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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2003

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)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

160 Exeter Drive, Winchester, Virginia  
(Address of principal executive offices)

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

22603-8605  
(Zip Code)

(540) 542-6300

Registrant's telephone number, including area code:

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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### Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common Stock

Name of each exchange on which registered:

New York Stock Exchange

### Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at June 30, 2003, based on the closing price of such stock on the New York Stock Exchange on such date, was approximately \$325 million.

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding on February 27, 2004 was 14,708,608.

### DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the proxy statement for the 2004 annual meeting of stockholders of the registrant is incorporated by reference into Part III hereof.

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**SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS**

This report, including the information it incorporates by reference, 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 “Business—Risk Factors” in this report.

## PART I

Some of the information contained in this report concerning the markets and industry in which we operate is derived from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources are reliable, we have not independently verified the accuracy of any of this information.

### Item 1. Business

#### General

Trex Company, Inc., which we sometimes refer to as the “company” in this report, is the nation’s largest manufacturer of non-wood decking alternative products, which are marketed under the brand name Trex®. Trex Wood-Polymer® lumber is a wood/plastic composite that offers an attractive appearance and the workability of wood without wood’s on-going maintenance requirements and functional disadvantages. Trex is manufactured in a proprietary, partially patented process that combines waste wood fibers and reclaimed polyethylene and is used primarily for residential and commercial decking. We promote Trex among consumers and contractors as a premium-decking product.

We seek to achieve sales growth in the decking market by converting demand for wood decking products into demand for Trex. We estimate the wood segment of the market represents approximately 91% of the decking market, as measured by board feet of lumber. We intend to continue to develop and promote the Trex brand name as a premium-decking product and to primarily focus on the contractor-installed market segment. Contractors generally build larger, more elaborate residential decks than decks built by homeowners in the “do-it-yourself” market segment. As of December 31, 2003, we sold our products through approximately 90 wholesale distribution locations, which in turn sold Trex to approximately 3,300 dealer outlets across the United States and Canada.

#### Decking Market Overview

The decking market is part of the substantial home improvement market. Expenditures for residential improvements and repairs totaled approximately \$164 billion in 2002, according to Harvard University’s Joint Center for Housing Studies, and grew at a compound annual growth rate of 4% for the five-year period ended December 31, 2002.

The primary market for Trex is residential decking and, to a lesser extent, commercial decking. We estimate that annual factory sales in 2002 of residential decking totaled approximately \$2.0 billion, or approximately 2.9 billion board feet of lumber. Our estimate includes sales of deck surface and railing products and excludes sales of products used for a deck’s substructure, such as joists, stringers, beams and columns. For the three-year period ended December 31, 2002, we estimate factory sales of all residential decking, as measured by board feet of lumber, increased at a compound annual growth rate of approximately 3%. For the same three-year period, we estimate factory sales of non-wood alternative decking products to the residential market increased at a compound annual growth rate of over 40%.

The growth in demand for residential decking reflects the increasing popularity of decks as a means of extending living areas and providing outdoor recreation and entertainment spaces. Residential decking purchases include the installation of new and replacement decks for existing homes, construction of decks for new homes and repair of existing decks. An industry study estimates that more than three million decks are built each year. We expect that deck repair, modernization and replacement will increase as existing decks age.

The majority of decks are built for existing homes as new additions or to replace older decks. During periods of economic uncertainty, when spending on discretionary items is reduced, many

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homeowners forego the purchase of new homes and choose to improve their existing residences. Adding a deck has become one of the most popular home improvement projects. Construction of a deck is a relatively low-cost means of adding livable space, and industry studies indicate that decking improvements generally return a significant percentage of their cost at the time of resale. We estimate that the installed cost of a majority of decks ranges from \$15 to \$20 per square foot, which is significantly less than the cost of a typical interior construction project. We believe that, because residential deck construction is not primarily tied to new home activity, the residential decking market historically has not experienced the high level of cyclicity common to businesses in the new home construction and building materials industries.

The following table shows, in board feet of lumber, our estimate of the percentage of 2002 factory sales to the decking market generated by each product category listed:

<u>Product</u>	<u>Percentage of 2002 Factory Sales</u>
Wood	91%
Wood/plastic composites	8
100% plastic	1
	<hr/>
	100%

Approximately 85% of the lumber used in wooden decks is southern yellow pine or fir, which is pressure-treated with pesticides and other chemicals to create resistance to insect infestation and decay. The balance of the wood-decking segment is primarily divided between redwood and cedar products. The 100% plastic decking products utilize polyethylene, fiberglass and polyvinyl chloride, or PVC, as raw materials. Wood/plastic composites are produced from a combination of wood fiber and polyethylene, or PVC. Growing consumer awareness of the product attributes of non-wood decking alternatives and the decline in lumber quality and quantity have contributed to increased sales of wood/plastic composites and 100% plastic lumber for decking. In 2002, the Environmental Protection Agency, or EPA, announced an agreement under which manufacturers were required to phase out voluntarily by December 2003, the use in the production process of chromated copper arsenate, or CCA, an EPA-registered pesticide. We believe that the publicity relating to this agreement will contribute to increases in sales of wood/plastic composites and 100% plastic lumber for decking by raising consumer awareness of active chemicals in pressure-treated lumber.

Distributors of wood decking materials typically sell to lumber yards and home centers, which in turn supply the materials to homebuilders, contractors and homeowners. Manufacturers of non-wood decking alternatives also generally use these distribution channels because many of these alternative products can be stacked, stored and installed like wood products.

Wood decking products generally are not associated with brand identification. The primary softwoods used for decking, which consist of treated southern yellow pine, treated fir, redwood and cedar, are sold as commodities graded according to classifications established by the U.S. Department of Commerce. Pricing is based on species, grade, size and level of chemical treatment, if any. There generally is no pricing differentiation based on brand, although some wood preservers have attempted to brand their treated wood products. We believe that these companies, which we estimate represent less than 5% of the treated wood market, have not established meaningful brand name recognition.

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### **Growth Strategies**

Our long-term goals are to continue to be the leading producer of a superior non-wood decking alternative product, to increase our market share of the decking market and to expand into new products and geographic markets. To attain these goals, we intend to employ the following long-term strategies:

- increase our investment in, and the resources devoted to, development of the Trex brand;
- expand comprehensive national coverage for Trex by increasing the number of dealer outlets selling Trex;
- increase our output of Trex by increasing productivity and adding production capacity in our existing facilities in Winchester, Virginia and Fernley, Nevada and by establishing additional manufacturing locations; and
- continue making investments in process and product development to support new products and improve product consistency, reduce manufacturing costs and increase operating efficiencies.

### **Products**

We manufacture Trex Wood-Polymer lumber in a proprietary process that combines wood fibers and polyethylene. Trex is produced in popular lumber sizes and is currently sold in five colors: Natural, Winchester Grey, Madeira, Woodland Brown and Saddle.

In 2003, we extended our offering of decking products with the launch of the Trex Accents™ line of products, which feature a wood grain on the board surface for a rich, natural look. These new products join the Trex Origins™ line, which features a smooth, refined surface. We also expanded distribution of a pyramid-style post cap product and began offering post skirts and a new shaped handrail. These new railing components provide consumers with a stylish, all-Trex railing system. With the decking, railing, and trim pieces that we currently offer, all exposed surfaces of a deck can now be constructed of Trex products.

Trex offers a number of significant advantages over wood decking products. Trex eliminates many of wood's major functional disadvantages, which include warping, splitting and other damage from moisture. Trex requires no sealing to protect against moisture damage, provides a splinter-free surface and needs no chemical treatment against rot or insect infestation. These features of Trex eliminate most of the on-going maintenance requirements for a wood deck and make Trex less costly than wood over the life of the deck. Like wood, Trex is slip-resistant, even when wet, can be painted or stained and is less vulnerable to damage from ultraviolet rays. The special characteristics of Trex, including resistance to splitting, the ability to bend, and ease and consistency of machining and finishing, facilitate deck installation, reduce contractor call-backs and afford customers a wide range of design options. Trex does not have the tensile strength of wood and, as a result, is not used as a primary structural member in posts, beams or columns used in a deck's substructure.

Trex has received product building code listings from the major U.S. and Canadian building code listing agencies for both our decking and railing systems. Our listings facilitate the acquisition of building permits by residential consumers of Trex. We believe that our listings promote customer and industry acceptance of Trex as a substitute for wood in decking.

### **Sales and Marketing**

We have a dedicated sales force that works with all levels of our distribution system. During 2003, we increased our sales force from 43 to 46 company employees to assist in the "pull through" sales of our products. We expect to continue to expand our sales force as needed to further these efforts.

We have invested approximately \$36 million during the last three years to develop Trex as a recognized brand name in the residential and commercial decking market. Our sales growth in the decking market will largely depend on our success in converting demand for wood products into demand for Trex. Accordingly, our branding strategy will continue to emphasize the advantages of Trex over wood decking,

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fencing and accessory products. We have implemented a two-pronged marketing program directed at consumers and contractors. We seek to develop consumer brand awareness and contractor preference to generate demand for Trex among dealers and distributors, who then recommend Trex to other contractors and consumers. We believe that our branding strategy promotes product differentiation of Trex in a market, which is not generally characterized by brand identification and enables us both to command premium prices and to maintain price stability for Trex.

The following are the key elements of our marketing program:

*Consumer Advertising.* We advertise Trex decking in popular home and garden consumer publications, including *This Old House*, *Southern Living* and *Better Homes and Garden*. Several of these publications feature “idea” homes each year that incorporate leading building materials. Trex decking was featured in three of these idea homes in 2003.

*Public Relations.* We employ a public relations firm to stimulate interest in Trex decking by the print and broadcast media. During 2003, print and broadcast stories featuring Trex decking generated approximately 450 million “impressions,” which represent potential viewings, compared to 380 million impressions in 2002. Major newspapers featuring articles on Trex included *The New York Times*, *Chicago Tribune*, and *The Washington Post*. Trex also received television coverage on the PBS shows “Hometime” and “Ask This Old House” and on the CBS “Early Show,” “The Today Show,” the Weather Channel and Global TV of Canada. An interview with Trex personnel at the International Builder Show was also featured on the “Voice of America” radio show.

*Trade Advertising and Promotion.* To build a brand name for Trex with decking contractors, we reach a professional building audience through advertisements in leading building and remodeling magazines, including *Builder*, *Remodeler*, *Fine Homebuilding*, *Architectural Record* and other well-known publications. In 2002, we initiated an incentive program for deck builders, which rewards contractors for their purchases of Trex decking. On December 31, 2003, there were over 2,500 members enrolled in this program.

*Homebuilder Focus.* Our marketing program targets major homebuilders in different regions of the country. We operate a program that is designed to provide promotional allowances and display materials to homebuilders who use Trex for their model home decks and agree to promote Trex. More than 300 Trex decks were built for model homes in 2003.

*Trade and Home Shows.* We annually exhibit Trex decking at approximately 12 national or regional trade shows for homebuilders, contractors and specifiers that have a total attendance of over 300,000. We also exhibit our product line at major regional home and garden shows. Distributors, dealers and contractors experienced in Trex decking provide additional support by exhibiting Trex decking at smaller, local home shows.

*Showcase Projects.* We also obtain brand name recognition through our association with highly publicized showcase projects. Trex decking was used in a number of new projects in 2003, including military base housing at Fort Wainwright in Alaska, docks on Lake Meade in Nevada, walkways and decks at Paramount Studios in Los Angeles, California and decking at an Alexandria, Virginia historical museum. Other showcase projects include the dock and walk at Disney Saratoga Springs, California, a deck at the Palm Desert Common Center in Palm Desert, California, and the Cheesecake Factory in Marina Del Ray, California, and a dune and walkway in Cape Cod National Seashore in Wellfleet, Massachusetts.

*Marketing Research.* During 2003, Trex was featured in three marketing research studies related to decking commissioned by leading trade publications. *Professional Remodeler*, *Professional Builder* and *Builder Magazine* readership surveys all reported that the company maintained its significant advantage over all other alternative decking manufacturers in the areas of brand awareness, preference, and usage.

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The company also commissions its own research studies, which indicated that in 2003 overall consumer awareness of Trex increased significantly, and that Trex's lead over other brands in consumer awareness continued to widen.

### **Distribution**

In 2003, we generated approximately 99% of our net sales through our wholesale distribution network by selling our Trex product line to approximately 25 wholesale companies operating from approximately 90 distribution locations. At the same date, our distributors marketed Trex to approximately 3,300 dealer outlets across the United States and Canada. Although our dealers sell to both homeowners and contractors, they primarily direct their sales at professional contractors, remodelers and homebuilders.

*Wholesale Distributors.* We believe that attracting wholesale distributors that are committed to Trex and the Trex marketing approach and that can effectively sell Trex to contractor-oriented lumber yards is important to our future growth. Our distributors are able to provide value-added service in marketing Trex because they sell premium wood decking products and other building supplies, which typically require product training and personal selling efforts.

Under our agreement with each wholesale distributor, we appoint the distributor on a non-exclusive basis to distribute Trex within a specified area. The distributor generally purchases Trex at our prices in effect at the time we ship the product to the distributor. The distributor is required to maintain specified minimum inventories of Trex. Upon the expiration of the initial one-year term, the agreement is automatically renewed for additional one-year terms unless either party provides notice of termination at least 30 days before the expiration of any renewal term. Either party may terminate the agreement at any time upon 30 days' notice, while we may also terminate the agreement immediately upon the occurrence of specified events.

We require our wholesale distributors to devote significant resources to support Trex. All wholesale distributors are required to appoint a Trex specialist, regularly conduct dealer-training sessions, fund demonstration projects and participate in local advertising campaigns and home shows.

