

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

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended March 31, 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

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## 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)

160 Exeter Drive

Winchester, Virginia

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

22603-8605

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(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)

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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 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 May 1, 2006 was 14,894,758 shares.

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**Table of Contents**

**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 March 31, 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, and selling, general and administrative expenses. 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 and the valuation of raw material inventory.

This amendment includes the Company's restated consolidated balance sheet as of March 31, 2006 and its restated statements of operations and cash flows for the three months ended March 31, 2005 and March 31, 2006. The financial information as of December 31, 2005 and for the three months ended March 31, 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 Company does not intend to amend its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005.

The restatement adjustments had the effect of decreasing the Company's reported net income for the fiscal quarter ended March 31, 2006 by \$0.2 million, or \$0.02 per diluted share.

**Amended Items of 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 May 10, 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. We are also filing amendments to our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2006 and September 30, 2006. Accordingly, in conjunction with reading this amendment to the Original Filing, you should also read our amendments to those Quarterly Reports on Form 10-Q/A and all other filings we have made with the Securities and Exchange Commission since May 10, 2006, including the Amended 2005 10-K.

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**Table of Contents**

**TREX COMPANY, INC.**

INDEX

	<b>Page</b>
<b>PART I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
Item 1	
<u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2005 and March 31, 2006 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2005 and 2006 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2005 and 2006 (unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5
Item 2	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 4	
<u>Controls and Procedures</u>	15
<b>PART II</b>	
<b><u>OTHER INFORMATION</u></b>	
Item 6	
<u>Exhibits</u>	16
<u>Signature</u>	17

**Table of Contents**

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

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

(In thousands)

	<b>December 31, 2005</b>	<b>March 31, 2006</b>
	<b>As Restated</b>	<b>As Restated</b>
	<b>(See Note 2)</b>	<b>(See Note 2) (unaudited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,395	\$ 923
Accounts receivable, net	12,364	53,647
Inventories	56,931	49,648
Prepaid expenses and other assets	3,750	5,430
Income taxes receivable	8,200	298
Deferred income taxes	1,711	1,216
<b>Total current assets</b>	<b>84,351</b>	<b>111,162</b>
Property, plant, and equipment, net	191,083	188,399
Goodwill	6,837	6,837
Debt-related derivatives	292	525
Other assets	3,151	3,161
<b>Total assets</b>	<b>\$ 285,714</b>	<b>\$ 310,084</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,675	\$ 26,257
Accrued expenses	17,514	18,553
Line of credit	4,070	10,011
Current portion of long-term debt	9,031	9,052
<b>Total current liabilities</b>	<b>44,290</b>	<b>63,873</b>
Deferred income taxes	15,158	15,636
Debt-related derivatives	1,053	797
Long-term debt	60,505	60,233
<b>Total liabilities</b>	<b>121,006</b>	<b>140,539</b>

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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 14,971,029 shares issued and outstanding at December 31, 2005 and March 31, 2006, respectively	149	150
Additional paid-in capital	61,901	61,290
Deferred compensation	(1,076)	
Accumulated other comprehensive loss	(481)	(175)
Retained earnings	104,215	108,280
<b>Total stockholders' equity</b>	<b>164,708</b>	<b>169,545</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 285,714</b>	<b>\$ 310,084</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 March 31,</b>	
	<b>2005</b>	<b>2006</b>
	<b>As Restated</b>	<b>As Restated</b>
	<b>(See Note 2)</b>	<b>(See Note 2)</b>
Net sales	\$ 89,904	\$ 105,297
Cost of sales	56,383	80,122
<b>Gross profit</b>	<b>33,521</b>	<b>25,175</b>
Selling, general and administrative expenses	19,260	17,738
<b>Income from operations</b>	<b>14,261</b>	<b>7,437</b>
Interest expense, net	756	969
<b>Income before income taxes</b>	<b>13,505</b>	<b>6,468</b>
Provision for income taxes	4,887	2,403
<b>Net income</b>	<b>\$ 8,618</b>	<b>\$ 4,065</b>
Basic earnings per common share	\$ 0.58	\$ 0.27
Basic weighted average common shares outstanding	14,731,889	14,803,858
Diluted earnings per common share	\$ 0.58	\$ 0.27
Diluted weighted average common shares outstanding	14,921,705	14,860,203

**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>2005</b>	<b>2006</b>
	<b>As Restated</b>	<b>As Restated</b>
	<b>(See Note 2)</b>	<b>(See Note 2)</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 8,618	\$ 4,065
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	1,346	972
Equity method losses (gains)	139	(39)
Stock-based compensation	167	711
Other noncash charges	(100)	(152)
Tax benefit from stock-based awards	421	
Depreciation	3,496	5,029
Loss on disposal of property, plant and equipment	16	34
Changes in operating assets and liabilities:		
Accounts receivable	(46,861)	(41,283)
Inventories	5,551	7,283
Prepaid expenses and other assets	(703)	(1,680)
Accounts payable	5,279	12,582
Accrued expenses	(1,976)	1,039
Income taxes receivable	2,893	7,901
Net cash used in operating activities	(21,714)	(3,538)
<b>INVESTING ACTIVITIES</b>		
Loan to Denplax, S.A.	(305)	
Restricted cash	11,660	
Expenditures for property, plant and equipment	(15,501)	(2,379)
Net cash used in investing activities	(4,146)	(2,379)
<b>FINANCING ACTIVITIES</b>		
Principal payments under mortgages and term loans	(239)	(250)
Tax benefit from stock-based awards		75
Proceeds from employee stock purchase and option plans	524	110
Purchases of common stock	(743)	(431)
Borrowings under line of credit	5,414	33,018
Principal payments under line of credit	(2,701)	(27,077)
Net cash provided by financing activities	2,255	5,445
Net decrease in cash and cash equivalents	(23,605)	(472)
Cash and cash equivalents at beginning of period	23,967	1,395

