905)
<b>Financing Activities</b>		
Financing costs	(279)	(7)
Principal payments under mortgages and notes	(891)	(25,963)
Borrowings under line of credit	44,178	
Principal payments under line of credit	(44,178)	
Repurchases of common stock	(74)	(571)
Proceeds from employee stock purchase and option plans	182	268
Net cash used in financing activities	(1,062)	(26,273)
Net increase in cash and cash equivalents	42,691	16,602
Cash and cash equivalents at beginning of period	66	23,189
Cash and cash equivalents at end of period	\$ 42,757	\$ 39,791

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### Supplemental Disclosure:

Cash paid for interest, net of capitalized interest	\$ 7,366	\$ 6,842
Cash received for income taxes, net	\$ (45)	\$ (2,310)

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).



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**TREX COMPANY, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Nine Months Ended September 30, 2008 and 2009**

**(Unaudited)**

**1. BUSINESS AND ORGANIZATION**

Trex Company, Inc., (the Company), is the country's largest manufacturer of wood-alternative decking, railing, fencing and trim products, which are marketed under the brand name Trex®. We are incorporated in Delaware. Our principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603 and our telephone number at that address is (540) 542-6300. The Company operates in one business segment.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements. The consolidated results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2007 and 2008 and for each of the three years in the period ended December 31, 2008 included in the annual report of Trex Company, Inc. on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, as filed with the Securities and Exchange Commission.

The Company's critical accounting policies are included in the Company's Ann