

TREX CO INC  
Form 10-Q  
May 09, 2008  
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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 March 31, 2008**

**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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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>54-1910453</b> (I.R.S. Employer Identification No.)
<b>160 Exeter Drive</b>  <b>Winchester, Virginia</b> (Address of principal executive offices)	<b>22603-8605</b> (Zip Code)
<b>Registrant's telephone number, including area code: (540) 542-6300</b>	

**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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 April 30, 2008 was 15,182,804 shares.

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**TREX COMPANY, INC.**

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

(In thousands)

	December 31, 2007	March 31, 2008 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 66	\$ 66
Accounts receivable, net	6,588	63,228
Inventories	92,569	66,092
Prepaid expenses and other assets	2,617	2,629
Income taxes receivable	2,376	2,373
Deferred income taxes	16,007	16,007
Total current assets	120,223	150,395
Property, plant, and equipment, net	193,944	190,504
Goodwill	6,837	6,837
Other assets	7,722	8,502
Total assets	\$ 328,726	\$ 356,238
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 19,776	\$ 21,995
Accrued expenses	21,583	23,426
Accrued warranty	21,084	21,084
Line of credit		21,765
Current portion of long-term debt	1,198	1,181
Total current liabilities	63,641	89,451
Deferred income taxes	15,763	15,719
Accrued taxes	3,620	3,620
Non-current accrued warranty	18,901	11,329
Debt-related derivatives	1,044	1,607
Long-term debt	131,730	131,454
Total liabilities	234,699	253,180
Stockholders' equity:		
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; 15,076,738 and 15,173,744 shares issued and outstanding at December 31, 2007 and March 31, 2008, respectively	151	153

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Additional paid in capital	66,523	66,723
Accumulated other comprehensive loss	(557)	(631)
Retained earnings	27,910	36,813
Total stockholders' equity	94,027	103,058
Total liabilities and stockholders' equity	\$ 328,726	\$ 356,238

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)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2008</b>
Net sales	\$ 115,913	\$ 119,529
Cost of sales	91,284	86,665
Gross profit	24,629	32,864
Selling, general and administrative expenses	17,039	20,896
Income from operations	7,590	11,968
Interest expense, net	1,694	2,978
Income before income taxes	5,896	8,990
Provision for income taxes	2,171	86
Net income	\$ 3,725	\$ 8,904
Basic earnings per common share	\$ 0.25	\$ 0.60
Basic weighted average common shares outstanding	14,856,315	14,936,235
Diluted earnings per common share	\$ 0.25	\$ 0.60
Diluted weighted average common shares outstanding	14,898,851	14,955,837

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>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income	\$ 3,725	\$ 8,904
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,132	6,870
Equity method income	(93)	(17)
Derivatives	(279)	444
Deferred income taxes	171	
Accrued taxes	123	
Stock-based compensation	951	215
Loss on disposal of property, plant and equipment		28
Other non-cash income	(15)	
Changes in operating assets and liabilities:		
Accounts receivable	(52,575)	(56,640)
Inventories	20,652	26,477
Prepaid expenses and other assets	591	(88)
Accounts payable	(2,795)	2,219
Accrued expenses	71	(5,814)
Income taxes receivable	1,637	89
Net cash used in operating activities	(22,704)	(17,313)
<b>Investing Activities</b>		
Notes receivable		(750)
Expenditures for property, plant and equipment	(10,767)	(3,221)
Net cash used in investing activities	(10,767)	(3,971)
<b>Financing Activities</b>		
Financing costs		(174)
Principal payments under mortgages and notes	(274)	(293)
Borrowings under line of credit	54,070	36,402
Principal payments under line of credit	(19,816)	(14,637)
Repurchases of common stock	(377)	(74)
Proceeds from employee stock purchase and option plans	108	60
Tax effect of stock-based compensation	(26)	
Net cash provided by financing activities	33,685	21,284
Net increase in cash and cash equivalents	214	
Cash and cash equivalents at beginning of period	672	66
Cash and cash equivalents at end of period	\$ 886	\$ 66

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### Supplemental Disclosure:

Cash paid for interest, net of capitalized interest	\$	996	\$	3,551
Cash paid for income taxes, net	\$	307	\$	110

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).