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Cash and cash equivalents at end of period	\$ 362	\$ 923
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Supplemental Disclosure:

Cash paid for interest	\$ 426	\$ 609
Cash paid for income taxes	\$ 176	\$ 5

**SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS (UNAUDITED).**

**Table of Contents**

**TREX COMPANY, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Three Months Ended March 31, 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 March 31, 2006 and its restated statements of operations and cash flows for the three months ended March 31, 2005 and March 31, 2006. The financial information as of December 31, 2005 and the consolidated statement of operations for the three months ended March 31, 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 restatements reflect the correction of errors related to the recording of certain expenses in cost of sales, and selling, general and administrative expenses. 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

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administrative expenses in the period the costs were incurred.

- f) Errors related to the calculation of depreciation 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. These errors caused an overstatement of net property, plant and equipment and an understatement of cost of sales beginning in the period the assets were placed in service.

The following tables summarize the effects of these adjustments on the Company's consolidated balance sheet as of March 31, 2006 (unaudited) and consolidated statements of operations and consolidated statements of cash flows for the three months ended March 31, 2005 and March 31, 2006.

**Table of Contents****CONSOLIDATED BALANCE SHEETS****March 31, 2006****(In thousands)**

	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Cash and cash equivalents	\$ 1,603	\$ (680)	\$ 923
Income taxes receivable	294	4	298
Total current assets	111,838	(676)	111,162
Property, plant, and equipment, net	188,579	(180)	188,399
Total assets	310,940	(856)	310,084
Accounts payable	27,117	(860)	26,257
Total current liabilities	64,733	(860)	63,873
Total liabilities	141,399	(860)	140,539
Retained earnings	108,276	4	108,280
Total stockholders' equity	169,541	4	169,545
Total liabilities and stockholders' equity	\$ 310,940	\$ (856)	\$ 310,084

**CONSOLIDATED STATEMENT OF OPERATIONS****For the three months ended March 31, 2005****(in thousands, except per share data)**

	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>
Cost of sales	\$ 56,568	\$ (185)	\$ 56,383
Gross profit	33,336	185	33,521
Selling, general and administrative expenses	19,416	(156)	19,260
Income from operations	13,920	341	14,261
Income before income taxes	13,164	341	13,505
Provision for income taxes	4,760	127	4,887
Net income	8,404	214	8,618
Basic earnings per common share	0.57	0.01	0.58
Diluted earnings per common share	\$ 0.56	\$ 0.02	\$ 0.58

**Table of Contents****CONSOLIDATED STATEMENT OF OPERATIONS**

For the three months ended March 31, 2006

(in thousands, except per share data)

	As Previously Reported	Adjustments	As Restated
Cost of sales	\$ 80,036	\$ 86	\$ 80,122
Gross profit	25,261	(86)	25,175
Selling, general and administrative expenses	17,552	186	17,738
Income from operations	7,709	(272)	7,437
Income before income taxes	6,740	(272)	6,468
Provision for income taxes	2,504	(101)	2,403
Net income	4,236	(171)	4,065
Basic earnings per common share	0.29	(0.02)	0.27
Diluted earnings per common share	\$ 0.29	\$ (0.02)	\$ 0.27

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the three months ended March 31, 2005

(in thousands, except per share data)

	As Previously Reported	Adjustments	As Restated
<b>Operating activities</b>			
Net income	\$ 8,404	\$ 214	\$ 8,618
Changes in operating assets and liabilities:			
Accounts payable	5,624	(345)	5,279
Accrued expenses	(1,854)	(122)	(1,976)
Income taxes receivable	2,766	127	2,893
Net cash provided by operating activities	(21,588)	(126)	(21,714)
<b>Investing activities</b>			
Expenditures for property, plant and equipment	(15,585)	84	(15,501)
Net cash used in investing activities	(4,230)	84	(4,146)
Net decrease in cash and cash equivalents	(23,563)	(42)	(23,605)
Cash and cash equivalents at beginning of period	\$ 23,925	\$ 42	\$ 23,967

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the three months ended March 31, 2006

(in thousands, except per share data)

	As Previously Reported	Adjustments	As Restated
<b>Operating activities</b>			
Net income	\$ 4,236	\$ (171)	\$ 4,065
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,975	54	5,029

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<b>Changes in operating assets and liabilities:</b>			
Inventories	7,078	205	7,283
Accounts payable	12,712	(130)	12,582
Income taxes receivable	8,002	(101)	7,901
Net cash provided by operating activities	(3,395)	(143)	(3,538)
<b>Investing activities</b>			
Expenditures for property, plant and equipment	(2,378)	(1)	(2,379)
Net cash used in investing activities	(2,378)	(1)	(2,379)
Net decrease in cash and cash equivalents	(328)	(144)	(472)
Cash and cash equivalents at beginning of period	1,931	(536)	1,395
Cash and cash equivalents at end of period	\$ 1,603	\$ (680)	\$ 923

**Table of Contents****3. 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, 2006 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, 2004 and 2005 and for each of the three years in the period ended December 31, 2005 included in the annual report of Trex Company, Inc. on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, as filed with the Securities and Exchange Commission.

