

TREX CO INC  
Form 10-Q  
August 04, 2014  
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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 June 30, 2014**

**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)**

**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 July 25, 2014 was 31,979,734 shares.



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

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

(In thousands)

	<b>June 30, 2014 (Unaudited)</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 5,572	\$ 3,772
Accounts receivable, net	60,093	37,338
Inventories	21,055	22,428
Prepaid expenses and other assets	5,871	3,145
Deferred income taxes	9,497	9,497
Total current assets	102,088	76,180
Property, plant and equipment, net	98,257	100,783
Goodwill and other intangibles	10,538	10,542
Other assets	897	652
Total assets	\$ 211,780	\$ 188,157
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 19,474	\$ 14,891
Accrued expenses	20,169	23,295
Accrued warranty	9,000	9,000
Line of credit	35,000	
Total current liabilities	83,643	47,186
Deferred income taxes	360	360
Non-current accrued warranty	28,891	31,812
Other long-term liabilities	2,148	2,183
Total liabilities	115,042	81,541

## Stockholders' equity:

Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value, 80,000,000 shares authorized; 34,757,157 and 34,598,124 shares issued and 31,976,728 and 33,475,614 shares outstanding at June 30, 2014 and December 31, 2013, respectively	348	173
Additional paid-in capital	114,158	101,667
Retained earnings	57,232	29,776
Treasury stock, at cost, 2,780,429 and 1,122,510 shares at June 30, 2014 and December 31, 2013, respectively	(75,000)	(25,000)
Total stockholders' equity	96,738	106,616
Total liabilities and stockholders' equity	\$ 211,780	\$ 188,157

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).

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

(Unaudited)

(In thousands, except share and per share data)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net sales	\$ 121,311	\$ 98,551	\$ 221,956	\$ 206,430
Cost of sales	76,285	61,629	138,764	127,649
Gross profit	45,026	36,922	83,192	78,781
Selling, general and administrative expenses	20,344	23,392	38,566	43,234
Income from operations	24,682	13,530	44,626	35,547
Interest expense, net	301	210	623	461
Income before income taxes	24,381	13,320	44,003	35,086
Provision for income taxes	9,220	96	16,547	293
Net income	\$ 15,161	\$ 13,224	\$ 27,456	\$ 34,793
Basic earnings per common share	\$ 0.46	\$ 0.39	\$ 0.83	\$ 1.03
Basic weighted average common shares outstanding	32,898,288	34,024,092	33,012,845	33,895,870
Diluted earnings per common share	\$ 0.46	\$ 0.38	\$ 0.82	\$ 1.00
Diluted weighted average common shares outstanding	33,307,463	34,784,540	33,452,814	34,673,428
Comprehensive income	\$ 15,161	\$ 13,224	\$ 27,456	\$ 34,793

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>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Net income	\$ 27,456	\$ 34,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,660	8,341
Deferred income taxes		(346)
Stock-based compensation	2,455	1,797
(Gain) loss on disposal of property, plant and equipment	(48)	220
Excess tax benefits from stock compensation	(12,533)	
Other non-cash adjustments	(245)	(337)
Changes in operating assets and liabilities:		
Accounts receivable	(22,794)	(24,411)
Inventories	1,373	2,557
Prepaid expenses and other assets	(206)	482
Accounts payable	4,583	3,859
Accrued expenses and other liabilities	(6,007)	(4,080)
Income taxes receivable/payable	9,764	265
Net cash provided by operating activities	11,458	23,140
<b>Investing Activities</b>		
Expenditures for property, plant and equipment	(4,927)	(5,110)
Proceeds from sales of property, plant and equipment	48	174
Purchase of acquired company, net of cash acquired	(44)	
Notes receivable, net	39	63
Net cash used in investing activities	(4,884)	(4,873)
<b>Financing Activities</b>		
Financing costs		(73)
Borrowings under line of credit	120,000	74,500
Principal payments under line of credit	(85,000)	(79,500)
Repurchases of common stock	(52,892)	(3,153)
Proceeds from employee stock purchase and option plans	585	3,383
Excess tax benefits from stock compensation	12,533	



Net cash used in financing activities	(4,774)	(4,843)
Net increase in cash and cash equivalents	1,800	13,424
Cash and cash equivalents at beginning of period	3,772	2,159
Cash and cash equivalents at end of period	\$ 5,572	\$ 15,583
Supplemental Disclosure:		
Cash paid for interest, net of capitalized interest	\$ 384	\$ 344
Cash paid for income taxes, net	\$ 6,783	\$ 375

See Accompanying Notes to Condensed Consolidated

Financial Statements (Unaudited).