Approximately 78%, 77% and 77% of our net sales for the years ended December 31, 2001, 2002 and 2003, respectively, were to the following five wholesale distributors: Boise Cascade Corporation, Capital Lumber Company, Oregon Pacific Corporation, Parksite Plunkett-Webster and Snavely Forest Products. In 2001 and 2002, our sales to all five of the foregoing distributors exceeded 10% of our net sales, while in 2003, our sales to four of the foregoing distributors exceeded 10% of our net sales. One distributor individually accounted for more than 23% of our net sales in 2003. In 2001 and 2002, none of such distributors individually accounted for more than 21% of our net sales.

To augment our dealer outlets, we plan to add new distributors and increase the number of our wholesale distribution locations.

*Retail Lumber Dealers.* Of the approximately 25,000 retail outlets in the United States that sell lumber, approximately 5,000 are independent lumber yards that emphasize sales to contractors and are the primary market for Trex. Although there is demand for Trex from both the "do-it-yourself" homeowner and contractor, our sales efforts emphasize the contractor-installed market to achieve premium product positioning for Trex and to help ensure that the installations will have professional craftsmanship. Our retail dealers generally provide sales personnel trained in Trex, contractor training, inventory commitment and point-of-sale display support. To increase comprehensive national coverage for Trex, we plan to increase the number of dealer outlets stocking Trex products.

*Contractor/Dealer Locator Service and Web Site.* We maintain a toll-free telephone service (1-800-BUY-TREX) for use by consumers and building professionals to locate the closest contractors and

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dealers offering Trex and to obtain product information. We use these calls to generate sales leads for contractors, dealers, distributors and Trex sales representatives. We also analyze caller information to assess the effectiveness of our promotional and advertising activities.

As an additional source of information to consumers, dealers and distributors, we operate a web site ([www.trex.com](http://www.trex.com)), which provides product installation information, handling instructions, a contractor locator service, a dealer locator service, photographs of showcase installations, technical reports and other information.

*Contractor Training.* We have provided training about Trex to more than 40,000 contractors since 1995. Contractors receive a Trex Contractor Kit containing a product handbook, sales literature and product samples as part of their training. We have established an association of top contractors who receive training and have the quality of their work reviewed by a Trex representative. These contractors receive consumer lead referrals directly from our toll-free telephone service and are listed on our web site.

*Shipment.* We ship Trex to distributors by truck and rail. Distributors pay all shipping and delivery charges.

### **Manufacturing Process**

Trex is manufactured at two sites. The company's Winchester, Virginia site has floor space of approximately 265,000 square feet and had 12 production lines installed at December 31, 2003. The company's Fernley, Nevada site has floor space of approximately 250,000 square feet and had seven production lines installed at the same date.

In 2003, based on 2003 average net sales per pound, our Winchester site produced approximately \$138.8 million sales value of finished product and our Fernley site produced approximately \$87.1 million sales value of finished product. Total annual production capacity at December 31, 2003 was approximately \$265.0 million sales value of finished product. As of December 31, 2003, our construction in process totaled approximately \$19.6 million. The construction in process consisted primarily of three production lines in various stages of completion at our Winchester and Fernley sites and plastic reprocessing equipment. We currently expect that the production lines in process will be completed and put into service by mid-2005. When the construction in process is completed, we estimate our Winchester and Fernley sites will be capable of producing a total of approximately \$300.0 million sales value of finished product annually.

In 2004, the company expects to expend approximately \$15 to \$22 million to acquire land, commence construction of a facility and purchase equipment for a third manufacturing site near Olive Branch, Mississippi. Completion of a third site will require substantial capital expenditures in 2004 and subsequent years.

Trex is manufactured from waste wood fiber and polyethylene, which we sometimes refer to as "PE" in this report. The composition of Trex Wood-Polymer lumber is approximately 50% wood fiber and 50% PE material. We use wood fiber purchased from woodworking factories, mills and pallet recyclers. PE material used in the production of Trex consists primarily of recovered plastic bags and stretch film.

The Trex manufacturing process involves mixing wood particles with plastic, heating and finally extruding, or forcing, the highly viscous and abrasive material through a profile die. We cool the extruded product in a water bath and cut the product to its finished length. We recycle into the production process the waste created during manufacturing. The finished boards are placed on a cooling conveyor and proceed to finished goods inspection, packaging and storage.

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Production of a non-wood decking alternative like Trex requires significant capital investment, special process know-how and time to develop. We and our predecessor operations have invested approximately \$178 million and 12 years in expansion of our manufacturing capacity, manufacturing process improvements, new product development and product enhancements. As a result of these investments, production line rates have increased more than 200% since 1992. We also have broadened the range of raw materials that can be used to produce Trex by developing hardware capable of utilizing different forms of PE material to produce a consistent final product. We have obtained two patents for complementary methods of preparing the raw materials for the manufacturing phase of production, one patent on an apparatus for implementing one of the methods, and one patent on a tool for use with the decking board. We are in the process of obtaining two more patents directed to apparatuses that include improvements in the manufacturing process, one patent directed to an improved method, and one patent that covers our principal product. The company intends to maintain the patents in effect until they expire, beginning in 2015. We have centralized our research and development operations in the Trex Technical Center, a 30,000-square foot building adjacent to our Winchester, Virginia manufacturing facilities.

In connection with our building code listings, we maintain a quality control testing program that is monitored by an independent inspection agency. Under this program, we test one Trex board from every other production bundle to determine whether it meets the detailed, published criteria for code listing. Representatives of the inspection agency conduct unannounced monthly on-site audits of these program records to assure conformity to testing and to check test results.

### **Suppliers**

The production of Trex requires the supply of wood fiber and polyethylene. We purchased \$10.7 million of wood fiber and \$46.7 million of polyethylene in 2003 and \$5.9 million of wood fiber and \$27.3 million of polyethylene in 2002.

We fulfill our requirements for raw materials under both purchase orders and supply contracts. In 2003, we purchased approximately 66% of our polyethylene requirements and approximately 44% of our wood fiber requirements under purchase orders. Purchase orders specify the prices we pay based on then current market prices and do not involve long-term supply commitments. We are also party to supply contracts that obligate us to purchase wood fiber and polyethylene for terms that range from one to eight years. The prices under these contracts are generally fixed annually based on then-current market prices.

Our wood fiber and polyethylene supply contracts have not had any material adverse effect on our business. In our past three fiscal years, the amounts we have been obligated to purchase under our polyethylene supply contracts and the minimum amounts we have been required to purchase under our wood supply contracts have been less than the amounts of these materials we have needed for production. To meet all of our production requirements, we have obtained additional polyethylene and wood fiber materials by using purchase orders and by purchasing wood fiber in excess of the minimum commitments under our supply contracts.

*Wood Fiber.* Woodworking plants or mills are our preferred suppliers of wood fiber because the waste wood fiber produced by these operations contains little contamination and is low in moisture. These facilities generate wood fiber as a byproduct of their manufacturing operations. To minimize our purchase costs, we seek to provide the manufacturing facilities with prompt and reliable removal service using equipment we furnish.

If the wood fiber meets our specifications, our wood fiber supply contracts generally require us to purchase at least a specified minimum and at most a specified maximum amount of wood fiber each year. Depending on our needs, the amount of wood fiber that we actually purchase within the specified range under any supply contract may vary significantly from year to year.

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Two suppliers accounted individually for more than 10% and collectively for approximately 43% of our 2003 wood fiber purchases. Based on our discussions with wood fiber suppliers and our analysis of industry data, we believe that, if our contracts with one or more of our current suppliers were terminated, we would be able to obtain adequate supplies of wood fiber at an acceptable cost from our other current suppliers or from new suppliers.

*PE.* The PE material we consumed in 2003 was primarily composed of recovered plastic bags and stretch film. Approximately two billion pounds of PE film are used in the manufacture of plastic bags and stretch film in the United States each year. We will increasingly seek to meet our future needs for PE material from expansion of our existing supply sources and the development of new sources, including post-industrial waste and plastic paper laminates.

In 2001, we developed a new source of PE material through our participation in a joint venture, Denplax S.A. that operates a plant in El Ejido, Spain. We own 35% of the joint venture. Our joint venture partners are a local Spanish company responsible for public environmental programs in southern Spain and an Italian equipment manufacturer. The plant is designed to recycle waste polyethylene generated primarily from agricultural and post-consumer sources. The plant delivered approximately \$5.5 million of plastic raw material to us during 2003. Under a separate supply agreement, we have agreed to purchase up to 27,200 tons of the plant's production per year if the production meets certain material specifications.

To facilitate our PE processing operations, we have constructed our own plastic reprocessing plant on our manufacturing site in Winchester, Virginia. In 2003, this plant was completed and put into service.

We purchase plastic bags primarily from large grocery supermarket chains, which have recycling programs that facilitate and encourage plastic bag returns. Approximately 5% of all plastic bags nationwide are returned. The existing industry practice is for reclaimed bag purchasers, such as the company, to absorb freight and handling costs after the bags are picked up from the chains' distribution centers. We pick up the plastic bags at the distribution centers and store the bags in warehouses until we use them in our production process.

Stretch film is used to stabilize pallet loads to avoid damage during shipping and handling. We collect stretch film from distribution centers that service the grocery and other industries, including the furniture, machinery, parts and soft goods industries. Suppliers of stretch film save on waste disposal costs by selling us the bundled film.

Our polyethylene supply contracts generally provide that we are obligated to purchase all of the polyethylene a supplier provides if the polyethylene meets our specifications. Our polyethylene supply contracts have not required us, and we do not believe that they will require us, to purchase any amount of polyethylene in excess of our total estimated need.

Excluding Denplax S.A., no supplier provided 10% or more of the PE material we purchased in 2003.

## **Competition**

Trex competes with wood, other wood/plastic composites and 100% plastic lumber for use as decking.

The primary competition for Trex is wood decking, which we estimate accounted for approximately 91% of 2002 decking sales, as measured by board feet of lumber. The conventional lumber suppliers with which we compete in many cases have established ties to the building and construction industry and have well-accepted products. Many of our competitors in the decking market that sell wood products have significantly greater financial, technical and marketing resources than we do.

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Approximately 85% of the lumber used in wooden decks is pressure-treated southern yellow pine or fir. Southern yellow pine is used for decking because its porosity allows it readily to accept the chemicals used in the treating process that creates resistance to rotting and insect infestation. The same porosity makes southern yellow pine susceptible to taking on moisture, which causes the lumber to warp, crack, splinter and expel fasteners. The primary chemical compound used to treat wood historically has been CCA. In 2002, EPA announced an agreement under which manufacturers were required to phase out voluntarily by December 2003 the use of CCA in the production process. Other chemical preservatives, which are beginning to replace CCA, are more costly and have a limited history upon which to base claims of efficacy and safety. The balance of the wood-decking segment is primarily divided between redwood and cedar, with some amounts of treated fir and exotic hardwoods. Because old, slow-growth timber has been depleted, new, fast-growth varieties predominate. These varieties do not have the natural decay resistance or close rings of old, slow-growth timber, causing them to be more susceptible to rotting, insect infestation, splintering and warping.

We estimate that wood/plastic composites accounted for approximately 8% of 2002 decking sales, as measured by board feet of lumber. There are more than 25 manufacturers of wood/plastic composite lumber in addition to our company. Many of these manufacturers participate in the decking market only on a limited basis.

Trex also competes with decks made from 100% plastic lumber that utilizes polyethylene, fiberglass and PVC as raw materials. Although there are several companies in the United States that manufacture 100% plastic lumber, we estimate that this segment accounted for approximately 1% of 2002 decking sales, as measured by board feet of lumber. We believe a number of factors have limited the success of 100% plastic lumber manufacturers, including a less efficient manufacturing process, poor product aesthetics, and physical properties not considered suitable for decking, such as higher thermal expansion and contraction and poor slip resistance.

We estimate that Trex currently represents approximately 50% of the non-wood segment of the decking market. Our principal competitors in that market segment include Advanced Environmental Recycling Technologies, Inc., CertainTeed Corporation, Epoch Composite Products, Inc., Louisiana-Pacific Corporation, Timbertech Limited and Fiber Composites, LLC.

Our ability to compete depends, in part, on a number of factors outside our control, including the ability of our competitors to develop new non-wood decking alternatives that are competitive with Trex.

We believe that the principal competitive factors in the decking market include product quality, price, maintenance cost and consumer awareness of product alternatives. We believe we compete favorably with respect to these factors based on the low maintenance requirements and other attributes of Trex compared to wood and 100% plastic products, the Trex brand name and our extensive distribution network.

The following chart compares particular attributes of Trex to the characteristics of treated wood and 100% plastic products:

<u>Characteristics</u>	<u>Trex</u>	<u>Treated Wood</u>	<u>100% Plastic</u>
Low moisture absorption	x		x
Splinter-free	x		x
Resistant to insect damage	x	x	x
No chemical preservatives	x		x
No splitting	x		x
No rotting	x	x	x
No warping	x		x

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No sealant required for protection	x	x
Slip resistant	x	x
Low thermal expansion/contraction	x	x
Low thermal conductivity	x	x
Good paint adhesion	x	x
Resistance to ultraviolet damage	x	x
Easy to work with	x	x

We believe that Trex offers cost advantages when compared with other types of decking materials. Although a contractor-installed Trex deck built in 2002 using a pressure-treated wood substructure generally cost 15% to 20% more than a deck made entirely from pressure-treated wood, Trex eliminates most of the on-going maintenance required for a pressure-treated deck and is, therefore, less costly over the life of the deck. We believe that our manufacturing process and utilization of relatively low-cost raw material sources also provide Trex with a competitive cost advantage relative to other wood/plastic composite and 100% plastic decking products.