*Reclassifications*

Certain reclassifications have been made in the presentation of the financial statements for the three months ended March 31, 2005 to conform with the presentation of the financial statements for the three months ended March 31, 2006.

**4. INVENTORY**

Inventories (at LIFO value) consist of the following (in thousands):

	<b>December 31, 2005</b>	
	<b>As Restated</b>	
	<b>(See Note 2)</b>	<b>March 31, 2006</b>
Finished goods	\$ 38,779	\$ 26,376
Raw materials	18,152	23,272
	<b>\$ 56,931</b>	<b>\$ 49,648</b>

An actual valuation of inventory under the LIFO (last-in, first-out) 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.

**5. ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	<b>December 31, 2005</b>	<b>March 31, 2006</b>
Accrued sales and marketing costs	\$ 4,181	\$ 4,992
Accrued compensation and benefits	4,552	3,168
Accrued freight	661	2,944
Accrued manufacturing expenses	1,854	1,743
Accrued interest	349	1,103
Deferred rent	488	493
Accrued professional and legal costs	686	255

Other		4,743	3,855
Total		\$ 17,514	\$ 18,553

**6. DEBT**

The Company's outstanding debt consists of senior notes, a variable rate promissory note, real estate loans and a revolving credit facility. The revolving credit facility provides for borrowing up to \$30.0 million through June 30, 2006 and \$20.0 million thereafter. Amounts drawn under the revolving credit facility are subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of March 31, 2006, \$10.0 million was outstanding under the revolving credit facility.

**Table of Contents**

The senior notes, real estate loans, revolving credit facility, and bond loan documents contain negative and financial covenants. As of March 31, 2006, the Company was in compliance with these covenants.

The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans and variable rate promissory note. At March 31, 2006, the Company had capped its interest rate exposure at an annual effective rate of approximately 9.0% on all of its \$12.3 million principal amount of variable-rate real estate loans and capped its interest rate exposure at an annual effective rate of approximately 3.1% for six years on \$10.0 million principal amount of its \$25.0 million variable rate promissory note and at an annual effective rate of approximately 3.0% for four years on an additional \$10.0 million principal amount of such note.

**7. 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 March 31, 2005</b>	
	<b>As Restated</b>	<b>2006</b>
	<b>(See Note 2)</b>	<b>As Restated (See Note 2)</b>
<b>Numerator:</b>		
Net income available to common shareholders	\$ 8,618	\$ 4,065
<b>Denominator:</b>		
Basic weighted average shares outstanding	14,731,889	14,803,858
Impact of potential common shares: Options	133,207	24,625
Restricted stock	56,609	31,720
<b>Diluted weighted average shares outstanding</b>	<b>14,921,705</b>	<b>14,860,203</b>
Basic earnings per share	\$ 0.58	\$ 0.27
<b>Diluted earnings per share</b>	<b>\$ 0.58</b>	<b>\$ 0.27</b>

**8. STOCK-BASED COMPENSATION**

The Company has one stock-based compensation plan, the 2005 Stock Incentive Plan (the 2005 Plan), which was approved by its shareholders. The 2005 Plan is administered by the Compensation Committee of the Company's Board of Directors. Stock-based compensation is granted to officers, directors and certain key employees in accordance with the provisions of the 2005 Plan. The 2005 Plan provides for grants of stock options, stock appreciation rights (SARs), restricted stock and performance share awards (PSAs). The total aggregate number of shares of the Company's common stock that may be issued under the 2005 Plan is 2,150,000.

**Stock Options and Stock Appreciation Rights**

The 2005 Plan authorizes the grant of non-qualified stock options and SARs. Stock options are granted with an exercise price, and SARs are granted with a grant price, equal to the closing market price of the Company's common stock on the New York Stock Exchange on the date of grant. These awards, which have ten-year contractual terms, generally vest with respect to one-third of the shares subject to the awards on each of the first, second and third anniversaries of the grant date. The Company recognizes compensation cost for these graded vesting awards on a straight-line basis over the requisite service period for the entire award.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement 123R, *Share-Based Payment* (SFAS 123R), a revision of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). SFAS 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments of the company or liabilities that are based on the fair value of

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the company's equity instruments or that may be settled by the issuance of such equity instruments. This statement requires that share-based transactions be accounted for using a fair-value-based method to recognize compensation expense, and that the benefits of tax deductions in excess of recognized compensation cost (excess tax benefits) be reported as a financing cash flow, rather than as an operating cash flow. The Company adopted this standard on January 1, 2006 using the modified prospective method. Accordingly, results for prior periods have not been restated.

