

TREX CO INC
Form 10-Q/A
March 19, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 2006

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

160 Exeter Drive

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

22603-8605

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Winchester, Virginia
(Address of principal executive offices) (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12-b-2 of the Exchange Act.

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding at October 30, 2006 was 14,909,772 shares.

EXPLANATORY STATEMENT

Why we are filing this Amendment to our Form 10-Q

We are filing this amendment to the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006 (the Original Filing) of Trex Company, Inc. (the Company) to restate the Company s consolidated financial statements and related disclosures in order to correct errors in the recording of certain expenses in cost of sales, selling, general and administrative expenses, and interest expense. The errors related to the improper recording of the receipt of goods and services, the timing of cost capitalization, the calculation of depreciation, the timing of recording certain liabilities, the improper recording of cash disbursements, the valuation of raw material inventory, the calculation of the allowance for doubtful accounts, the calculation of a miscellaneous receivable and the recognition of stock-based compensation.

This amendment includes the Company s restated consolidated balance sheet as of September 30, 2006, its restated statements of operations for the three and nine months ended September 30, 2005 and 2006 and its restated statements of cash flows for the nine months ended September 30, 2005 and 2006. The financial information as of December 31, 2005 and for the three months ended September 30, 2005 included in this amendment was also included in restated consolidated financial statements filed by the Company in an amendment on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the Amended 2005 10-K).

The restatement adjustments have the effect of increasing the Company s reported net income for the three and nine months ended September 30, 2006 by \$0.0 million, or \$0.00 per diluted share, and by \$0.3 million, or \$0.02 per diluted share, respectively.

Amended Items of the Form 10-Q

We are amending the following items of the Original Filing:

Part I	Item 1	Financial Statements
Part I	Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations
Part I	Item 4	Controls and Procedures
Part II	Item 6	Exhibits

All information not affected by the restatement is unchanged

We have not changed any information included in the Original Filing that is not affected by the restatement. Accordingly, the information included in the Original Filing and included in this amendment that is not affected by the restatement describes conditions as they existed and were presented in the Original Filing at the time we filed that report with the Securities and Exchange Commission on November 9, 2006. We have not taken into account any other events occurring after we filed the Original Filing that might have affected those disclosures, nor have we modified or updated those disclosures, including the exhibits to the Original Filing, to reflect any other subsequent events. Accordingly, in conjunction with reading this amendment to the Original Filing, you should also read all of the filings we have made with the Securities and Exchange Commission since November 9, 2006, including the Amended 2005 10-K.

TREX COMPANY, INC.

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets

(In thousands)

	December 31 2005 As Restated (See Note 2)	September 30, 2006 As Restated (See Note 2) (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,395	\$ 2,235
Accounts receivable, net	12,364	23,156
Inventories	56,931	77,970
Prepaid expenses and other current assets	3,750	3,484
Income taxes receivable	8,200	
Deferred income taxes	1,711	2,543
Total current assets	84,351	109,388
Property, plant and equipment, net	191,083	190,147
Goodwill	6,837	6,837
Debt-related derivatives	292	362
Other assets	3,151	3,185
Total assets	\$ 285,714	\$ 309,919
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 13,675	\$ 22,615
Accrued expenses	17,514	21,651
Income taxes payable		154
Line of credit	4,070	3,200
Current portion long-term debt	9,031	9,093
Total current liabilities	44,290	56,713
Deferred income taxes	15,158	17,697
Debt-related derivatives	1,053	799
Long-term debt, net of current portion	60,505	51,676
Total liabilities	121,006	126,885

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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; 14,889,674 and 14,981,572 shares issued and outstanding at December 31, 2005 and September 30, 2006, respectively	149	150
Additional paid-in capital	61,901	62,825
Deferred compensation	(1,076)	
Accumulated other comprehensive loss	(481)	(289)
Retained earnings	104,215	120,348
Total stockholders' equity	164,708	183,034
Total liabilities and stockholders' equity	\$ 285,714	\$ 309,919

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED).

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,	
	2005	2006	2005	2006
	As Restated	As Restated	As Restated	As Restated
	(See Note 2)	(See Note 2)	(See Note 2)	(See Note 2)
Net sales	\$ 77,371	\$ 78,098	\$ 250,140	\$ 304,849
Cost of sales	52,933	55,116	168,768	220,928
Gross profit	24,438	22,982	81,372	83,921
Selling, general and administrative expenses	17,037	15,419	61,299	56,738
Income from operations	7,401	7,563	20,073	27,183
Interest expense, net	476	305	1,826	2,151
Income before provision for income taxes	6,925	7,258	18,247	25,032
Provision for income taxes	1,842	2,679	5,127	8,898
Net income	\$ 5,083	\$ 4,579	\$ 13,120	\$ 16,134
Basic earnings per share	\$ 0.34	\$ 0.31	\$ 0.89	\$ 1.09
Basic weighted average shares outstanding	14,782,888	14,838,343	14,762,598	14,825,287
Diluted earnings per share	\$ 0.34	\$ 0.31	\$ 0.88	\$ 1.08
Diluted weighted average shares outstanding	14,847,519	14,921,151	14,881,423	14,908,475

**SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED).**

TREX COMPANY, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2005	2006
	As Restated	As Restated
	(See Note 2)	(See Note 2)
OPERATING ACTIVITIES		
Net income	\$ 13,120	\$ 16,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	1,924	1,706
Equity method loss (income)	221	(116)
Stock-based compensation	597	2,049
Other noncash charges (income)	235	(48)
Tax benefit from stock-based awards	470	
Depreciation	11,280	15,248
Loss on disposal of property, plant and equipment	972	221
Changes in operating assets and liabilities:		
Accounts receivable	8,528	(10,792)
Inventories	(7,600)	(21,039)
Prepaid expenses and other current assets	894	266
Accounts payable	2,271	8,940
Accrued expenses	(2,523)	4,137
Income taxes receivable	(4,648)	8,354
Net cash provided by operating activities	25,741	25,060
INVESTING ACTIVITIES		
Loan to Denplax, S.A.	(508)	
Restricted cash	20,959	
Expenditures for property, plant and equipment	(46,925)	(14,533)
Net cash used in investing activities	(26,474)	(14,533)
FINANCING ACTIVITIES		
Borrowings under line of credit	18,531	50,709
Principal payments under line of credit	(18,531)	(51,579)
Principal payments under mortgages and term loans	(8,712)	(8,767)
Tax benefit from stock-based awards	50	
Proceeds from employee stock purchase and option plans	1,074	331
Purchases of common stock	(743)	(431)
Net cash used in financing activities	(8,381)	(9,687)
Net increase (decrease) in cash and cash equivalents	(9,114)	840
Cash and cash equivalents at beginning of period	23,967	1,395
Cash and cash equivalents at end of period	\$ 14,853	\$ 2,235

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Supplemental Disclosure:

Cash paid for interest, net of capitalized interest	\$	1,042	\$	1,835
Cash paid (received) for income taxes, net	\$	7,852	\$	(528)

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED).

TREX COMPANY, INC.

Notes to Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2005 and 2006

(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 and railing 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. RESTATEMENT

On January 26, 2007, the Audit Committee of the Company's Board of Directors concluded, based upon the recommendation of the Company's management that, to correct certain errors, the Company should restate its financial results, including quarterly results, for its fiscal years ended December 31, 2003, 2004 and 2005 and its quarterly results for the first nine months of its fiscal year ended December 31, 2006.

This amendment includes the Company's restated consolidated balance sheet as of September 30, 2006, its restated statements of operations for the three and nine months ended September 30, 2005 and 2006 and its restated statements of cash flows for the nine months ended September 30, 2005 and 2006. The financial information as of December 31, 2005 and the consolidated statement of operations for the three months ended September 30, 2005 included in this amendment was included in restated consolidated financial statements filed by the Company in an amendment on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the Amended 2005 10-K).

The restatements reflect the correction of errors related to the recording of certain expenses in cost of sales, selling, general and administrative expenses, and interest expense. The errors included:

- a) Errors related to improperly recording the receipt of goods and services, which resulted from the recording of expenses, inventory and fixed assets at the time of receipt of the goods or services and again at the time the related invoice was received. These errors caused an overstatement of accounts payable, accrued expenses, property, plant and equipment, cost of sales and selling, general and administrative expenses.
- b) Errors related to the timing of recording certain liabilities, which resulted from the failure to accrue accounts payable related to the purchase of raw materials at the time of receipt of the materials from one vendor that caused an understatement of accounts payable, inventory and cost of sales.
- c) Errors related to improperly recording cash disbursements, which resulted from recording certain wire transfers in the incorrect period and not appropriately recording certain void checks. These errors caused a net overstatement of cash and a net understatement of cost of sales and selling, general and administrative expenses.
- d) An error in the valuation of raw material inventory, which resulted from the miscalculation of the quantity of raw material inventory on hand that caused an understatement of inventory and an overstatement of cost of sales.
- e) Errors related to the timing of cost capitalization, as a result of which costs associated with the company's new manufacturing facility and the implementation of a new software system were erroneously expensed as incurred rather than capitalized. These errors caused an understatement of property, plant and equipment and an overstatement of selling, general and administrative expenses in the period the costs were incurred.

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- f) Errors related to the calculation of depreciation and capitalized interest resulting primarily from the delay in transferring assets that had been placed in service from construction in process which caused a delay in the commencement of depreciation and cessation of capitalization of interest. These errors caused an overstatement of net property, plant and equipment and an understatement of cost of sales, selling, general and administrative expenses and interest expense beginning in the period the assets were placed in service.

- g) An error in the calculation of a miscellaneous amount receivable from a service provider that caused an understatement of accrued expenses and an understatement of selling, general and administrative expenses in the period in which the receivable was recorded.
- h) An error in the calculation of the allowance for doubtful accounts, which resulted from the exclusion of certain customer balances and the inclusion of customer credit balances in the accounts receivable balances used in the calculation that caused an overstatement of net accounts receivable and an understatement of selling, general and administrative expenses in the period the costs were incurred.
- i) An error in the recognition of stock-based compensation resulting from the use of incorrect vesting terms. This error caused an understatement of selling, general and administrative expenses.

The following tables summarize the effects of these adjustments on the Company's consolidated balance sheet as of September 30, 2006 (unaudited) and consolidated statements of operations for the three and nine months ended September 30, 2005 and September 30, 2006, and consolidated statement of cash flows for the nine months ended September 30, 2005 and 2006.

CONSOLIDATED BALANCE SHEETS

September 30, 2006

(In thousands)

	As Previously Reported	Adjustments	As Restated
Income taxes receivable	\$ 75	\$ (75)	\$
Total current assets	109,463	(75)	