### **Government Regulation**

We are subject to federal, state and local environmental regulation. The emissions of particulates and other substances from our manufacturing facilities must meet federal and state air quality standards implemented through air permits issued to us by the Department of Environmental Quality of the Commonwealth of Virginia and the Division of Environmental Protection of Nevada's Department of Conservation and Natural Resources. Our facilities are regulated by federal and state laws governing the disposal of solid waste and by state and local permits and requirements with respect to wastewater and storm water discharge. Compliance with environmental laws and regulations has not had a material adverse effect on our business, operating results or financial condition.

Our operations also are subject to work place safety regulation by the U.S. Occupational Safety and Health Administration, the Commonwealth of Virginia and the State of Nevada. Our compliance efforts include safety awareness and training programs for our production and maintenance employees.

### **Intellectual Property**

Our success depends, in part, upon our intellectual property rights relating to our production process and other operations. We rely upon a combination of trade secret, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws, to protect our proprietary rights. We have made substantial investments in manufacturing process improvements which have enabled us to increase manufacturing line production rates, facilitated our development of new products and produced improvements in the dimensional consistency, surface texture and color uniformity of Trex. We have obtained two patents for complementary methods of preparing the raw materials for the manufacturing phase of production, one patent on an apparatus for implementing one of the methods, and one patent on a tool for use with the decking board. We are in the process of obtaining two more patents directed to apparatuses that include improvements in the manufacturing process, one patent directed to an improved method, and one patent that covers our principal product. The company intends to maintain the patents in effect until they expire, beginning in 2015.

The U.S. Patent and Trademark Office has granted us federal registrations for our Trex, Trex (stylized logo), Trex Wood-Polymer, The Deck of a Lifetime, Easy Care Decking, and No Sealing No Splinters No Hassles trademarks. Federal registration of trademarks is effective for as long as we continue to use the trademarks. We consider our trademarks to be of material importance to our business plans. We do not generally register any of our copyrights with the U.S. Copyright Office, but rely on the protection afforded to such copyrights by the U.S. Copyright Act. That law provides protection to authors of original works, whether published or unpublished, and whether registered or unregistered. We enter into

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confidentiality agreements with our employees and limit access to and distribution of our proprietary information.

See “Legal Proceedings” for information about a pending lawsuit involving intellectual property to which we are a party.

### **Employees**

At December 31, 2003, we had 508 full-time employees, of whom 377 were employed in our manufacturing operations. Our employees are not covered by collective bargaining agreements. We believe that our relationships with our employees are good.

### **Web Sites and Additional Information**

The SEC maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding the company. In addition, we maintain a corporate web site at [www.trex.com](http://www.trex.com). We make available free of charge through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our web site are not a part of this report.

In February 2003, we adopted a code of conduct and ethics, which is applicable to all of our directors, officers and employees, including our Chief Executive Officer and Senior Financial Officer. This is available on our web site and in print to any stockholder who requests a copy. We also make available on our web site and in print to any stockholder who requests them copies of our corporate governance principles, and the charters of each standing committee of our board of directors. Requests for copies of these documents should be directed to Corporate Secretary, Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605. To the extent required by SEC rules, we intend to disclose any amendments to our code of conduct and ethics, and any waiver of a provision of the code with respect to the company’s directors, principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our web site referred to above within five business days following any such amendment or waiver, or within any other period that may be required under SEC rules from time to time.

### **Risk Factors**

Our business is subject to a number of risks, including the following:

#### **To grow, we will have to develop or increase market acceptance of Trex, including new products and applications.**

Our ability to grow will depend largely on our success in converting demand for wood decking products, which we estimate accounted for approximately 91% of the 2002 decking market when measured by board feet of lumber, into demand for Trex. Failure to achieve increased market acceptance of Trex, including new products and applications, will limit our prospects for growth. To increase our market share, we must overcome:

- the low consumer awareness of non-wood decking alternatives in general and Trex brand products in particular;
- the resistance of many consumers and contractors to change from well-established wood products;

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- the unique appearance of Trex;
- the greater initial expense of installing a Trex deck; and
- the established relationships existing between suppliers of wood decking products and contractors and homebuilders.

### **All of our sales result from one material.**

We derive all of our revenues from sales of Trex Wood-Polymer lumber. Although we have developed new Trex products and new applications for Trex since 1996, and we intend to continue this development, our product line is currently based exclusively on the composite formula and manufacturing process for Trex Wood-Polymer lumber. If we should experience any problems, real or perceived, with product quality or acceptance of Trex Wood-Polymer lumber, our lack of product diversification could have a significant adverse impact on our net sales levels.

### **We currently depend on two manufacturing sites to meet the demand for Trex.**

We currently produce Trex at two manufacturing sites, which are located in Winchester, Virginia and Fernley, Nevada. Any interruption in the operations or decrease in the production capacity of either of these sites, whether because of equipment failure, fire, natural disaster or otherwise, would limit our ability to meet existing and future customer demand for Trex.

### **Our business is subject to risks in obtaining the raw materials we use to produce Trex.**

The production of Trex requires substantial amounts of wood fiber and polyethylene. Our business could suffer from the termination of significant sources of raw materials, the payment of higher prices for raw materials or the failure to obtain sufficient additional raw materials to meet planned increases in production capacity. In 2003, two suppliers accounted individually for more than 10% and collectively for approximately 43% of our wood fiber purchases. Our ability to obtain adequate supplies of polyethylene depends on our success in developing new sources, entering into long-term arrangements with suppliers and managing the collection of supplies from geographically dispersed distribution centers. We obtain our raw materials under supply contracts at prices established annually based on then-current market prices or under purchase orders based on market rates in effect when the orders become effective. These supply arrangements subject us to risks associated with fluctuations in raw materials prices.

### **The demand for decking products is influenced by general economic conditions and could be adversely affected by economic downturns.**

The demand for decking products is correlated to changes in the level of activity in home improvements and, to a lesser extent, new home construction. These activity levels, in turn, are affected by such factors as consumer spending habits, employment, interest rates and inflation. An economic downturn could reduce consumer income available for spending on discretionary items such as decking, which could adversely affect the demand for our products.

### **We face risks in increasing our production levels to meet customer demand for Trex.**

To support sales growth and improve customer service, we plan to acquire land and commence construction of a facility and purchase equipment for a third manufacturing site near Olive Branch, Mississippi. In increasing production capacity in our existing sites and establishing a new site, we will face risks:

- recruiting and training additions to our workforce;

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- installing and operating new production equipment;
- purchasing raw materials for increased production requirements; and
- maintaining product quality.

These risks could result in substantial unanticipated delays or expense, which could adversely affect our operating performance.

### **The expansion and future profitability of our business could be adversely affected if we do not manage our growth effectively.**

Our recent growth has placed significant demands on our management, systems and other resources. Our net sales increased to \$191.0 million in 2003 from \$23.8 million in 1996. The number of dealer outlets selling Trex has increased to approximately 3,300 at December 31, 2003 from approximately 1,200 at December 31, 1996, and we expect further increases in the future. We plan to support our geographic expansion by acquiring and commencing engineering for a facility at a third manufacturing site. As part of our growth, we will have to attract, train, incentivize and retain skilled employees. If we fail to do so, or otherwise are unable to manage our growth effectively, our inability to do so could have a material adverse effect on the quality of our products and on our ability to expand our net sales.

### **Past seasonal fluctuations in our sales and quarterly operating results may not be a reliable indicator of future seasonal fluctuations.**

Our historical seasonality may not be a reliable indicator of our future seasonality. Quarterly variations in our net sales and income from operations are principally attributable to seasonal trends in the demand for Trex. We generally experience lower net sales levels during the fourth quarter, in which holidays and adverse weather conditions in some regions usually reduce the level of home improvement and new construction activity. Income from operations and net income tend to be lower in quarters with lower sales, which are not fully offset by a corresponding reduction in selling, general and administrative expenses.

### **We have significant capital invested in construction in process, some of which we may not be able to deploy productively.**

As of December 31, 2003, our construction in process totaled approximately \$19.6 million, with an estimated cost to complete of approximately \$22.0 million. The construction in process consisted primarily of three production lines in various stages of completion at our Winchester and Fernley manufacturing sites and plastic reprocessing equipment. The estimated cost to complete the three production lines is \$5.0 million. Some of these assets may become impaired due to obsolescence or other factors before we can put them into service. Our operating results would be adversely affected if we fail to deploy productively our construction in process, and our net income would be reduced if our assets become impaired and we are required to write down the value of those assets in our financial statements.

### **We are not sure of the terms on which we will be able to obtain financing for the significant capital expenditures we plan after 2003 to increase our manufacturing capacity.**

We estimate that our capital requirements in 2004 will total approximately \$25 to \$35 million. We expect to use our capital expenditures in 2004 to make process and productivity improvements, add manufacturing capacity at existing sites, and acquire land, commence construction of a facility and purchase equipment for a third manufacturing site. Our failure to obtain sufficient funds to meet our capital requirements could have a material adverse effect on our ability to match the production of Trex with demand for our products. We expect that it may be necessary to obtain financing for our capital

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requirements through bank borrowings or the issuance of debt or equity securities. We may not be able to obtain all of the required financing on terms we will find acceptable.

**We will have to generate substantial operating cash flow to meet our obligations and maintain compliance under our revolving credit facility, real estate loans and senior secured notes.**

As of December 31, 2003, our total indebtedness related to our real estate loans and senior secured notes was \$56.6 million. Our ability to make scheduled principal and interest payments on our real estate loans and senior secured notes, borrow under our \$20 million revolving credit facility and continue to comply with our loan covenants will depend primarily on our ability to generate substantial cash flow from operations. Our failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our credit facility and notes, which may be declared payable immediately based on a credit facility default. Our ability to borrow under our revolving credit facility is tied to a borrowing base that consists of specified receivables and inventory. To remain in compliance with our credit facility and senior secured note covenants, we must maintain specified financial ratios based on our levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of our business.

**Covenants in our credit agreements and senior secured notes restrict our ability to borrow and invest, which could impair our ability to expand or finance our operations.**

Our credit agreements and senior secured notes impose operating and financial restrictions that limit our discretion on some business matters, which could make it more difficult for us to expand, finance our operations or engage in other business activities that may be in our interest. These restrictions limit our ability to:

- incur additional debt;
- pay dividends or make other distributions;
- make acquisitions, investments or other restricted payments;
- pledge or mortgage assets;
- sell assets;
- consolidate, merge or sell all or substantially all of our assets; and
- make additional capital expenditures.

Our indebtedness may limit our flexibility in responding to important business developments, which could place us at a competitive disadvantage. Our indebtedness may:

- limit our ability to obtain necessary financing in the future;
- limit our ability to fund planned capital expenditures;
- require us to use a significant portion of our cash flow from operations to pay our debt obligations rather than utilize our cash flow for other purposes, such as funding working capital or capital expenditures; and
- make us more vulnerable to a downturn in our business or in the economy in general.

**Our dependence on a small number of significant distributors makes us vulnerable to business interruptions involving these distributors.**

Our total net sales to our five largest wholesale distributors accounted for approximately 77% of our net sales in 2003. Our contracts with these distributors are terminable by the distributors upon 30 days notice at any time during the contract term. A contract termination or significant decrease or interruption in business from any of our five largest distributors or any other significant distributor could cause a short-term disruption of our operations and adversely affect our operating results.

**Our performance will suffer if we do not compete effectively in the highly competitive decking market.**

We must compete with an increasing number of companies in the wood-plastic composites segment of the decking market and with wood producers that currently have more production capacity than is required to meet the demand for decking products. Our failure to compete successfully in the decking market could have a material adverse effect on our ability to replace wood or increase the market share of wood-plastic composites compared to wood. The conventional lumber suppliers with which we compete in many cases have established ties to the building and construction industry and have well-accepted products. Many of our competitors in the decking market that sell wood products have significantly greater financial, technical and marketing resources than we do. Our ability to compete depends, in part, upon a number of factors outside our control, including the ability of our competitors to develop new non-wood decking alternatives that are competitive with Trex.

**Environmental regulation exposes us to potential liability for response costs and damages to natural resources.**

We are subject to federal, state and local environmental laws and regulations. The environmental laws and regulations applicable to our operations establish air quality standards for emissions from our manufacturing operations, govern the disposal of solid waste, and regulate wastewater and storm water discharge. As is the case with manufacturers in general, we may be held liable for response costs and damages to natural resources if a release or threat of release of hazardous materials occurs on or from our properties or any associated offsite disposal location, or if contamination from prior activities is discovered at any properties we own or operate.

**We may not have adequate protection for the intellectual property rights on which our business depends.**

Our success depends, in part, on our ability to protect our important intellectual property rights. The steps we have taken may not be adequate to deter misappropriation or unauthorized use of our proprietary information or to enable us to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. We rely on a combination of trade secret, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect our proprietary rights. We enter into confidentiality agreements with our employees and limit access to and distribution of our proprietary information. We also have obtained patent protection for some of our production processes. We or our predecessor company have been required in lawsuits to establish that our production processes and products do not infringe the patents of others. In a pending action, a plaintiff filed suit against us in December 2001 alleging that our decking products infringe the plaintiff's patent. In October 2002, a federal district court issued a final judgment finding that we do not infringe any of the plaintiff's patent claims and holding that some of the plaintiff's patent claims are invalid. In November 2002, the plaintiff appealed this judgment. In February 2004, the United States Court of Appeals for the Federal Circuit heard oral arguments on this appeal. As of the date of this report, the court had not yet issued its decision.