**Table of Contents**

As a result of its adoption of SFAS 123R, the Company recognized share-based compensation expense for stock options and SARs of approximately \$0.3 million for the three months ended March 31, 2006; this expense was included in the Selling, general and administrative expenses line of the accompanying condensed consolidated statements of operations. As stock-based compensation expense recognized in the consolidated statements of operations for the three months ended March 31, 2006 is based on awards ultimately expected to vest, such expense has been reduced for estimated forfeitures, as required by SFAS 123R. The total income tax benefit recognized was approximately \$0.1 million. The Company's income before income taxes and net income for the three months ended March 31, 2006 were \$0.3 million and \$0.2 million, respectively, lower than if it had continued to account for stock options and SARs under APB 25. Basic and diluted earnings per share for the three months ended March 31, 2006 decreased \$0.01 per share as a result of the adoption of SFAS 123R. As of March 31, 2006, there was \$2.2 million of unrecognized compensation cost related to stock options and SARs expected to be recognized over a weighted-average period of approximately 2.7 years. The total fair value of stock options vested during the three months ended March 31, 2006 and March 31, 2005 were \$0.3 million and \$1.6 million, respectively. In the three months ended March 31 2006, the Company also reflected \$0.1 million of excess tax benefits as a financing cash flow in the accompanying condensed consolidated statements of cash flows.

Prior to the adoption of SFAS 123R, the Company's stock-based employee compensation was accounted for in accordance with APB No. 25, under which no compensation expense was recorded for stock options because the exercise price of employee stock options equaled the market price of the underlying stock on the date of grant. If the Company had adopted SFAS 123R in prior periods, the impact of that statement would have approximated the impact of SFAS 123 (as if the fair-value-based recognition provisions of that statement had been applied) as shown in the following table:

	<b>Three Months Ended March 31, 2005</b>
	<b>As Restated</b>
	<b>(See Note 2)</b>
Net income, as reported	\$ 8,618
Less: stock-based employee compensation expense determined under fair value based method, net of related tax	(443)
Net income, pro forma	\$ 8,175
Earnings per share diluted, as reported	\$ 0.58
Earnings per share diluted, pro forma	\$ 0.55

The fair value of each stock option award and SAR is estimated on the date of grant using a Black-Scholes-Merton option-pricing formula. Expected volatilities are based on historical volatility of the Company's common stock. The expected term of stock options and SARs represents the period of time for which such awards are expected to be outstanding and has been determined based on an analysis of historical exercise behavior. The risk-free interest rate equals the five-year U.S. Treasury rate. For option grants and SARs issued in the three months ended March 31, 2006, the assumptions shown in the following table were used:

	<b>Three Months Ended March 31, 2006</b>
Expected volatility	.41
Expected dividends	
Expected term (in years)	5
Risk-free rate	4.35%

The grant-date fair value of stock options and SARs granted during the three months ended March 31, 2006 was \$10.24.

**Performance Share Awards**

In the year ended December 31, 2005 and the three months ended March 31, 2006, the Company granted PSAs to certain of the Company's officers and other employees under the 2005 Plan. The PSAs consist of a contingent right to receive whole shares of the Company's common stock if the Company meets specified performance criteria over a three-year performance period.

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If specified performance objectives are satisfied for the three-year performance periods ending in 2007 and 2008, the estimated number of shares to be delivered is 39,244 and 71,800, respectively, although a maximum number of 58,866 and 107,700 shares, respectively, may be delivered depending on the extent to which such performance objectives are satisfied. Prior to January 1, 2006, PSAs were accounted for as prescribed by APB No. 25. Under APB No. 25, PSAs were accounted for by charging a ratable portion of compensation expense during each accounting period based on the probable number of

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## **Table of Contents**

shares to be issued. Beginning January 1, 2006, all PSAs are accounted for in accordance with the provisions of SFAS 123R. The fair value of the PSAs is determined based on the closing price of the Company's shares on the New York Stock Exchange on the date of grant. In the three months ended March 31, 2006, 71,800 PSAs were granted at \$24.17 per share. During the three months ended March 31, 2006, \$0.1 million was charged to compensation expense for PSAs, based on the estimated number of shares that will be issued at the end of the applicable performance periods. There was no compensation expense for PSAs in the three months ended March 31, 2005. At March 31, 2006, there was \$1.5 million of total unrecognized compensation expense related to PSAs remaining to be recognized. Compensation expense attributable to PSAs is classified as "Selling, general and administrative expenses" in the accompanying condensed consolidated statement of operations.

### **Restricted Stock**

The 2005 Plan also authorizes the grant of restricted stock to employees, officers, and directors. Grantees generally have all rights of a shareholder except that unvested shares are held in escrow. Restricted shares vest either with respect to one-third of the award on each of the first, second and third anniversaries of the grant date or with respect to one-third of the award on each of the third, fourth and fifth anniversaries of the grant date. The fair value of the restricted stock is determined based on the closing price of the Company's shares on the New York Stock Exchange on the grant date. In the three months ended March 31, 2006, 20,000 restricted shares were granted at \$26.65 per share. In the three months ended March 31, 2006 and 2005, compensation expense of \$0.2 million and \$0.2 million, respectively, was recognized related to restricted stock awards. At March 31, 2006, there was \$1.3 million of total unrecognized compensation expense related to unvested restricted stock remaining to be recognized. In the three months ended March 31, 2006 and 2005, compensation expense related to restricted stock is classified as "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of operations.

