

TREX CO INC
Form 10-Q
May 02, 2011
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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, 2011

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 April 20, 2011 was 15,563,593 shares.

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PART I
FINANCIAL INFORMATION

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

(In thousands)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,014	\$ 27,270
Accounts receivable, net	52,945	53,332
Inventories	39,606	29,021
Prepaid expenses and other assets	1,583	1,539
Income taxes receivable	87	70
Deferred income taxes	949	1,004
Total current assets	107,184	112,236
Property, plant, and equipment, net	124,480	126,857
Goodwill	6,837	6,837
Other assets	1,578	1,885
Total assets	\$ 240,079	\$ 247,815
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 17,232	\$ 15,107
Accrued expenses	13,400	23,479
Accrued warranty	6,232	7,003
Current portion of long-term debt	84,564	590
Total current liabilities	121,428	46,179
Deferred income taxes	3,791	3,614
Accrued taxes	319	3,126
Non-current accrued warranty	6,636	7,469
Debt-related derivatives		312
Long-term debt		84,193
Total liabilities	132,174	144,893
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; 15,554,843 and 15,458,002 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	156	155

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Additional paid in capital	98,646	98,905
Accumulated other comprehensive loss		(184)
Retained earnings	9,103	4,046
Total stockholders' equity	107,905	102,922
Total liabilities and stockholders' equity	\$ 240,079	\$ 247,815

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 March 31,	
	2011	2010
Net sales	\$ 69,006	\$ 66,340
Cost of sales	45,977	51,126
Gross profit	23,029	15,214
Selling, general and administrative expenses	16,657	17,053
Income (loss) from operations	6,372	(1,839)
Interest expense, net	3,963	3,803
Income (loss) before income taxes	2,409	(5,642)
Provision (benefit) for income taxes	(2,648)	(134)
Net income (loss)	\$ 5,057	\$ (5,508)
Basic income (loss) per common share	\$ 0.33	\$ (0.36)
Basic weighted average common shares outstanding	15,292,959	15,142,665
Diluted income (loss) per common share	\$ 0.30	\$ (0.36)
Diluted weighted average common shares outstanding	16,823,788	15,142,665

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited)

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

(unaudited)

(In thousands)

	Three Months Ended March 31,	
	2011	2010
Operating Activities		
Net income (loss)	\$ 5,057	\$ (5,508)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,895	5,562
Debt discount amortization	2,323	1,948
Equity method losses		218
Derivatives	(127)	
Stock-based compensation	797	843
Deferred taxes	232	
Loss on disposal of property, plant and equipment	27	
Changes in operating assets and liabilities:		
Accounts receivable	369	(40,627)
Inventories	(10,585)	(5,680)
Prepaid expenses and other assets	(15)	384
Accounts payable	2,125	4,944
Accrued expenses and other liabilities	(14,453)	(8,216)
Income taxes receivable/payable	(54)	7,652
Net cash used in operating activities	(9,409)	(38,480)
Investing Activities		
Expenditures for property, plant and equipment	(2,266)	(2,684)
Notes receivable, net	18	25
Net cash used in investing activities	(2,248)	(2,659)
Financing Activities		
Principal payments under mortgages and notes	(2,542)	(133)
Borrowings under line of credit		32,000
Principal payments under line of credit		(4,000)
Repurchases of common stock	(1,894)	(684)
Proceeds from employee stock purchase and option plans	837	57
Net cash provided by (used in) financing activities	(3,599)	27,240
Net decrease in cash and cash equivalents	(15,256)	(13,899)
Cash and cash equivalents at beginning of period	27,270	19,514
Cash and cash equivalents at end of period	\$ 12,014	\$ 5,615
Supplemental Disclosure:		
Cash paid for interest, net of capitalized interest	\$ 3,267	\$ 3,087

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Cash paid (received) for income taxes, net	\$	92	\$ (7,536)
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See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited)

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Table of Contents**TREX COMPANY, INC.****Notes to Condensed Consolidated Financial Statements****For the Three Months Ended March 31, 2011 and 2010****(unaudited)****1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (the Company) is the country's largest manufacturer of wood-alternative decking and railing, 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 three months ended March 31, 2011 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, 2009 and 2010 and for each of the three years in the period ended December 31, 2010 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, 2010.

3. COMPREHENSIVE INCOME

The Company's comprehensive income (loss) was \$5.2 million and (\$5.5) million for the three months ended March 31, 2011 and 2010, respectively. Comprehensive income consists of net income and changes in net unrealized gains and losses on debt-related derivative, net of tax.

4. INVENTORIES

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

	March 31, 2011	December 31, 2010
Finished goods	\$ 43,359	\$ 29,983
Raw materials	24,798	27,589
Total FIFO inventories	68,157	57,572
Reserve to adjust inventories to LIFO value	(28,551)	(28,551)
Total LIFO inventories	\$ 39,606	\$ 29,021

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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.

Table of Contents**5. ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	March 31, 2011	December 31, 2010
Accrued compensation and benefits	\$ 2,019	\$ 6,687
Accrued interest	1,648	3,526
Accrued rent obligations	1,733	1,938
Accrued sales and marketing	3,212	2,584&