**Our principal stockholders can exercise a significant influence over our business.**

Our four principal stockholders, who are the founders of the company, beneficially owned approximately 38% of our outstanding common stock as of February 27, 2004. If they act in concert, these stockholders are collectively able to exercise a significant influence over our business and affairs by virtue of their voting power with respect to the election of directors and other actions requiring stockholder approval. If exercised in this manner, such voting power could discourage a third party from seeking to acquire us even if an acquisition would be beneficial to our stockholders.

**Item 2. Properties**

We lease our corporate headquarters in Winchester, Virginia, which consists of approximately 36,000 square feet of office space, under a lease, which expires in July 2011.

We own approximately 74 contiguous acres of land in Winchester, Virginia and the buildings on this land. The site includes our original manufacturing facility, which contains approximately 115,000 square feet of space, our research and development technical facility, which contains approximately 30,000 square feet of space, a mixed-use building, which contains approximately 173,000 square feet of space, and an additional manufacturing facility, which contains approximately 150,000 square feet of space. We own the land and the manufacturing facility on the Fernley, Nevada site, which contains approximately 250,000 square feet of manufacturing space. Our Fernley site is located on approximately 37 acres, which includes outside open storage.

We lease a total of approximately 352,000 square feet of storage warehouse space under leases with expiration dates ranging from 2004 to 2015.

The equipment and machinery we use in our operations consist principally of plastic and wood conveying and processing equipment. We own all of our manufacturing equipment. As of December 31, 2003, we operated approximately 70 wood trailers and approximately 50 forklift trucks under operating leases.

We regularly evaluate the capacity of our various facilities and equipment and make capital investments to expand capacity where necessary. In 2003, we spent a total of \$17.1 million on capital expenditures, primarily for process improvements, equipment and machinery to increase our production capacity. We estimate that our capital expenditures in 2004 will total approximately \$25 to \$35 million. We expect to use these expenditures to make process and productivity improvements, add manufacturing capacity at existing sites, and acquire land, commence construction of a facility and purchase equipment for a third manufacturing site.

**Item 3. Legal Proceedings**

On December 5, 2001, Ron Nystrom commenced an action against the company in the United States District Court, Eastern District of Virginia, Norfolk Division, alleging that the company's decking products infringed his patent. The company believes that this claim is without merit. The company denied any liability and filed a counterclaim against the plaintiff for declaratory judgment and antitrust violations based upon patent misuse. The company sought a ruling that the plaintiff's patent is invalid, that the company does not infringe the patent, and that the company is entitled to monetary damages against the plaintiff. On October 17, 2002, the district court issued a final judgment finding that the company does not infringe any of the plaintiff's patent claims and holding that some of the plaintiff's patent claims are invalid. The plaintiff has appealed this decision to the United States Court of Appeals for the Federal Circuit. In February 2004, the United States Court of Appeals for the Federal Circuit heard oral arguments on this appeal. As of the date of this report, the court had not yet issued its decision.

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In connection with the foregoing patent litigation, on April 12, 2002, the company filed suit in the United States District Court, Eastern District of Virginia, Alexandria Division, against ExxonMobil Corporation. The suit seeks to enforce a provision in the company's 1996 purchase agreement with Mobil Oil Corporation, pursuant to which we acquired substantially all of the assets and assumed some of the liabilities of the Composite Products Division of Mobil Oil Corporation, the predecessor of ExxonMobil Corporation. In that agreement, Mobil agreed to indemnify the company for any losses, including reasonable legal fees, incurred by the company as a result of a patent infringement claim by Mr. Nystrom. ExxonMobil has denied liability to indemnify the company for such losses. On December 10, 2002, the district court entered summary judgment in favor of the company and ordered ExxonMobil to indemnify the company for all losses, including reasonable legal fees, arising out of the patent infringement claim by Mr. Nystrom. A final judgment and determination of the total amount of damages due to the company to date has not yet been entered by the district court. Accordingly, ExxonMobil's time to appeal has not yet begun. On May 21, 2003, the district court entered an order staying final determination of total damages due to the company pending resolution of the Nystrom appeal. On February 2, 2004, the district court issued another order continuing the stay pending the resolution of the Nystrom appeal.

From time to time, we are involved in litigation and proceedings arising out of the ordinary course of our business. As of the date of this report, there are no other pending material legal proceedings to which we are a party or to which our property is subject.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to our security holders in the fourth quarter of 2003.

**PART II****Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our common stock has been listed on the New York Stock Exchange under the symbol "TWP" since April 8, 1999. The table below shows the reported high and low quarterly sale prices of our common stock during 2002 and 2003 as reported by the New York Stock Exchange:

<u>2003</u>	<u>High</u>	<u>Low</u>
First Quarter	\$38.35	\$28.20
Second Quarter	45.00	31.41
Third Quarter	40.66	29.85
Fourth Quarter	40.10	31.07
<u>2002</u>	<u>High</u>	<u>Low</u>
First Quarter	\$23.83	\$16.80
Second Quarter	33.40	23.58
Third Quarter	31.90	22.70
Fourth Quarter	38.99	21.60

As of February 27, 2004 there were approximately 235 holders of record of our common stock.

We have never paid cash dividends on our common stock. We intend to retain future earnings, if any, to finance the development and expansion of our business and, therefore, do not anticipate paying any cash dividends on the common stock in the foreseeable future. Under the terms of our senior credit facility, we may not pay cash dividends in any fiscal year in an amount that exceeds 50% of our consolidated net income, as calculated in accordance with our credit agreement, reported for the preceding fiscal year.

**Item 6. Selected Financial Data**

The following table presents selected financial data as of December 31, 1999, 2000, 2001, 2002 and 2003 and for each of the five years ended December 31, 2003.

- The selected financial data as of December 31, 2002 and 2003 and for each of the years in the three-year period ended December 31, 2003 are derived from our audited consolidated financial statements appearing elsewhere in this report.
- The selected financial data as of December 31, 1999, 2000 and 2001 and for the years ended December 31, 1999 and 2000 are derived from our financial statements, which have been audited.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto appearing elsewhere in this report.

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	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(In thousands, except share and per share data)				
<b>Statement of Operations Data: (1)</b>					
Net sales	\$ 77,570	\$ 117,568	\$ 116,860	\$ 167,079	\$ 191,008
Cost of sales	37,707	61,852	67,973	90,479	107,246
Gross profit	39,863	55,716	48,887	76,600	83,762
Selling, general and administrative expenses	18,370	23,830	31,801	42,150	46,837
Income from operations	21,493	31,886	17,086	34,450	36,925
Loss on early extinguishment of debt (5)	1,760	—	—	—	—
Interest expense, net	1,476	902	3,850	7,782	3,560
Income before income taxes	18,257	30,984	13,236	26,668	33,365
Income taxes	6,577	11,682	4,186	9,891	12,376
Net income	\$ 11,680	\$ 19,302	\$ 9,050	\$ 16,777	\$ 20,989
Basic earnings per share	\$ 0.90	\$ 1.37	\$ 0.64	\$ 1.18	\$ 1.45
Basic weighted average shares outstanding	12,848,571	14,129,652	14,145,660	14,166,307	14,522,092
Diluted earnings per share	\$ 0.90	\$ 1.36	\$ 0.64	\$ 1.16	\$ 1.43
Diluted weighted average shares outstanding	12,892,784	14,179,475	14,182,457	14,481,234	14,727,837
Historical income before income taxes (2)	\$ 20,017				
Pro forma provision for income taxes (2) (unaudited)	7,606				
Pro forma net income (2) (unaudited)	\$ 12,411				
Pro forma basic earnings per share, (2) (unaudited)	\$ 0.97				
Historical income from operations (3)	\$ 21,493				
Supplemental pro forma interest income (expense), net (3) (unaudited)	(691)				
Supplemental pro forma provision for income taxes (3) (unaudited)	7,905				
Supplemental pro forma net income (3) (unaudited)	\$ 12,897				
Supplemental pro forma basic weighted average shares outstanding (3) (unaudited)	14,117,297				
Supplemental pro forma basic earnings per share (3) (unaudited)	\$ 0.91				
<b>Cash Flow Data:</b>					
Cash flow provided by operating activities	\$ 21,405	\$ 15,407	\$ 7,004	\$ 52,964	\$ 5,628
Cash flow used in investing activities	(29,369)	(60,114)	(31,972)	(6,192)	(17,749)
Cash flow provided by (used in) financing activities	6,764	44,707	24,968	(31,879)	5,379
<b>Other Data (unaudited):</b>					
EBITDA (4)	\$ 25,937	\$ 38,755	\$ 25,709	\$ 44,039	\$ 49,464
	As of December 31,				
	1999	2000	2001	2002	2003
	(In thousands)				
<b>Balance Sheet Data: (1)</b>					
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ 14,893	\$ 8,151

Working capital	(4,181)	13,696	3,216	24,134	49,615
Total assets	79,303	156,595	184,637	183,556	210,455
Total debt	16,937	61,399	86,094	55,196	54,376
Total members'/stockholders' equity	49,401	69,041	81,985	98,775	127,206

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- (1) On August 29, 1996, TREX Company, LLC acquired substantially all of the assets and assumed some of the liabilities of its predecessor for a purchase price of approximately \$29.5 million. TREX Company, LLC had no operations before this date. On April 7, 1999, Trex Company, Inc. acquired all of the membership interests of TREX Company, LLC in a series of transactions referred to as the "reorganization." On April 13, 1999, Trex Company, Inc. completed an initial public offering of its common stock. The "company" refers to TREX Company, LLC through April 7, 1999 and to Trex Company, Inc. thereafter. Before the reorganization, the company was taxed as a partnership and accordingly did not record a provision for income taxes. Weighted average shares outstanding assumes that the 9,500,000 shares of common stock outstanding immediately after the reorganization were outstanding for all periods through April 7, 1999, that 13,500,000 shares were outstanding through May 2, 1999, that 14,115,450 shares were outstanding through July 14, 1999, that 14,118,435 shares were outstanding through October 14, 1999 and that 14,120,572 shares were outstanding through December 31, 1999.
- (2) The pro forma provision for income taxes and net income assume the company was taxed as a corporation for all periods presented at a combined effective rate of 38% and excludes one-time charges relating to the reorganization and initial public offering, including (a) a net deferred tax liability of approximately \$2.6 million and (b) a \$1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the initial public offering. Pro forma earnings per share assume the same number of shares outstanding as indicated in note (1) above.
- (3) Supplemental pro forma interest income (expense), provision for income taxes and net income (a) exclude interest expense of \$0.8 million in 1999 related to debt that was repaid with a portion of the net proceeds of the initial public offering, (b) assume the company was taxed as a corporation for all periods presented at a combined effective rate of 38% and (c) exclude one-time charges relating to the reorganization and initial public offering, including a net deferred tax liability of approximately \$2.6 million and a \$1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the initial public offering. Supplemental pro forma shares outstanding assumes that the 14,115,450 shares outstanding after the initial public offering were outstanding for all periods through July 14, 1999, that 14,118,435 shares were outstanding through October 14, 1999 and that 14,120,572 shares were outstanding through December 31, 1999.
- (4) EBITDA represents net income before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States. EBITDA may not be comparable to similarly titled measures reported by other companies. The company has included data with respect to EBITDA because management evaluates and projects the performance of the company's business using several measures, including EBITDA. Management considers EBITDA to be an important supplemental indicator of the company's performance, particularly as compared to the performance of the company's competitors, because this measure eliminates many differences among companies in financial, capitalization and tax structures, as well as some recurring non-cash and non-operating charges to net income or loss. For these reasons, management believes that EBITDA provides important supplemental information to investors regarding the operating performance of the company and facilitates comparisons by investors between the operating performance of the company and the operating performance of its competitors. Management believes that consideration of EBITDA should be supplemental, because EBITDA should not be considered an alternative to net income (loss), as calculated

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in accordance with generally accepted accounting principles, as a measure of operating performance. The following table sets forth, for the years indicated, a quantitative reconciliation of the differences between EBITDA and net income:

	Year Ended December 31,				
	1999	2000	2001	2002	2003
			(In thousands)		
Net income	\$ 11,680	\$ 19,302	\$ 9,050	\$ 16,777	\$ 20,989
Plus interest expense, net	1,476	902	3,850	7,782	3,560
Plus income taxes	7,281	11,682	4,186	9,891	12,376
Plus depreciation and amortization	5,500	6,869	8,623	9,589	12,539
EBITDA	\$ 25,937	\$ 38,755	\$ 25,709	\$ 44,039	\$ 49,464

- (5) In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," now will be used to classify those gains and losses. Under APB 30, gains and losses on early extinguishment of debt would only be classified as extraordinary if the extinguishment is considered unusual and infrequent. Effective January 1, 2003, the gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB 30 for classification as an extraordinary item will be reclassified. The impact of adoption of this statement resulted in the reclassification the loss on early extinguishment of debt from an extraordinary loss to income before extraordinary item in 1999.

**Item 7. 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 “Business—Risk Factors” in this report.

**Overview**

*General.* The company’s long-term goals are to continue to be the leading producer of a superior non-wood decking alternative product, to increase the company’s market share of the decking market and to expand into new products and geographic markets. The company’s management considers both financial and non-financial indicators and factors in measuring the company’s progress in achieving its goals and as general guides for managing the company’s operations.