### **9. SEASONALITY**

The Company's net sales and income from operations have historically varied from quarter to quarter. Such variations are principally attributable to seasonal trends in the demand for Trex®. The Company has historically experienced lower net sales during the fourth quarter because holidays and adverse weather conditions in certain regions reduce the level of home improvement and new construction activity. Net sales during the three months ended March 31, 2004 and 2005 accounted for approximately 30% and 31% of annual net sales in the years ended December 31, 2004 and 2005, respectively.

### **10. COMMITMENTS AND CONTINGENCIES**

#### *Lease Contingency*

In anticipation of relocating the Company's corporate headquarters to Dulles, Virginia, the Company entered into a lease agreement in July 2005. The Company has reconsidered and decided not to move its headquarters. The Company began paying rents under the lease on January 1, 2006. As of March 31, 2006, minimum payments remaining under the lease over the fiscal years ending December 31, 2006, 2007, 2008, 2009, and 2010 are \$0.6 million, \$1.1 million, \$1.5 million, \$1.6 million and \$1.6 million, respectively, and \$20.3 million thereafter. The Company is currently attempting to sublet the office space. Based on current market conditions, the Company estimates that the present value of the estimated future sublease rentals, net of transaction costs, will be greater than the Company's remaining minimum lease payment obligations under the lease agreement and, accordingly, has not recorded a loss related to the lease as of March 31, 2006.

The Company's assumptions in estimating future sublease income included consideration of vacancy rates, rental rates and the timing of future sublease income. Vacancy rates in the area where the property is located at March 31, 2006 were consistent with vacancy rates at December 31, 2005. Management believes that the rental rate on the Company's lease is comparable to the current market rates in the area. However, the anticipated delivery of new office space in the area over the next 24 months may have a negative effect on vacancy rates and rental rates. The inability to sublet the office space or unfavorable changes to key management assumptions used in the estimate of the future sublease income may result in charges in future periods.

#### *Legal Matters*

The Company is involved in certain litigation as described in Note 12 to the audited consolidated financial statements included in the Company's annual report on Form 10-K/A for the fiscal year ended December 31, 2005. In addition, the Company currently has other lawsuits, as well as other claims, pending against it. Management believes that the ultimate resolution of these lawsuits and claims will not have a material effect on the Company's consolidated financial condition, results of operations, liquidity or competitive position.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, will, anticipate, estimate, expect or intend. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under Item 1A. Risk Factors in our Annual Report on Form 10-K, as amended on Form 10-K/A, for fiscal year 2005 filed with the Securities and Exchange Commission.*

**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. Accordingly, we have restated our financial statements to correct these errors, as described more fully in Note 2 of the consolidated financial statements in this Form 10-Q/A. The restatement adjustments have the effect of decreasing the Company's reported net income for the three months ended March 31, 2006 by \$0.2 million, or \$0.02 per diluted share. This Management's Discussion and Analysis of Financial Condition and Results of Operations has been modified and updated principally to reflect the effect of these restatements.

**Overview**

*General.* Management considers growth in net sales, gross margin, selling, general and administrative expenses, and net income as key indicators of our operating performance. Growth in net sales reflects consumer acceptance of composite decking, the demand for Trex over competing products, the success of our branding strategy, the effectiveness of our distributors, and the strength of our dealer network and contractor franchise. Management emphasizes gross margin as a key measure of performance because it reflects the Company's ability to price its products accurately and to manage effectively its manufacturing unit costs. Managing selling, general and administrative expenses is important to support profitable growth. The Company's investment in research and development activities, which is included in selling, general and administrative expenses, enables it to enhance manufacturing operations, develop new products and analyze new technologies. Management considers net income to be a measure of the Company's overall financial performance.

In the last three years, the Company has expanded its product offerings by introducing the Trex Accents<sup>®</sup> and Trex Brasilia<sup>®</sup> decking product lines and the new Trex Designer Series Railing and Trex Artisan Series Railing<sup>®</sup> product. Sales of the Trex Accents<sup>®</sup> product, which was launched in the fourth quarter of 2003, accounted for approximately 68% of total gross sales in the first quarter of 2006. Manufacturing unit costs have been negatively affected by continued increases in the cost of PE material and incremental costs associated with the Company's quality initiatives. In the first three months of 2006, the Company's PE material costs increased 24.5% over the first three months of 2005. Sales of the Trex Brasilia<sup>®</sup> product, which was introduced in the fourth quarter of 2004, accounted for approximately 5% of total gross sales in the first quarter of 2006. The Company expects that the demand for the Trex Brasilia<sup>®</sup> and Trex Artisan Series Railing<sup>®</sup> products will grow as these products become generally more available through the Company's distribution channels. Because these new products have a higher price per unit, the introduction of the products into the sales mix has a positive effect on total revenue.