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**TREX COMPANY, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2014 and 2013**

**(Unaudited)**

**1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (the Company) is the world's largest manufacturer of wood-alternative decking and railing products, which are marketed under the brand name Trex®. The Company is incorporated in Delaware. The principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and the 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 except as otherwise described herein) considered necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements. Certain prior year amounts in the accompanying condensed consolidated financial statements have been reclassified to conform to the current year presentation. All common stock share and per share data for all periods presented have been retroactively adjusted to reflect a two-for-one stock split distributed on May 7, 2014 (see Note 8). The consolidated results of operations for the six months ended June 30, 2014 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, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 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 on Form 10-K for the year ended December 31, 2013.

**3. NEW ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. The new standard provides a single, comprehensive model for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new standard requires an entity to recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and allows for either full retrospective or modified retrospective application. No early adoption is permitted. The Company is currently assessing the impact of the

adoption of this new standard on its consolidated financial statements and footnote disclosures.

#### 4. INVENTORIES

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Finished goods	\$ 30,987	\$ 30,423
Raw materials	14,565	16,502
<b>Total FIFO inventories</b>	<b>45,552</b>	<b>46,925</b>
Reserve to adjust inventories to LIFO value	(24,497)	(24,497)
<b>Total LIFO inventories</b>	<b>\$ 21,055</b>	<b>\$ 22,428</b>

Under the LIFO method, reductions in inventory cause a portion of the Company's cost of sales to be based on historical costs rather than current year costs. 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. Changes in inventory levels and costs are reflected

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in the interim financial statements in the period in which they occur, except in cases where LIFO inventory liquidations are expected to be reinstated by the end of the year. There were no LIFO inventory liquidations recognized to cost of sales in the six months ended June 30, 2014 or 2013. 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.

**5. ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Accrued sales and marketing	\$ 7,737	\$ 5,269
Accrued compensation and benefits	5,459	9,135
Accrued rent obligations	2,351	1,787
Accrued manufacturing expenses	1,231	1,107
Accrued legal contingency	85	3,174
Other	3,306	2,823
<b>Total accrued expenses</b>	<b>\$ 20,169</b>	<b>\$ 23,295</b>

**6. DEBT**

The Company's outstanding debt consists of a revolving credit facility.

*Revolving Credit Facility*

The Company currently has an Amended Credit Agreement which provides the Company with one or more revolving loans in a collective maximum principal amount of \$100 million. On December 17, 2013, the Company entered into a Second Amendment ( Second Amendment ) to the Amended Credit Agreement dated as of January 6, 2012, as amended by the First Amendment dated February 26, 2013 (the Credit Agreement ). Pursuant to the Second Amendment, the Credit Agreement was amended to temporarily increase the maximum amount of the Revolver Loans from \$100 million to \$125 million during the period from January 1, 2014 through and including June 30, 2014 to meet seasonal cash requirements. No other material changes were made to the terms of the Credit Agreement.

Amounts drawn under the Credit Agreement are subject to a borrowing base consisting of certain accounts receivables, inventories, machinery and equipment and real estate. At June 30, 2014, the Company had \$35 million of outstanding borrowings under its revolving credit facility and remaining available borrowing capacity of approximately \$49.0 million.

*Compliance with Debt Covenants and Restrictions*

The Company's ability to make scheduled principal and interest payments and to borrow and repay amounts under any outstanding revolving credit facility, and continue to comply with any loan covenants depends primarily on the Company's ability to generate sufficient cash flow from operations.

As of June 30, 2014, the Company was in compliance with all of the covenants contained in its debt agreements. Failure to comply with the loan covenants might cause lenders to accelerate the repayment obligations under the credit facility, which may be declared payable immediately based on a default.

## **7. FINANCIAL INSTRUMENTS**

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities to approximate the fair value of the respective assets and liabilities at June 30, 2014 and December 31, 2013.

**Table of Contents****8. STOCKHOLDERS EQUITY***Earnings Per Share*

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Numerator:</b>				
Net income available to common shareholders	\$ 15,161	\$ 13,224	\$ 27,456	\$ 34,793
<b>Denominator:</b>				
Basic weighted average shares outstanding	32,898,288	34,024,092	33,012,845	33,895,870
<b>Effect of dilutive securities:</b>				
SARs and options				