Management considers growth in net sales, gross margin, selling, general and administrative expenses, and net income as key indicators of operating performance. Growth in net sales reflects the consumer acceptance of composite decking, the demand for Trex over competing products, the success of our branding strategy, the effectiveness of our distribution partners, and the strength of our dealer and contractor network. Management emphasizes gross margin as a key measure of performance because it reflects the company’s ability to accurately price its products and to effectively manage its manufacturing unit costs. Managing selling, general and administrative expenses relative to net sales is important to support profitable growth. Management considers net income to be a measure of the company’s overall financial performance.

The company manages its liquidity and capital using measures that include total debt, total cash balances, the ratio of debt to total capitalization, the ratio of debt to EBITDA, cash flow from operations and free cash flow, which management defines as cash flow from operations, plus net cash used in or provided by investing and financing activities. Management uses these measures to guide it in finding the appropriate balance between sales growth, production, investments in working capital, manufacturing capacity, capital expenditures, and available financial resources to achieve the proper level of liquidity, leverage and capitalization.

Management considers manufacturing performance and capacity, market share and distribution as key non-financial indicators. Manufacturing performance includes production line efficiency, which can lead to unit cost reductions, and product quality, which is a critical element in ensuring customer satisfaction. Management believes manufacturing capacity is a competitive advantage and supports net sales growth. Market share is a measure of performance relative to the competition and reflects product features, customer satisfaction, brand awareness, and distribution. The success of our distribution strategy is measured by the effectiveness of our distribution partners and the size of our dealer network and contractor franchise, all of which must continue to expand to support net sales growth and to increase market share.

Trex participates in the outdoor home improvement market, which is highly seasonal, and dependent on weather conditions for construction. Management believes that poor weather conditions

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throughout 2003 reduced the activity of contractors and builders, which affected product volume sold through the company's distribution channel and limited the company's net sales growth in 2003.

Managing the cost of PE presented a challenge to the company in 2003. The company purchased \$46.7 million of polyethylene in 2003 compared to \$27.3 million of polyethylene in 2002. Higher prices for PE and the start-up expenses related to the company's plastic reprocessing plant on its Winchester manufacturing site negatively affected manufacturing unit costs. The company has developed new approaches to rendering contaminated polyethylene film usable for its process and is developing these approaches to broaden its supply of usable PE raw material. The company expects that its new PE sourcing and purchasing initiatives will be necessary for it to manage effectively its costs for PE raw material in future periods.

To capitalize on growth opportunities and maintain its position as the market leader within the composite decking category, the company must continue to develop innovative new products that meet consumers' demands. In 2003, the company extended its offering of decking products with the addition of the Trex Accents™ line. In addition, the company introduced a new railing system and released fencing prototypes into the market. As part of its strategy for new product development, the company emphasizes offering consumers a higher level of product aesthetics and superior product performance.

To support further growth, the company must maintain sufficient manufacturing capacity. Although the company's production capacity at the two existing sites will be sufficient to meet anticipated demand for Trex through 2004, the company has begun the process of developing a third manufacturing site. It intends to acquire land, commence construction of a facility and purchase equipment for a third site in 2004. Completion of a third site will require substantial capital expenditures in 2004 and subsequent years.

Of all the risks and uncertainties facing the company's business, management views the following as the most significant: the company's ability to develop or increase market acceptance of Trex, including new products and applications; the company's lack of product diversification and reliance on sales of Trex Wood-Polymer® lumber; the company's plan to increase production levels; the company's current dependence on its two manufacturing sites; the company's reliance on the supply of low cost raw materials used in its production process; the company's sensitivity to economic conditions, which influence the level of activity in home improvements and new home construction; the company's ability to manage its growth; the company's significant capital investments and ability to access the capital markets; and the company's dependence on its largest distributors to market and sell its products. A discussion of these and other risks and uncertainties is set forth under the caption "Business—Risk Factors" in this report.

*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 the company both to command premium prices over wood and to maintain price stability for Trex. The prices for Trex over the last three years have increased at a compound annual growth rate of approximately 5.1%.

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

*Selling, General and Administrative Expenses.* The single largest component of selling, general and administrative expenses is 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 market. Sales and

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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.

### **Critical Accounting Policies, Estimates and Risks and Uncertainties**

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements appearing elsewhere in this report. Critical accounting policies include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly affect our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As a result, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

*Inventories.* The company's inventories have increased to \$46.0 million as of December 31, 2003 from \$22.4 million as of December 31, 2002. The company believes that its quantity and mix of finished goods inventory will be saleable in the ordinary course of business and, accordingly, has not established significant reserves for slow moving products or obsolescence. The company accounts for its inventories at the lower of cost (last-in, first-out, or "LIFO") or market value. The company anticipates a reduction in inventory levels in 2004 as shipments are expected to outpace production levels. At December 31, 2003, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately \$3.6 million. The company cannot estimate at this time the effect of future reductions, if any, in inventory levels on its future operating results.

*Property, Plant and Equipment.* As of December 31, 2003, the company's construction in process totaled approximately \$19.6 million. The construction in process consisted primarily of three production lines in various stages of completion at the company's Winchester and Fernley manufacturing sites and plastic reprocessing equipment. The company currently expects that the production lines in process will be put into service by mid-2005. Pursuant to Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, the company compares the carrying values of its long-lived assets, including construction in process, against the expected undiscounted cash flows relating to those assets. The significant assumptions inherent in the company's estimate include increases in sales volumes and maintenance of gross margins that are consistent with historical levels. Actual results could differ from those estimates. In such event, the carrying value and the estimated useful lives of the company's long-lived assets could be reduced in the future.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. The depreciable lives of these assets range from 5 to 40 years. We make estimates of the useful lives, in part, based upon historical performance of similar assets. We periodically review the remaining estimated useful lives of our property, plant and equipment to determine if any revisions to our estimates are necessary. Changes to our estimate of the useful lives of our property, plant and equipment could have a material effect on our financial position or results of operations.

*Contingencies.* The company is subject, from time to time, to various lawsuits and other claims related to patent infringement, product liability and other matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable

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losses. The company makes a determination of the amount of reserves required, if any, for these contingencies after an analysis of each lawsuit and claim. The required reserves may change in the future as a result of new developments in any such matter or changes in approach, such as a change in settlement strategy in dealing with a particular matter. In the opinion of management, adequate provision has been made for any probable losses as of December 31, 2003.

**Revenue Recognition.** The company recognizes revenue when title is transferred to customers, which is upon shipment of the product to the customer from the company's manufacturing facilities. Pursuant to Emerging Issues Task Force ("EITF") Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," the company records all shipping and handling fees in net sales and records all of the related costs in cost of sales. The company offers several programs to dealers and distributors, including cash rebates, sales incentives and cooperative advertising. The company accounts for these programs as either reductions to sales or as selling, general and administrative expenses in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

### Results of Operations

The following table shows, for the last three years, selected statement of operations data as a percentage of net sales:

	Year Ended December 31,		
	2001	2002	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	58.2	54.2	56.1
Gross profit	41.8	45.8	43.9
Selling, general and administrative expenses	27.2	25.2	24.5
Income from operations	14.6	20.6	19.4
Interest expense, net	3.3	4.7	1.9
Income before taxes and extraordinary item	11.3	15.9	17.5
Provision for income taxes	3.6	5.9	6.5
Net income	7.7%	10.0%	11%

### 2003 Compared to 2002

**Net Sales.** Net sales increased 14.3 % to \$191.0 million in 2003 from \$167.1 million in 2002. The increase in net sales was primarily attributable to a growth in sales volume as a result of an increase in demand from dealers and distributors and, to a lesser extent, to an increase in price per unit. The increase in price per unit resulted from an annual price increase of 3.3% and an improved sales mix.

**Gross Profit.** Gross profit increased 9.4% to \$83.8 million in 2003 from \$76.6 million in 2002. The increase was primarily attributable to the higher net sales volume, increased sale prices and a more favorable sales mix. The effect of these factors was offset in part by higher unit manufacturing costs, which resulted from the increased cost of PE raw materials and startup costs of operating the plastic reprocessing plant. The effect of these increases in unit manufacturing costs were limited by an improved utilization rate and the associated improvement in absorption of fixed manufacturing expenses. Gross profit as a percentage of net sales decreased to 43.9% in 2003 from 45.8% in 2002

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 11.1% to \$46.8 million in 2003 from \$42.2 million in 2002. The higher selling, general and administrative expenses resulted in part from an increase of \$5.4 million in sales and marketing costs, mainly branding costs (including expenses of promotion, advertising, public relations, sales literature, trade

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shows and cooperative advertising), an increase of \$1.4 million in corporate personnel expenses and a decrease of \$2.2 million in legal expenses. Selling, general and administrative expenses as a percentage of net sales decreased to 24.5% in 2003 from 25.2% in 2002.

*Interest Expense.* Net interest expense decreased to \$3.6 million in 2003 from \$7.8 million in 2002. The decrease in interest expense included a reduction of approximately \$3.7 million in the non-cash amortization of debt discount. Lower average debt balances and an increase in the amount of interest capitalized on construction in process also contributed to lower net interest expense in 2003. The company capitalized \$1.1 million and \$0.5 million of interest on construction in process in 2003 and 2002, respectively.

*Provision for Income Taxes.* The provision for income taxes increased to \$12.4 million in 2003 from \$9.9 million in 2002. The increase was primarily attributable to an increase in pretax income. The effective rate was approximately 37.1% in 2003 compared to approximately 37.1% in 2002.

### **2002 Compared to 2001**

*Net Sales.* Net sales increased 43.0% to \$167.1 million in 2002 from \$116.9 million in 2001. The increase in net sales was primarily attributable to a growth in sales volume as a result of an increase in demand from dealers and distributors and, to a lesser extent, to unit price increases of approximately 3.9%. In 2001, following termination of the company's product allocation practice in the third quarter of 2000, many dealers and distributors met a significant portion of customer demand for Trex by reducing their existing inventories, which they had previously stockpiled. Depletion of dealer and distributor inventories in 2001 contributed to increased demand for Trex and a growth in net sales volume in 2002.

*Gross Profit.* Gross profit increased 56.7% to \$76.6 million in 2002 from \$48.9 million in 2001. The increase was primarily attributable to the higher net sales volume and, to a lesser extent, lower unit manufacturing costs resulting from the improved manufacturing utilization rate and the associated improvement in absorption of fixed manufacturing expenses. Gross profit as a percentage of net sales increased to 45.8% in 2002 from 41.8% in 2001.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 32.5% to \$42.2 million in 2002 from \$31.8 million in 2001. The higher selling, general and administrative expenses resulted in part from an increase of \$6.4 million in corporate personnel expenses and an increase of \$3.2 million in legal expenses. The increase also reflected higher branding costs, including expenses of promotion, advertising, public relations, sales literature, trade shows and cooperative advertising. Selling, general and administrative expenses as a percentage of net sales decreased to 25.2% in 2002 from 27.2% in 2001.

*Interest Expense.* Net interest expense increased to \$7.8 million in 2002 from \$3.9 million in 2001. The increase in interest expense resulted from a reduction of \$1.4 million in the amount of interest capitalized on construction in process and an increase in the non-cash amortization into interest expense of approximately \$3.2 million of debt discount and financing costs relating to the modification and refinancing of the company's credit facilities in 2001 and June 2002.

*Provision for Income Taxes.* The provision for income taxes increased to \$9.9 million in 2002 from \$4.2 million in 2001. The increase was primarily attributable to an increase in pretax income. The effective rate was approximately 37.1% in 2002 compared to approximately 31.6% in 2001. The lower rate in 2001 resulted from revisions to prior-year estimated liabilities.

## Liquidity and Capital Resources

The company has financed 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.

*Sources and Uses of Cash.* The company's cash provided by operating activities was \$7.0 million in 2001, \$53.0 million in 2002 and \$5.6 million in 2003. The level of cash flow in 2001 was adversely affected by lower sales volume growth and increases in inventory levels and receivables. Higher sales volume growth and a decrease in inventory levels accounted for the significant increase in cash flow in 2002. In 2003, the effects of the higher sales volume on cash flow were more than offset by increases in inventory levels and receivables. Receivables increased from \$0.8 million at December 31, 2002 to \$5.8 million at December 31, 2003 as the company offered certain customers extended payment terms in the fourth quarter of 2003 to facilitate the introduction on a national basis of the Trex Accents™ line of decking products. The company's inventories increased from \$22.4 million at December 31, 2002 to \$46.0 million at December 31, 2003 as a result of poor weather conditions throughout the year, which limited sales growth, increased production volume and the introduction of new products. A decrease in accrued expenses that resulted from the payment of employee benefit obligations for 2002, also had a negative effect on cash flows from operating activities in 2003.

The company's cash used in investing activities totaled \$32.0 million in 2001, \$6.2 million in 2002 and \$17.7 million in 2003 and primarily related to expenditures for the purchase of property, plant equipment to support expanding manufacturing capacity. In 2003, the company also invested an additional \$0.7 million in its joint venture, Denplax, S.A., which provides PE material used in the production process.

The company's cash provided by (used in) financing activities was \$25.0 million in 2001, (\$31.9) million in 2002 and \$5.4 million in 2003. These amounts resulted from borrowings and principal payments on the company's debt and the refinancing of its debt in 2002. In February 2003, the former lender exercised a warrant to purchase 353,779 shares of the company's common stock for a total purchase price of approximately \$5.3 million.

*Capitalization.* As of December 31, 2003, the company's indebtedness totaled \$56.6 million and the annualized overall weighted average interest rate of such indebtedness was approximately 8.4%.

On June 19, 2002, the company refinanced total indebtedness of \$47.6 million outstanding under a senior bank credit facility and various real estate loans. The company refinanced this indebtedness with the proceeds from its sale of \$40.0 million principal amount of senior secured notes due June 19, 2009 and borrowings under new real estate loans having a principal amount of \$12.6 million. In connection with the refinancing, the company replaced its existing \$17.0 million revolving credit facility with a \$20.0 million revolving credit facility with a new lender. Borrowings under the revolving credit facility and the senior secured notes are secured by liens on substantially all of the company's assets.