The management of raw materials costs, the strengthening of manufacturing performance and the enhancement of product quality constitute some of the Company's principal operating objectives. In 2005, manufacturing unit costs increased primarily because of higher costs for reclaimed polyethylene, or PE material, and lower manufacturing plant utilization resulting in part from the temporary suspension of operations of some production lines. In the first quarter of 2006, the Company's purchases of PE material included more highly priced PE material. The Company expects that new PE material sourcing and purchasing initiatives will be necessary for it to manage effectively its costs of PE material in future periods. The Company continues to focus on product quality initiatives to enhance the appearance of the entire product line. These initiatives emphasize color consistency and other product specifications. They also have contributed to higher manufacturing costs by reducing manufacturing line efficiencies, as well as increasing labor and raw material costs. In addition, each manufacturing plant has added personnel to its inspection functions, and finished goods packaging has been redesigned to minimize damage to the product in transit. In the first quarter of 2006, the Company also incurred higher than normal freight costs from its increased use of interplant shipments of inventory to meet customer demand.

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## **Table of Contents**

The Company continues to support its branding efforts through advertising campaigns in print publications and on television. Branding expenditures in the first quarter of 2006 totaled \$5.0 million.

*Net Sales.* Net sales consists of sales and freight, net of returns and discounts. The level of net sales is principally affected by sales volume and the prices paid for Trex. The Company's branding and product differentiation strategy enables it to command premium prices over wood and to maintain price stability for Trex. To ensure adequate availability of product to meet anticipated seasonal consumer demand, the Company historically has provided its distributors and dealers incentives to build inventory levels before the start of the prime deck-building season. These incentives include prompt payment discounts or extended payment terms. In addition, the Company from time to time may offer price discounts on specified products and other incentives based on increases in distributor purchases as part of specific promotional programs.

There are no product return rights granted to the Company's distributors except those granted pursuant to the warranty provisions of the Company's agreement with its distributors. Under such warranty provisions, the Company warrants that its products will be free from defects in workmanship and materials and will conform to the Company's standard specifications for its products in effect at the time of the shipment. If there is such a defect in any of its products, the Company has an obligation under its warranty to replace the products. On some occasions, the Company will voluntarily replace products for distributors as a matter of distributor relations, even though the Company does not have a legal obligation to do so. Product returns were not material to net sales in the three months ended March 31, 2006 or March 31, 2005.

Under the Company's limited warranty with consumers, the Company warrants that its products will be free from material defects in workmanship and material and will not check, split, splinter, rot or suffer structural damage from termites or fungal decay. If there is such a defect in any of its products, the Company has an obligation either to replace the defective product or refund the purchase price, in either case without any payment for labor to replace the defective product or freight. Warranty costs have not been material during the three months ended March 31, 2006 or March 31, 2005. On some occasions, the Company will voluntarily replace a product or refund a portion of the purchase price to consumers as a matter of consumer relations, even though the Company does not have a legal obligation to do so. The Company considers on a case-by-case basis each situation in which it may effect such a discretionary replacement or refund.

*Gross Profit.* Gross profit represents the difference between net sales and cost of sales. Cost of sales consists of raw materials costs, direct labor costs, manufacturing costs and freight. Raw materials costs generally include the costs to purchase and transport waste wood fiber, PE material and pigmentation for coloring Trex products. Direct labor costs include wages and benefits of personnel engaged in the manufacturing process. Manufacturing costs consist of costs of depreciation, utilities, maintenance supplies and repairs, indirect labor, including wages and benefits, and warehouse and equipment rental activities.

*Selling, General and Administrative Expenses.* The largest components of selling, general and administrative expenses are branding and other sales and marketing costs, which have increased significantly as the Company has sought to build brand awareness of Trex in the decking and railing market. Sales and marketing costs consist primarily of salaries, commissions and benefits paid to sales and marketing personnel, advertising expenses and other promotional costs. General and administrative expenses include salaries and benefits of personnel engaged in research and development, procurement, accounting and other business functions, office occupancy costs attributable to these functions, and professional fees. As a percentage of net sales, selling, general and administrative expenses have varied from quarter to quarter due, in part, to the seasonality of the Company's business.

### **Three Months Ended March 31, 2006 Compared With Three Months Ended March 31, 2005**

*Net Sales.* Net sales in the quarter ended March 31, 2006 (the 2006 quarter) increased 17.1% to \$105.3 million from \$89.9 million in the quarter ended March 31, 2005 (the 2005 quarter). The increase in net sales was attributable to a 15.1% increase in revenue per product unit and a 4.3% growth in sales volume as a result of an increase in demand from dealers and distributors. The increase in revenue per product unit resulted from a price increase, effective on April 1, 2005, of 8.0% and a price increase, effective in January 2006, of 4.0%, as well as from increased sales of higher unit priced products. The effect of the price increase was partially offset by incentives offered by the Company as part of its early buy annual discount programs. The Company has historically utilized an annual early buy sales program to create an incentive for distributors and dealers to commit to purchase Trex products before the start of the decking season. The Company's early buy program in 2006 and 2005 included extended payment terms for purchases in the first four months of each year. The payment options provided in the 2006 early buy program included prompt payment discounts from 0.5% to 2.5% or extended payment terms from 30 to 90 days. The payment options provided in the 2005 early buy program included prompt payment discounts from 1.0% to 2.0% or extended payment terms from 45 to 90 days.

