

TREX CO INC  
Form 10-Q  
November 04, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

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 November 3, 2010 was 15,456,760 shares.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements****TREX COMPANY, INC.****Condensed Consolidated Balance Sheets**

(In thousands)

	December 31, 2009	September 30, 2010 (Unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,514	\$ 43,150
Accounts receivable, net	31,429	13,028
Inventories, net	45,485	57,228
Prepaid expenses and other assets	2,368	1,825
Income taxes receivable	7,775	78
Total current assets	106,571	115,309
Property, plant, and equipment, net	137,027	127,834
Goodwill	6,837	6,837
Other assets	6,024	2,198
Total assets	\$ 256,459	\$ 252,178
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 16,514	\$ 11,243
Accrued expenses	19,126	20,996
Accrued warranty	9,256	5,893
Deferred income taxes	485	485
Current portion of long-term debt	545	579
Total current liabilities	45,926	39,196
Deferred income taxes	1,925	1,925
Accrued taxes	3,735	2,803
Non-current accrued warranty	2,268	6,017
Debt-related derivative	392	366
Long-term debt	76,634	82,219
Total liabilities	130,880	132,526
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; 15,397,093 and 15,456,632 shares issued and outstanding at December 31, 2009 and September 30, 2010, respectively	154	155
Additional paid in capital	96,197	97,983
Accumulated other comprehensive loss	(265)	(239)
Retained earnings	29,493	21,753
<b>Total stockholders' equity</b>	<b>125,579</b>	<b>119,652</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 256,459</b>	<b>\$ 252,178</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)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Net sales	\$ 61,949	\$ 60,579	\$ 221,054	\$ 242,418
Cost of sales	43,467	51,305	157,257	186,341
Gross profit	18,482	9,274	63,797	56,077
Selling, general and administrative expenses	13,964	14,024	47,937	52,305
Impairment of long-lived assets	23,251		23,251	
Income (loss) from operations	(18,733)	(4,750)	(7,391)	3,772
Interest expense, net	3,930	3,907	11,012	11,577
Loss before income taxes	(22,663)	(8,657)	(18,403)	(7,805)
Provision (benefit) for income taxes	(201)	69	(203)	(65)
Net loss	\$ (22,462)	\$ (8,726)	\$ (18,200)	\$ (7,740)
Basic loss per common share	\$ (1.49)	\$ (0.57)	\$ (1.21)	\$ (0.51)
Basic weighted average common shares outstanding	15,082,047	15,206,561	15,048,467	15,179,618
Diluted loss per common share	\$ (1.49)	\$ (0.57)	\$ (1.21)	\$ (0.51)
Diluted weighted average common shares outstanding	15,082,047	15,206,561	15,048,467	15,179,618

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

(unaudited)

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2010</b>
<b>Operating Activities</b>		
Net loss	\$ (18,200)	\$ (7,740)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	18,776	15,995
Debt discount amortization	5,050	6,022
Impairment of long-lived assets	23,251	
Equity method losses	141	1,224
Derivatives	(827)	
Stock-based compensation	2,687	2,755
Loss on disposal of property, plant and equipment	29	264
Changes in operating assets and liabilities:		
Accounts receivable	(1,406)	18,360
Inventories	31,721	(11,743)
Prepaid expenses and other assets	3,337	2,226
Accounts payable	(5,187)	(5,271)
Accrued expenses	(13,945)	1,149
Income taxes receivable	2,353	7,873
Net cash provided by operating activities	47,780	31,114
<b>Investing Activities</b>		
Expenditures for property, plant and equipment	(5,022)	(6,263)
Proceeds from sales of property, plant and equipment	45	85
Notes receivable, net	72	73
Net cash used in investing activities	(4,905)	(6,105)
<b>Financing Activities</b>		
Financing costs	(7)	
Principal payments under mortgages and notes	(25,963)	(404)
Borrowings under line of credit		44,000
Principal payments under line of credit		(44,000)
Repurchases of common stock	(571)	(1,156)
Proceeds from employee stock purchase and option plans	268	187
Net cash used in financing activities	(26,273)	(1,373)
Net increase in cash and cash equivalents	16,602	23,636
Cash and cash equivalents at beginning of period	23,189	19,514
Cash and cash equivalents at end of period	\$ 39,791	\$ 43,150

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Supplemental Disclosure:

Cash paid (received) during the period for:

Interest, net of amounts capitalized	\$	6,842	\$	6,430
Income taxes, net of refunds received	\$	(2,310)	\$	(7,590)

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, 2009 and 2010**

**(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, 2010 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, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 included in the ann