The senior secured notes, which were privately placed with institutional investors, accrue interest at an annual rate of 8.32%. Five principal payments of \$8.0 million annually to retire the notes will be payable beginning in June 2005.

The new revolving credit facility and real estate loans accrue interest at annual rates equal to LIBOR plus specified margins and mature on the third anniversary of the closing date. The specified margins are determined based on the company's ratio of total consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization, as computed under the loans. The specified margins for the credit facility range from 1.50% to 3.25% and the specified margins for the real estate loans range from 1.75% to 3.50%.

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The company's ability to borrow under the revolving credit facility is tied to a borrowing base that consists of certain receivables and inventories. As of December 31, 2003, the borrowing base was \$28.9 million and no borrowings were outstanding under the facility.

*Interest.* The company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under a majority of its real estate loans. At December 31, 2003, the company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on all of its \$14.4 million principal amount of real estate loans.

The company financed its purchase of its Winchester, Virginia site in June 1998 with a ten-year term loan of \$3.8 million. Pursuant to amended terms adopted in connection with the refinancing on June 19, 2002, the loan will be payable in full on June 30, 2005. Under an interest rate swap agreement, the company pays interest on this loan at an annual effective rate of 8.12% at December 31, 2003.

The company financed its purchase of the Trex Technical Center in November 1998 in part with the proceeds of a ten-year term loan of \$1.0 million. Pursuant to amended terms adopted in connection with the refinancing on June 19, 2002, the loan will be payable in full on June 30, 2005. Under an interest rate swap agreement, the company pays interest on this loan at an annual effective rate of 7.80% at December 31, 2003.

In connection with its acquisition of its Fernley, Nevada site, the company in September 1999 obtained a 15-year term loan in the original principal amount of \$6.7 million. Under an interest rate swap agreement, interest on this loan is payable at an annual effective rate of 7.90% at December 31, 2003.

In connection with its acquisition of a site adjacent to its original Winchester, Virginia site, the company in August 2000 obtained a 15-year term loan in the original principal amount of \$5.9 million. Pursuant to amended terms adopted in connection with the refinancing on June 19, 2002, the loan will be payable in full on June 30, 2005. Under an interest rate swap agreement, the company pays interest on this loan at an annual effective rate of 9.10% at December 31, 2003.

*Debt Covenants.* To remain in compliance with its credit facility and senior secured note 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. As of December 31, 2003, the company was in compliance with these covenants.

The company's ability to make scheduled principal and interest payments on its real estate loans and senior secured notes, borrow under its revolving credit facility and maintain compliance with the related financial covenants will depend primarily on its ability to generate substantial cash flow from operations. The generation of operating cash flow is subject to the risks of the company's business, some of which are discussed in this report under "Business—Risk Factors."

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*Contractual Obligations.* The following tables quantify as of December 31, 2003 our future contractual obligations and commercial commitments, which consist primarily of long-term debt, operating leases, raw material purchase obligations and letters of credit (in thousands):

### Contractual Obligations

#### Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$54,376	\$ 886	\$25,048	\$16,901	\$11,541
Operating leases	15,187	2,922	3,742	2,796	5,727
Purchase obligations	1,909	1,623	286	—	—
<b>Total contractual cash obligations</b>	<b>\$71,472</b>	<b>\$ 5,431</b>	<b>\$29,076</b>	<b>\$19,697</b>	<b>\$17,268</b>

For information about these contractual cash obligations, see Notes 5 and 7 to the company's consolidated financial statements appearing elsewhere in this report.

### Other Commercial Commitments

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Letters of credit	\$1,080	\$ —	\$ 1,080	\$ —	\$ —
<b>Total commercial commitments</b>	<b>\$1,080</b>	<b>\$ —</b>	<b>\$ 1,080</b>	<b>\$ —</b>	<b>\$ —</b>

We do not have off-balance sheet financing arrangements other than our operating leases and letters of credit.

*Capital Requirements.* The company made capital expenditures in 2001, 2002 and 2003 totaling \$55.2 million, primarily to expand manufacturing capacity. The company currently estimates that its capital requirements in 2004 will total approximately \$25 to \$35 million. Of its capital expenditures in 2004, the company expects to use approximately \$15 to \$22 million to acquire land, commence construction of a facility and purchase equipment for a third manufacturing site, approximately \$4 million to acquire additional plastic reprocessing equipment, approximately \$5 million to make process and productivity improvements, and approximately \$1 million to increase capacity at the company's two existing manufacturing sites. The company expects that it will continue to make significant capital expenditures in 2005 and subsequent years as the company completes its construction in process and its new manufacturing site to meet an anticipated increase in the demand for Trex.

As of December 31, 2003, the company had a total of approximately \$8.2 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 cash 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 the terms of its financing agreements for at least the next 12 months. Thereafter, significant capital expenditures will likely be required to provide increased capacity to meet the company's expected growth in demand for its products. The aggregate capital expenditures of \$55.2 million for the three-year period ended December 31, 2003, were funded from a combination of cash flow from operations and proceeds from financing activities, including borrowings under various loan and credit facilities. The company currently expects that it will fund its future capital expenditures primarily with cash from operations and financing activities.

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The company will have to make additional investments after 2004 to complete construction of the new site and to equip the facility for the commencement of production. The amount and timing of these investments will depend on the anticipated demand for Trex, the production obtained from the existing two sites, the availability of funds and other factors. The company anticipates that it may seek to finance a portion of the additional investments with borrowings under its revolving credit facility and/or other financing arrangements. As of the date of this report, the company had no commitment for any such other financing arrangements.

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 will be able to obtain such financing.

### **Inflation**

Inflation did not have a material impact on the company's operating results in 2001, 2002 or 2003.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The company's major market risk exposure is to changing interest rates. The company's policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The company uses interest rate swap contracts to manage its exposure to fluctuations in the interest rates on its floating-rate mortgage debt, all of which is based on LIBOR. At December 31, 2003, the company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on its \$14.4 million of floating-rate debt. For additional information about the company's management of its interest rate risk, see Note 5 to the company's consolidated financial statements appearing elsewhere in this report.

Changes in interest rates affect the fair value of the company's fixed-rate debt. The fair value of the company's long-term fixed-rate debt on December 31, 2003 was approximately \$45.5 million. Based on balances outstanding at December 31, 2003, a 1% change in interest rates would change the fair value of the company's long-term fixed-rate debt by \$1.4 million.

The foregoing sensitivity analysis provides only a limited view as of a specific date regarding the sensitivity of some of our financial instruments to market risk. The actual impact of changes in market interest rates on the financial instruments may differ significantly from the impact shown in this sensitivity analysis.

The company has a purchase agreement for PE under which it has certain limited market risk related to foreign currency fluctuations on euros. At current purchase levels, such exposure is not material.

### **Item 8. Financial Statements and Supplementary Data**

The financial statements listed in Item 15 are filed as part of this report and appear on pages F-3 through F-20.

### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer, who is our principal executive officer, and our Senior Vice President and Chief Financial Officer, who is our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2003. Based upon that evaluation, the Chief Executive Officer and Senior Vice President and Chief Financial Officer have concluded that our disclosure controls and procedures are effective alerting them in a timely manner to material information relating to Trex Company, including its consolidated subsidiaries, required to be included in this report and the other reports that we file or submit under the Securities Exchange Act of 1934.

During the fourth fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**PART III****Item 10. Directors and Executive Officers of the Registrant**

The table below sets forth information concerning our directors and executive officers as of March 1, 2004:

<u>Name</u>	<u>Age</u>	<u>Positions with Company</u>
Robert G. Matheny	58	Chairman and Chief Executive Officer
Harold F. Monahan	58	Executive Vice President and General Manager
Paul D. Fletcher	43	Senior Vice President and Chief Financial Officer
A. Catherine Lawler	53	Senior Vice President, Marketing
William F. Andrews	72	Director
Paul A. Brunner	68	Director
Anthony J. Cavanna	64	Director
Andrew U. Ferrari	57	Director
William H. Martin, III	73	Director
Patricia B. Robinson	51	Director

*Robert G. Matheny* has served as a director of the company since September 1998 and has served as Chairman and Chief Executive Officer of the company since May 2003. He served as President of the company from September 1998 to May 2003, and of TREX Company, LLC, which was the company's wholly-owned subsidiary until December 31, 2002, from August 1996 through December 2002. From 1970 to August 1996, Mr. Matheny held various positions with Mobil Chemical Company, including General Manager of the Composite Products Division, General Manager of the Chemical Specialties Group, and Vice President of Mobil Chemical Products International. Mr. Matheny received a B.S. degree in industrial engineering and operations research from Virginia Polytechnic Institute.

*Harold F. Monahan* has served as Executive Vice President and General Manager of the company since May 2003. He served as Senior Vice President and General Manager of the company from March 2002 through April 2003, and of TREX Company, LLC from March 2002 through December 2002. From October 2000 to March 2002, Mr. Monahan served as Senior Vice President for Manufacturing and Distribution of the company and TREX Company, LLC. From 1999 to 2000, he served as Operations Manager for North American Operations of ExxonMobil Corporation, an energy company. Prior to the merger of Exxon Corporation and Mobil Chemical Company in 1999, Mr. Monahan served as Logistics Manager for North American Operations of Mobil from 1997 to 1999, where he was responsible for the distribution of Mobil's petroleum products throughout North America. From 1971 to 1997, Mr. Monahan served in a variety of other positions with Mobil, including Manager of U.S. Domestic Plant Operations, Asset Manager of Domestic U.S. Operations, and Surface Transportations Manager for Domestic U.S. Operations. Mr. Monahan received a B.S. degree in economics from St. Norbert College and pursued graduate studies at various institutions.

*Paul D. Fletcher* has served as the Senior Vice President and Chief Financial Officer of the company since July 2003. He was Vice President of Finance of the company from October 2001 through June 2003, and of Trex Company, LLC from October 2001 through December 2002. From 2000 to 2001,

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Mr. Fletcher served as Vice President and Chief Financial Officer for AMX Corporation, an advanced control system technology company. From 1996 to 2000, he served as Vice President and Treasurer for Excel Communications Inc., a telecommunications company. From 1987 to 1996 he served as Senior Vice President and Treasurer for Lomas Financial Corporation, a financial services company. Mr. Fletcher received his B.A. degree in economics and management from Albion College and an M.B.A. degree in finance and management policy from Northwestern University Kellogg School of Management.

*A. Catherine Lawler* has served as Senior Vice President, Marketing of the company since January 2003. From 1997 to 2002, Ms. Lawler served as Vice President of Marketing of Market Day Corporation, a fund-raising food company. Prior to 1997, Ms. Lawler served in various positions, including Vice President of Marketing of Noma International, a Christmas and gift products company; Director of Business Development and Director of Marketing for Binney & Smith, Inc., a subsidiary of Hallmark Cards and the maker of Crayola products; and positions with Kraft General Foods, including Group Product Manager of Maxwell House Coffee, Senior Product Manager of General Foods International Coffee, Product Manager of Maxwell House Advertising, and Associate Product Manager of SANKA. Ms. Lawler received a B.S. degree in education from the University of Pennsylvania and an M.B.A. degree in marketing and finance from Columbia University.

*William F. Andrews* has served as a director of the company since April 1999. Mr. Andrews has served as Chairman of the Board of Directors of Corrections Corporation of America since August 2000 and as Chairman of the Board of Directors of Katy Industries, Inc., a manufacturer of maintenance and electrical products, since October 2001. He has served as Chairman of the Board of Directors of Allied Aerospace Industries, Inc., a manufacturer of defense and aerospace products, since January 2002. Mr. Andrews has been a Principal of Kohlberg & Company, a venture capital firm, since 1994. From 1995 to 2001, Mr. Andrews served as Chairman of the Board of Directors of Scovill Fasteners Inc. Prior to 1995, he served in various positions, including Chairman of the Board of Directors of Northwestern Steel and Wire Company; Chairman of Schrader-Bridgeport International, Inc.; Chairman, President and Chief Executive Officer, with Scovill Manufacturing Co., where he worked for over 28 years; Chairman and Chief Executive Officer of Amdura Corporation; Chairman of Utica Corporation; and Chairman, President and Chief Executive Officer of Singer Sewing Company. Mr. Andrews also serves as a director of Black Box Corporation. Mr. Andrews received a B.S. degree in business administration from the University of Maryland and an M.B.A. degree in marketing from Seton Hall University.

*Paul A. Brunner* has served as a director of the company since February 2003. Mr. Brunner is President and Chief Executive Officer of Spring Capital Inc., a merchant bank, which he founded in 1985. From 1982 to 1985, Mr. Brunner served as President and Chief Executive Officer of U.S. Operations of Asea-Brown Boveri, a multi-national Swiss manufacturer of high technology products. In 1967, he joined Crouse Hinds Company, a manufacturer of electronics and electronic equipment, and through 1982 held various positions with that company, including President and Chief Operating Officer, Executive Vice President of Operations, Vice President of Finance and Treasurer, and Director of Mergers and Acquisitions. From 1959 to 1967, he worked for Coopers & Lybrand, an international accounting firm, as an audit supervisor. Mr. Brunner also serves as a director of Johnson Controls, Inc. Mr. Brunner is a Certified Public Accountant. He received a B.S. degree in accounting from the University of Buenos Aires and an M.B.A. degree in management from Syracuse University.