*Gross Profit.* Gross profit decreased 24.8% to \$25.2 million in the 2006 quarter from \$33.5 million in the 2005 quarter. The decrease was primarily attributable to higher unit manufacturing costs, which resulted principally from production inefficiencies and the increased cost of raw materials, particularly PE material. Gross profit as a percentage of net sales, or



## Table of Contents

gross margin, decreased to 23.9% in the 2006 quarter from 37.3% in the 2005 quarter. Gross margin was adversely affected by a decrease in production rates due to product quality initiatives and lower capacity utilization and the associated decrease in absorption of fixed manufacturing expenses, which contributed to a 13.4% decrease in gross margin. The increased cost of PE material resulted in a decrease in gross margin in the 2006 quarter of approximately 7.1% from the 2005 quarter. In addition, gross profit margin was negatively affected by higher freight costs, which contributed to a 1.0% decrease in gross margin. The negative effect of the foregoing factors on gross margin in the 2006 quarter was offset, in part, by the positive impact on gross margin of 8.3% from increased sales prices and increased sales of higher margin priced products. The Company expects to reduce interplant shipments, which contributed to the higher freight costs, as production utilization becomes more consistent across all plants.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased 7.9% to \$17.7 million in the 2006 quarter from \$19.3 million in the 2005 quarter. The lower selling, general and administrative expenses resulted principally from decreases of \$2.0 million in branding expenses, \$0.6 million in professional fees and \$0.4 million in research and development expenses. The effect of these factors was offset in part by a \$0.8 million increase in personnel costs and a \$0.3 million increase in consumer relations expenses. As a percentage of net sales, selling, general and administrative expenses decreased to 16.8% in the 2006 quarter from 21.4% in the 2005 quarter. Selling, general and administrative expenses for the full 2006 fiscal year are expected to be in the range of 20% to 22% of net sales.

*Interest Expense.* Net interest expense increased to \$1.0 million in the 2006 quarter from \$0.8 million in the 2005 quarter. The increase in net interest expense resulted from a decrease in interest capitalized on construction in process and a decrease in interest income on the Company's cash balances. The Company capitalized \$0.4 million and \$0.6 million of interest on construction in process in the 2006 and 2005 quarters, respectively. The effect of these factors was partially offset by a decrease in interest expense, which resulted from reduced average debt balances at lower effective interest rates in the 2006 quarter.

*Provision for Income Taxes.* The Company recorded a provision for income taxes of \$2.4 million in the 2006 quarter compared to a provision of \$4.9 million in the 2005 quarter. The provisions reflected an effective tax rate of approximately 37% in the 2006 quarter and approximately 36% in the 2005 quarter.

## **Liquidity and Capital Resources**

The Company finances its operations and growth primarily with cash flow from operations, borrowings under its credit facility and other loans, operating leases and normal trade credit terms from operating activities in the 2006 quarter.

*Sources and Uses of Cash.* The Company's cash used in operating activities for the 2006 quarter was \$3.5 million compared to \$21.7 million for the 2005 quarter. Cash flows used in operating activities for the 2006 quarter were positively affected by an increase in accounts payable and accrued expenses and a reduction in inventories and income taxes receivable. The positive effect of the foregoing factors on cash flows was offset by the negative impact of a reduction in profitability. Accounts payable increased \$12.6 million from December 31, 2005 to March 31, 2006 compared to a \$5.3 million increase from December 31, 2004 to March 31, 2005. The increase in accounts payable resulted from the timing of payments for raw materials. In the 2006 quarter, accrued expenses increased \$1.0 million compared to a decrease of \$2.0 million in the 2005 quarter. The increase in accrued expenses principally resulted from the timing of interest payments and marketing expenses. The Company's inventories, including raw materials and finished goods, decreased \$7.3 million from \$56.9 million at December 31, 2005 to \$49.6 million at March 31, 2006 compared to a decrease of \$5.6 million from \$44.4 million at December 31, 2004 to \$38.8 million at March 31, 2005. Accounts receivable increased \$41.3 million from \$12.4 million at December 31, 2005 to \$53.6 million at March 31, 2006 compared to an increase of \$46.9 million from \$21.9 million at December 31, 2004 to \$68.8 million at March 31, 2005. The higher accounts receivable at December 31, 2004 resulted from the extended payment terms offered to customers in the fourth quarter of 2004 to facilitate new product introductions and to provide additional incentives to customers to meet early season demand. The Company did not offer this type of program in the fourth quarter of 2005. The days of sales outstanding decreased from 69 for the 2005 first quarter to 46 for the 2006 first quarter. The decrease in the use of cash in the 2006 quarter to support accounts receivable was attributable to a higher proportion of customers choosing the early buy prompt payment discount. The early buy payment options provided in the 2006 early buy program included prompt payment discounts from 0.5% to 2.5% or extended payment terms from 30 to 90 days. The payment options provided in the 2005 early buy program included prompt payment discounts from 1.0% to 2.0% or extended payment terms from 45 to 90 days. Net income in the 2006 quarter decreased 49.6%, or \$4.2 million, from the 2005 quarter.

The Company's cash used in investing activities totaled \$2.4 million in the 2006 quarter, compared to cash used in investing activities of \$4.1 million in the 2005 quarter. In the 2006 quarter, the Company applied its expenditures primarily to the purchase of plastic reprocessing and additional embossing equipment.