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**TREX COMPANY, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Three Months Ended March 31, 2007 and 2008**

**(unaudited)**

**1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (together with its subsidiaries, the Company), manufactures wood/plastic composite products primarily for residential and commercial decking, railing and fencing applications. Trex Wood-Polymer® lumber (Trex) is manufactured in a proprietary process that combines waste wood fibers and reclaimed polyethylene (PE material). 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 three months ended March 31, 2008 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, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 included in the annual report of Trex Company, Inc. on Form 10-K, as filed with the Securities and Exchange Commission.

The Company's critical accounting policies are included in the Company's Annual Report of Form 10-K for the year ended December 31, 2007.

Certain reclassifications have been made in the presentation of the financial statements for the three months ended March 31, 2007 to conform to the presentation of the financial statements for the three months ended March 31, 2008.

**3. NEW ACCOUNTING STANDARDS**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards (SFAS) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) No. 157-2 which delays the effective date of SFAS 157 one year for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted this standard effective January 1, 2008 with no impact on its results of operations and financial position. See Note 8 to the accompanying condensed consolidated financial statements for additional disclosure.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*. SFAS No. 159 permits entities to choose to elect to measure eligible financial instruments at fair value, which provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without being required to apply complex hedge accounting provisions. SFAS No. 159 applies to fiscal years beginning after November 15, 2007. The Company did not elect to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards. Therefore, the adoption of this standard had no impact on the Company's results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*—an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS No. 161, entities are required to provide enhanced disclosures relating to: (a) how and why an

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entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company is evaluating the effect that the adoption of SFAS No. 161 will have on its results of operations and financial position.

**Table of Contents****4. COMPREHENSIVE INCOME**

The Company's comprehensive income was \$3.5 million and \$8.8 million for the three months ended March 31, 2007 and 2008, respectively. Comprehensive income consists of net income and net unrealized gains and losses on debt-related derivatives.

**5. INVENTORIES**

Inventories, at LIFO (last-in, first-out) value, consist of the following (in thousands):

	December 31, 2007	March 31, 2008
Finished goods	\$ 72,916	\$ 48,417
Raw materials	19,653	17,675
<b>Total inventories</b>	<b>\$ 92,569</b>	<b>\$ 66,092</b>

For the three months ended March 31, 2008, due to the liquidation of certain inventories, a portion of the Company's cost of sales is based on prior year costs rather than current year costs. As a result, the Company recognized a cost of \$0.4 million during the three months ended March 31, 2008.

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Since inventory levels and costs are subject to factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

**6. ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	December 31, 2007	March 31, 2008
Accrued compensation and benefits	\$ 5,157	\$ 7,468
Accrued sales and marketing	3,615	4,805
Accrued interest	4,637	3,273
Accrued customer relations	1,844	1,477
Accrued rent obligations	1,996	1,431
Accrued manufacturing expenses	1,088	1,051
Accrued professional and legal services	564	905
Accrued freight	461	870
Other	2,221	2,146
<b>Total accrued expenses</b>	<b>\$ 21,583</b>	<b>\$ 23,426</b>

**7. DEBT**

Long-term debt consists of the following (in thousands):

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	December 31, 2007	March 31, 2008
Real estate loan, due June 30, 2011	\$ 1,910	\$ 1,841
Real estate loan, due June 30, 2011	546	528
Real estate loan, due June 30, 2011	3,917	3,824
Real estate loan, due September 30, 2014	4,055	3,942
Convertible notes	97,500	97,500
Promissory note	25,000	25,000
	132,928	132,635
Less current portion	(1,198)	(1,181)
Total long-term debt		