*Anthony J. Cavanna* has served as a director of the company since September 1998. Mr. Cavanna served as Executive Vice President and Chief Financial Officer of the company from September 1998 through December 2003, and of TREX Company, LLC from August 1996 through December 2002. From 1962 to August 1996, he held a variety of positions with Mobil Chemical, including Group Vice President, Vice President-Planning and Finance, Vice President of Mobil Chemical and General Manager of its Films Division Worldwide, President and General Manager of Mobil Plastics Europe and Vice President-Planning and Supply of the Films Division. Mr. Cavanna received a B.S. degree in chemical

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engineering from Villanova University and an M.S. degree in chemical engineering from the Polytechnic Institute of Brooklyn.

*Andrew U. Ferrari* has served as a director of the company since September 1998. Mr. Ferrari is a marketing and business development consultant. He served as Executive Vice President of Marketing and Business Development of the company from October 2001 through March 2003, and of TREX Company, LLC from October 2001 through December 2002. He served as Executive Vice President of Sales and Marketing of the company from September 1998 to October 2001 and of TREX Company, LLC from August 1996 to October 2001. From 1989 to 1996, Mr. Ferrari held various positions with Mobil Chemical Company, including Director of Sales and Marketing of the Composite Products Division, New Business Manager, and Marketing Director of the Consumer Products Division. Mr. Ferrari received a B.A. degree in economics from Whitman College and an M.B.A. degree from Columbia University.

*William H. Martin, III* has served as a director of the company since April 1999. From 1994 through 2003, Mr. Martin served as Chairman of the Board of Directors of Martin Industries, Inc., a manufacturer and producer of gas space heaters, gas logs and pre-engineered fireplaces, and as a director of Martin Industries from 1974 to 1994. From 1987 to 1993, Mr. Martin served as Executive Assistant to the Rector of Trinity Church in New York City. From 1971 to 1987, he served as President and Chief Executive Officer of Martin Industries. Since 1993, Mr. Martin has been managing private investments and serving as a director of Aluma-Form, Inc., a manufacturer of components for electric utilities, and on the boards of several not-for-profit organizations. Mr. Martin is a graduate of Vanderbilt University.

*Patricia B. Robinson* has served as a director of the company since November 2000. Ms. Robinson has been an independent consultant since 1999. From 1977 to 1998, Ms. Robinson served in a variety of positions with Mead Corporation, a forest products company, including President of Mead School and Office Products, Vice President of Corporate Strategy and Planning, President of Gilbert Paper, Plant Manager of a specialty machinery facility and Product Manager for new packaging product introductions. Ms. Robinson received a B.A. degree in economics from Duke University and an M.B.A. degree from the Darden School at the University of Virginia.

Other information responsive to this Item 10 is incorporated herein by reference to the company's definitive proxy statement for its 2004 annual meeting of stockholders.

### **Item 11. Executive Compensation**

Information responsive to this Item 11 is incorporated herein by reference to the company's definitive proxy statement for its 2004 annual meeting of stockholders.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information responsive to this Item 12 is incorporated herein by reference to the company's definitive proxy statement for its 2004 annual meeting of stockholders.

### **Item 13. Certain Relationships and Related Transactions**

Information responsive to this Item 13 is incorporated herein by reference to the company's definitive proxy statement for its 2004 annual meeting of stockholders.

### **Item 14. Principal Accountant Fees and Services**

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Information responsive to this Item 14 is incorporated herein by reference to the company's definitive proxy statement for its 2004 annual meeting of stockholders.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a)(1) The following consolidated financial statements of the company appear on pages F-2 through F-20 of this report and are incorporated by reference in Part II, Item 8:

Report of Independent Auditors

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2002 and 2003

Consolidated Statements of Operations for the three years ended December 31, 2003

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the three years ended December 31, 2003

Consolidated Statements of Cash Flows for the three years ended December 31, 2003

Notes to Consolidated Financial Statements

(a)(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. Our Securities Exchange Act file number is 001-14649.

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the "Company"). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company. Filed herewith.
4.1	Specimen certificate representing the Company's common stock. Filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
10.1	Extension of Consulting Agreement, dated as of February 16, 2004, between the Company and Ferrari Consulting, LLC. Filed herewith.
10.2	Extension of Consulting Agreement, dated as of October 16, 2003, between the Company and Ferrari Consulting, LLC. Filed herewith.
10.3	Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
10.4	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors, as amended. Filed herewith.

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- 10.5 Form of Non-Incentive Stock Option Agreement for Officers and Employee Directors under Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
- 10.6 Form of Non-Incentive Stock Option Agreement for Directors under Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.
- 10.7 Form of Restricted Stock Agreement under Trex Company, Inc. 1999 Stock Option and Incentive Plan. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 and incorporated herein by reference.
- 10.8 Description of Annual Bonus Plan. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.
- 10.9 Consulting Agreement, dated as of March 17, 2003, between the Company and Ferrari Consulting, LLC. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
- 10.10 Extension of Consulting Agreement, dated as of July 16, 2003, between the Company and Ferrari Consulting, LLC. Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
- 10.11 Registration Rights Agreement, dated as of April 7, 1999, among the Company and each of the persons named on the schedule thereto. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
- 10.12 Form of Distributor Agreement of TREX Company, LLC. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference.
- 10.13 Deed of Lease, dated June 15, 2000, between TREX Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
- 10.14 Note Purchase Agreement, dated as of June 19, 2002, by and among Trex Company, Inc., TREX Company, LLC and the Purchasers listed therein. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.15 Credit Agreement, dated as of June 19, 2002, among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia. Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 10.16 Security Agreement, dated as of June 19, 2002, by and among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.17 Intercreditor and Collateral Agency Agreement, dated as of June 19, 2002, by and among Noteholders named in Schedule I therein, Branch Banking and Trust Company of Virginia, and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.18 Credit Line Deed of Trust, dated June 19, 2002, by and among TREX Company, LLC, as grantor, BB&T-VA Collateral Service Corporation, as trustee, and Branch Banking and Trust Company of Virginia and Branch Banking and Trust Company, as noteholder. Filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by

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reference.

- 21 Subsidiaries of the Company. Filed herewith.
- 23 Consent of Ernst & Young LLP, Independent Auditors. Filed herewith.
- 31.1 Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 31.2 Certification of Senior Vice President and Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350. Filed herewith.

### Reports on Form 8-K

The following Current Reports on Form 8-K were furnished by the company during the period covered by this report:

<u>Filing Date of Report</u>	<u>Item Reported</u>
(b) October 27, 2003	Item 12 (press release announcing financial results for the quarter ended September 30, 2003)
October 2, 2003	Item 12 (press release announcing an update to the company's full-year financial guidance for 2003 and preliminary financial results for the quarter ended September 30, 2003)

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TREX COMPANY, INC.

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**REPORT OF ERNST & YOUNG, LLP INDEPENDENT AUDITORS**

Board of Directors  
Trex Company, Inc.

We have audited the accompanying consolidated balance sheets of Trex Company, Inc. as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trex Company, Inc. at December 31, 2002 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

February 13, 2004  
McLean, Virginia

**TREX COMPANY, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2002	2003
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,893	\$ 8,151
Trade accounts receivable, net	840	5,829
Inventories	22,429	45,950
Prepaid expenses and other assets	1,395	1,899
Deferred income taxes	2,269	2,169
	<hr/>	<hr/>
Total current assets	41,826	63,998
	<hr/>	<hr/>
Property, plant and equipment, net	133,570	138,062
Goodwill	6,837	6,837
Other	1,323	1,558
	<hr/>	<hr/>
Total Assets	\$ 183,556	\$ 210,455
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Trade accounts payable and accrued expenses	\$ 10,808	\$ 10,211
Accrued compensation and benefits	6,089	3,286
Current portion of long-term debt	795	886
	<hr/>	<hr/>
Total current liabilities	17,692	14,383
Deferred income taxes	9,915	13,174
Debt-related derivative	2,773	2,202
Long-term debt	54,401	53,490
	<hr/>	<hr/>
Total Liabilities	84,781	83,249
	<hr/>	<hr/>
Commitments and contingencies		
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; 14,297,711 and 14,702,231 shares issued and outstanding at December 31, 2002 and 2003, respectively	143	147
Additional paid-in capital	49,354	55,889
Deferred compensation	(2,400)	(1,829)
Accumulated other comprehensive loss	(1,719)	(1,387)
Retained earnings	53,397	74,386
	<hr/>	<hr/>
Total Stockholders' Equity	98,775	127,206
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 183,556	\$ 210,455
	<hr/>	<hr/>

See accompanying notes to financial statements.

**TREX COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2001	2002	2003
	(In thousands, except share and per share data)		
Net sales	\$ 116,860	\$ 167,079	\$ 191,008
Cost of sales	67,973	90,479	107,246
Gross profit	48,887	76,600	83,762
Selling, general, and administrative expenses	31,801	42,150	46,837
Income from operations	17,086	34,450	36,925
Interest income	2	243	327
Interest expense	(3,852)	(8,025)	(3,887)
Income before provision for income taxes	13,236	26,668	33,365
Provision for income taxes	4,186	9,891	12,376
Net income	\$ 9,050	\$ 16,777	\$ 20,989
Basic earnings per common share	\$ 0.64	\$ 1.18	\$ 1.45
Basic weighted average common shares outstanding	14,145,660	14,166,307	14,522,092
Diluted earnings per common share	\$ 0.64	\$ 1.16	\$ 1.43
Diluted weighted average common shares outstanding	14,182,457	14,481,234	14,727,837

See accompanying notes to financial statements.

**TREX COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'**  
**EQUITY AND COMPREHENSIVE INCOME**

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount					
	(Dollars in thousands)						
Balance, December 31, 2000	14,135,060	\$ 141	\$ 41,330	\$ —	\$ —	\$ 27,570	\$ 69,041
Comprehensive income:							
Net income	—	—	—	—	—	9,050	9,050
Cumulative effect upon adoption of SFAS No. 133, net of tax	—	—	—	—	(508)	—	(508)
Unrealized losses on interest rate swaps, net of tax	—	—	—	—	(606)	—	(606)
Derivative loss reclassified to earnings, net of tax	—	—	—	—	258	—	258
Total comprehensive income							8,194
Issuance of Warrant	—	—	4,415	—	—	—	4,415
Employee stock purchase and option plans	20,023	1	272	—	—	—	273
Tax benefit of stock options	—	—	62	—	—	—	62
Balance, December 31, 2001	14,155,083	142	46,079	—	(856)	36,620	81,985
Comprehensive income:							
Net income	—	—	—	—	—	16,777	16,777
Unrealized losses on interest rate swaps, net of tax	—	—	—	—	(1,344)	—	(1,344)
Derivative loss reclassified to earnings, net of tax	—	—	—	—	481	—	481
Total comprehensive income							15,914
Employee stock purchase and option plans	22,628	—	329	—	—	—	329
Tax benefit of stock options	—	—	95	—	—	—	95
Issuance of Restricted stock	120,000	1	2,851	(2,851)	—	—	1
Amortization of deferred compensation	—	—	—	451	—	—	451
Balance, December 31, 2002	14,297,711	143	49,354	(2,400)	(1,719)	53,397	98,775
Comprehensive income:							
Net income	—	—	—	—	—	20,989	20,989
Unrealized losses on interest rate swaps, net of tax	—	—	—	—	(193)	—	(193)
Derivative loss reclassified to earnings, net of tax	—	—	—	—	525	—	525
Total comprehensive income							21,321
Employee stock purchase and option plans	50,741	—	933	—	—	—	933
Tax benefit of stock options	—	—	338	—	—	—	338
Exercise of warrant	353,779	4	5,264	—	—	—	5,268
Amortization of deferred compensation	—	—	—	571	—	—	571
Balance, December 31, 2003	14,702,231	\$ 147	\$ 55,889	\$ (1,829)	\$ (1,387)	\$ 74,386	\$ 127,206

See accompanying notes to financial statements.

**TREX COMPANY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2001	2002	2003
	(In thousands)		
<b>Operating Activities</b>			
Net income .	\$ 9,050	\$ 16,777	\$ 20,989
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	1,075	1,792	3,120
Tax benefit of stock options	62	95	338
Equity method losses	137	267	125
Amortization of deferred compensation and financing costs	—	684	902
Amortization of debt discount	703	3,712	—
Depreciation and amortization	8,623	9,589	12,539
Loss on disposal of property, plant and equipment	469	256	26
Changes in operating assets and liabilities:			
Trade accounts receivable	8,075	1,667	(4,989)
Inventories .	(10,151)	10,739	(23,521)
Prepaid expenses and other assets	(2,328)	1,162	(172)
Trade accounts payable and accrued expenses	(7,288)	765	(356)
Accrued compensation and benefits	(1,423)	5,459	(3,373)
<b>Net cash provided by operating activities</b>	<b>7,004</b>	<b>52,964</b>	<b>5,628</b>
<b>Investing Activities</b>			
Investment in Denplax	—	—	(691)
Expenditures for property, plant and equipment	(31,972)	(6,192)	(17,058)
<b>Net cash used in investing activities</b>	<b>(31,972)</b>	<b>(6,192)</b>	<b>(17,749)</b>
<b>Financing Activities</b>			
Financing costs	—	(1,310)	—
Borrowings under mortgages and notes	58,000	52,596	—
Principal payments under mortgages and notes	(710)	(71,341)	(822)
Borrowings under line of credit	82,890	489	420
Principal payments under line of credit	(115,485)	(12,642)	(420)
Proceeds from employee stock purchase and option plans	273	329	933
Proceeds from exercise of warrant	—	—	5,268
<b>Net cash provided by (used in) financing activities</b>	<b>24,968</b>	<b>(31,879)</b>	<b>5,379</b>
<b>Net decrease in cash and cash equivalents</b>	<b>—</b>	<b>14,893</b>	<b>(6,742)</b>
Cash and cash equivalents at beginning of year	—	—	14,893
<b>Cash and cash equivalents at end of year .</b>	<b>\$ —</b>	<b>\$ 14,893</b>	<b>\$ 8,151</b>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid for interest	\$ 5,010	\$ 4,594	\$ 4,572
Cash paid for income taxes	\$ 4,993	\$ 6,246	\$ 9,322

See accompanying notes to financial statements.