The Company's cash provided by financing activities was \$5.4 million in the 2006 quarter compared to cash provided by financing activities of \$2.3 million in the 2005 quarter. In the 2006 quarter, the Company's net borrowings were \$5.9 million under its revolving credit facility. The use

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of these borrowings to meet cash requirements was necessitated by the extended customer payment terms offered as incentives to distributors and dealers.

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## **Table of Contents**

*Indebtedness.* At March 31, 2006, the Company's indebtedness totaled \$80.1 million and the annualized overall weighted average interest rate of such indebtedness, including the effect of the Company's interest rate swaps, was approximately 6.6%.

The Company's ability to borrow under its revolving credit facility is tied to a borrowing base that consists of certain receivables and inventories. At March 31, 2006, the borrowing base was \$72.6 million and \$10.0 million of borrowings were outstanding under the facility.

*Debt Covenants.* To remain in compliance with its credit facility, senior note and bond loan document covenants, the Company must maintain specified financial ratios based on its levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization. At March 31, 2006, the Company was in compliance with these covenants.

*Capital Requirements.* The Company made capital expenditures in the 2006 quarter totaling \$2.4 million, primarily to purchase raw material reprocessing and additional embossing equipment. The Company currently estimates that its capital requirements in 2006 will be \$20 to \$30 million. The Company expects that it will continue to make significant capital expenditures in subsequent years as the Company expands its manufacturing operations in order to meet the anticipated increase in the demand for Trex.

At March 31, 2006, the Company had a total of approximately \$0.9 million of cash and cash equivalents. The Company believes that cash on hand, cash flow from operations and borrowings expected to be available under the Company's existing revolving credit facility will provide sufficient funds to enable the Company to fund its planned capital expenditures, make scheduled principal and interest payments, meet its other cash requirements and maintain compliance with terms of its borrowing agreements for at least the next 12 months. Thereafter, significant capital expenditures may be required to provide increased capacity to meet the expected growth in demand for the Company's products. The Company currently expects that it will fund its future capital expenditures from operations and financing activities. The actual amount and timing of the Company's future capital requirements may differ materially from the Company's estimate depending on the demand for Trex and new market developments and opportunities. The Company may determine that it is necessary or desirable to obtain financing for such requirements through bank borrowings or the issuance of debt or equity securities. Debt financing would increase the Company's level of indebtedness, while equity financing would dilute the ownership of the Company's stockholders. There can be no assurance as to whether, or as to the terms on which, the Company would be able to obtain such financing.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* The Company's management, with the participation of its Chief Executive Officer, who is the Company's principal executive officer, and its Senior Vice President and Chief Financial Officer, who is the Company's principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2006.

As previously disclosed under Item 9A. Controls and Procedures in our Annual Report on Form 10-K for our 2005 fiscal year, as amended on Form 10-K/A, our management identified a material weakness in our internal control over financial reporting as of December 31, 2005. Management concluded that the Company did not have a sufficient complement of personnel with knowledge of and experience in the Company's financial reporting processes or with adequate technical expertise in the application of U.S. generally accepted accounting principles and in resolving non-routine or complex accounting matters. As a result, the review of the accounting for certain transactions and the reconciliation of certain accounts was not appropriately completed on a timely basis, which resulted in errors in the recording of certain expenses (including cost of sales, selling, general and administrative expenses, and interest expense) and the related accounts payable and accrued expenses, errors in recording cash disbursements, errors in accounts receivable and inventory valuation, errors in cost capitalization and the related depreciation, and errors in income taxes as well as errors in the preparation of financial statement disclosures.

In 2006 and into 2007, we added additional accounting, finance and information technology staff members at our headquarters and plant locations and implemented a series of new internal control procedures to improve the effectiveness of our transaction processing and our financial statement close processes. In addition to these enhancements, we have provided training regarding effective review and approval procedures to the appropriate personnel. The additional personnel and process enhancements contributed to the discovery in 2006 of additional errors that led to management's determination that restatement of the prior period financial statements was warranted. There can be no assurance at this time that the actions taken to date will effectively remediate the material weakness referred to above. Accordingly, the material weakness in our internal control over financial reporting that existed as of December 31, 2005, as described above and as disclosed in Item 9A of our Amended 2005 10-K, had not yet been remediated as of March 31, 2006. Our Chief Executive Officer and our Senior Vice President and Chief Financial Officer have concluded that, as a result of the foregoing material weakness in our internal control over financial reporting, our disclosure controls and procedures were not effective as of March 31, 2006.

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We are continuing to closely monitor the effectiveness of our processes, procedures and controls, and will make any further changes as management determines appropriate.

*Changes in Internal Control Over Financial Reporting.* Except in connection with actions we are taking to remediate the material weakness in our internal control financial reporting discussed above there was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Accordingly, the material weakness in our internal control over financial reporting that existed as of December 31, 2005, as described above and as disclosed in Item 9A of our Amended 2005 10-K, had not yet been remediated as of March 31, 2006.

**Table of Contents**

**PART II**

**OTHER INFORMATION**

**Item 6. Exhibits**

The Company files herewith the following exhibits:

31.1 Certification of Chief Executive Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

31.2 Certification of Senior Vice President and Chief Financial Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32. Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TREX COMPANY, INC.**

Date: March 19, 2007

By: /s/ Paul D. Fletcher  
Paul D. Fletcher  
Senior Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)