**TREX COMPANY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (together with its subsidiaries, the “Company”), a Delaware corporation, was incorporated on September 4, 1998. The Company manufactures and distributes wood/plastic composite products primarily for residential and commercial decking applications. Trex Wood-Polymer® lumber (“Trex”) is manufactured in a proprietary process that combines waste wood fibers and polyethylene, (“PE”). The Company operates in one business segment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its wholly-owned subsidiaries, Winchester Capital, Inc., Winchester SP, Inc., and Trex Wood-Polymer Espana, S.L. (“TWPE”). Significant intercompany accounts and transactions have been eliminated in consolidation.

TWPE was formed to hold the Company’s 35% equity interest in Denplax, S.A. (“Denplax”), a joint venture with a Spanish company responsible for public environmental programs in southern Spain and with an Italian equipment manufacturer. The joint venture was formed to recycle polyethylene at a facility in El Ejido, Spain. The Company’s investment in Denplax is accounted for using the equity method.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments purchased with original maturities of three months or less.

**Concentrations and Credit Risk**

The Company’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company from time to time may have bank deposits in excess of insurance limits of the Federal Deposit Insurance Corporation. As of December 31, 2003, substantially all deposits are maintained in one financial institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade receivable credit risk exposure is limited. Trade receivables are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. A valuation allowance is provided for known and anticipated credit losses, as determined by management in the course of regularly evaluating individual customer receivables. This

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evaluation takes into consideration a customer's financial condition and credit history, as well as current economic conditions. The Company's losses as a result of uncollectible accounts have not been significant.

The Company is also exposed to credit loss in the event of nonperformance by the counter-party to its interest-rate swap agreements, but the Company does not anticipate nonperformance by the counter-party. The amount of such exposure is generally the unrealized gains, if any, under such agreements.

Approximately 78%, 77% and 77% of the Company's net sales for the years ended December 31, 2001, 2002 and 2003, respectively, were to its five largest customers. In 2001 and 2002, sales to all five of the foregoing customers exceeded 10% of sales. In 2003, sales to four of the foregoing customers exceeded 10% of sales. As of December 31, 2003, three customers represented 38%, 14% and 13%, respectively, of the accounts receivable balance. Approximately 18%, 20% and 34% of the Company's raw material purchases for the years ended December 31, 2001, 2002 and 2003, respectively, were purchased from its four largest suppliers.

### **Inventories**

Inventories are stated at the lower of cost (last-in, first-out, or "LIFO") or market value.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost. The costs of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings	40 years
Machinery and equipment	11 years
Furniture and equipment	10 years
Forklifts and tractors	5 years
Computer equipment	5 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the asset.

### **Goodwill**

Goodwill represents the excess of cost over net assets acquired resulting from the Company's purchase of the Mobil Composite Products Division in 1996. For all periods through December 31, 2001, goodwill was amortized using the straight-line method over a period of 15 years.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under the nonamortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead are reviewed for impairment at least annually and written down and charged to operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. As of January 1, 2002, the Company had unamortized goodwill of approximately \$6.8 million. In 2002, the Company completed its initial impairment test and in 2003, the Company completed its annual impairment test of goodwill and noted no impairment. The Company performs the annual impairment testing of its goodwill as of October 31 in each year, which could have an adverse effect on the Company's future results of operations if an impairment occurs.

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The results of operations for prior years have not been restated to reflect the nonamortization of goodwill. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization net of the related tax effects is as follows (in thousands):

	Year Ended December 31,		
	2001	2002	2003
Reported net income	\$9,050	\$16,777	\$20,989
Goodwill amortization	707	—	—
Adjusted net income	\$9,757	\$16,777	\$20,989
Reported basic earnings per common share	\$ 0.64	\$ 1.18	\$ 1.45
Goodwill amortization	0.05	—	—
Adjusted basic earnings per common share	\$ 0.69	\$ 1.18	\$ 1.45
Reported diluted earnings per common share	\$ 0.64	\$ 1.16	\$ 1.43
Goodwill amortization	0.05	—	—
Adjusted diluted earnings per common share	\$ 0.69	\$ 1.16	\$ 1.43

### Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its long-lived assets, including property, plant and equipment, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the long-lived assets. If such cash flows are more likely than not to be less than the carrying amount of the long-lived assets, such assets are written down to their fair value. The Company's estimates of anticipated cash flows and the remaining estimated useful lives of long-lived assets could be reduced significantly in the future. As a result, the carrying amount of long-lived assets could be reduced in the future.

The Company has significant construction in process as of December 31, 2003. The Company expects that the construction in process will be completed and put into service by mid-2005.

### Revenue Recognition

The Company recognizes revenue when title is transferred to customers, which is upon shipment of the product to the customer from the Company's manufacturing facilities. Pursuant to Emerging Issues Task Force ("EITF") Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," the Company records all shipping and handling fees in net sales and records all of the related costs in cost of sales. The Company offers several programs to dealers and distributors, including cash rebates, sales incentives and cooperative advertising. The Company accounts for these programs in accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)."

### Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 allows companies to account for stock-based compensation under the provisions of SFAS No. 123 or under the provisions of Accounting Principles Board Opinion ("APB") No. 25, but requires pro forma disclosures in the footnotes to the financial statements as if the measurement provisions of SFAS No. 123 have been adopted. The Company accounts for its stock-based compensation in accordance with APB No. 25 and its related interpretations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under APB No. 25 to the fair value method of accounting of SFAS No. 123, if a company so elects. In 2002, the Company adopted SFAS

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No. 148. The adoption of this standard had no material impact on the Company's results of operations or financial position.

The Company continues to account for its stock-based compensation in accordance with APB No. 25 and its related interpretations. No stock-based compensation cost related to stock option grants has been reflected in net income, as all options granted under the Company's 1999 Stock Option and Incentive Plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	Year Ended December 31,		
	2001	2002	2003
Net income, as reported	\$ 9,050	\$ 16,777	\$ 20,989
Deduct: Additional stock-based employee compensation expense determined under fair value based method, net of related tax effects	\$ 693	\$ 1,118	\$ 1,730
Pro forma net income	\$ 8,357	\$ 15,659	\$ 19,259
Earnings per share:			
Basic-as reported	\$ 0.64	\$ 1.18	\$ 1.45
Basic-pro forma	\$ 0.59	\$ 1.10	\$ 1.33
Diluted-as reported	\$ 0.64	\$ 1.16	\$ 1.43
Diluted-pro forma	\$ 0.59	\$ 1.08	\$ 1.31

In accordance with SFAS No. 123, the fair value was estimated at the grant date using a Black-Scholes option pricing model with the following weighted-average assumptions for the years ended December 31, 2001, 2002 and 2003: risk-free interest rates ranging from 3% to 6%; no dividends; expected life of the options of approximately five years; and volatility ranging from 54% to 83%.

### Income Taxes

The Company accounts for income taxes and the related accounts under SFAS No. 109, "Accounting for Income Taxes." Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the difference reverses.

### Research and Development Costs

Research and development costs are expensed as incurred. For the years ended December 31, 2001, 2002 and 2003, research and development costs were \$1.7 million, \$1.3 million and \$1.7 million, respectively, and have been included in selling, general and administrative expenses in the accompanying financial statements.

### Advertising Costs

Branding costs, including advertising, are expensed as incurred. For the years ended December 31, 2001, 2002 and 2003, branding costs were \$10.0 million, \$10.4 million and \$15.0 million, respectively.

### Fair Value of 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, and mortgage loans to approximate the fair value of the respective assets and liabilities at

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December 31, 2002 and 2003. The fair value of the Company's senior secured notes at December 31, 2003 was estimated at \$45.5 million.

### **Derivative Instruments**

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

In order to manage market risk exposure related to changing interest rates, the Company has entered into interest rate swap agreements effectively converting its LIBOR-based floating-rate debt to a fixed-rate obligation. These interest rate swap agreements are accounted for as cash flow hedges as permitted by SFAS No. 133, as amended.

At the time of the adoption of SFAS No. 133 on January 1, 2001, the Company recognized an after-tax reduction of \$0.5 million in other comprehensive income (loss), a component of stockholders' equity, as a cumulative effect adjustment. The effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. The Company estimates that of the amounts included in accumulated other comprehensive loss at December 31, 2003, approximately \$0.5 million, net of taxes of approximately \$0.3 million, will be reclassified to earnings over the next 12 months.

### **Reclassifications**

Certain prior year amounts have been reclassified to conform with the current year presentation.

### **New Accounting Standards**

On January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard was effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this standard had no material impact on the Company's results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs of Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that an exit or disposal activity related cost be recognized when the liability is incurred instead of when an entity commits to an exit plan. The provisions of SFAS No. 146 are effective for financial transactions initiated after December 31, 2002. On January 1, 2003, the Company adopted this standard. The adoption of this standard had no material impact on the Company's results of operations or financial position.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the "Interpretation"). The Interpretation requires the consolidation of an entity in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of

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ownership or contractual or other financial interests in the entity. Currently, an entity is generally consolidated by an enterprise when the enterprise has a controlling financial interest in the entity through ownership of a majority voting interest in the entity. Public companies must apply the Interpretation for the accounting period ended after March 15, 2004. The Company is currently evaluating the impact of adoption of the Interpretation which will be required for its quarter ending March 31, 2004.

In 2000, the Company formed a joint venture, Denplax, with a Spanish environmental company and an Italian equipment manufacturer to operate a plant in Spain designed to recycle waste polyethylene. Denplax qualifies as a variable interest entity. Denplax was financed with initial equity contributions from the Company and the other partners and debt financing. The Company does not control Denplax and records its proportional 35% share of Denplax's operating results using the equity method. Under a separate supply agreement, the Company has agreed to purchase up to 27,200 tons of the Denplax plant's production per year, if the production meets certain material specifications. In the years ended December 31, 2002 and 2003, the Company purchased 13,463 and 18,393 tons, for approximately \$2.1 million and \$3.8 million, respectively, which was 94% and 100% of the Denplax plant's production. During 2003, the Company made a \$0.7 million additional equity investment in Denplax. As of December 31, 2003, the carrying value of the Company's investment in Denplax was approximately \$0.8 million. As of December 31, 2003, the Company owed approximately \$0.2 million to the Denplax for trade payables.

### 3. INVENTORIES

Inventories consist of the following as of December 31 (in thousands):

	2002	2003
Finished goods	\$17,114	\$36,227
Raw materials	5,315	9,723
	<u>\$22,429</u>	<u>\$45,950</u>

At December 31, 2002 and 2003, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately \$3.8 million and \$3.6 million, respectively.

### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following as of December 31 (in thousands):

	2002	2003
Building and improvements	\$ 35,423	\$ 35,893
Machinery and equipment	87,895	110,928
Furniture and equipment	2,066	2,161
Forklifts and tractors	831	3,017
Computer equipment	3,866	5,162
Construction in process	29,670	19,621
Land	5,353	5,353
	<u>165,104</u>	<u>182,135</u>
Accumulated depreciation	(31,534)	(44,073)
	<u>\$ 133,570</u>	<u>\$ 138,062</u>

Depreciation expense for the years ended December 31, 2001, 2002 and 2003 totaled \$7.9 million, \$9.6 million and \$12.5 million, respectively.

## 5. DEBT

### 2002 Refinancing

On June 19, 2002, the Company refinanced total indebtedness of \$47.6 million outstanding under a senior bank credit facility and various real estate loans. The Company refinanced this indebtedness with the proceeds from its sale of senior secured notes in the aggregate principal amount of \$40.0 million and borrowings under new real estate loans having an aggregate principal amount of \$12.6 million. In connection with the refinancing, the Company replaced its existing \$17.0 million revolving credit facility with a \$20.0 million revolving credit facility with a new lender. The termination of the senior bank credit facility resulted in a non-cash charge to interest expense of \$2.4 million in the second quarter of 2002 as a result of accelerated amortization of the remaining debt discount balance.

The Company capitalized \$1.3 million of financing costs relating to this refinancing. The deferred financing costs are amortized over the terms of the various debt instruments, which range between three and seven years.

The senior secured notes accrue interest at an annual rate of 8.32%. Five principal payments of \$8.0 million annually to retire the notes will be payable beginning in June 2005. The revolving credit facility and real estate loans accrue interest at annual rates equal to LIBOR plus specified margins and mature on June 19, 2005. The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans. At December 31, 2003, the Company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on all of its approximately \$14.4 million principal amount of real estate loans. Amounts drawn under the new revolving credit facility are subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of December 31, 2003, no borrowings were outstanding under the revolving credit facility and the borrowing base totaled approximately \$28.9 million.

The Company issued letters of credit under the revolving credit facility that total \$1.0 million and expire in 2005.

The revolving credit facility, real estate loans and the senior secured notes contain negative and financial covenants. As of December 31, 2003, the Company was in compliance with these covenants. Borrowings under these agreements are secured by liens on substantially all of the Company's assets.

### Former Credit Facility

On November 13, 2001, the Company and its lender amended the terms of the Company's senior bank credit facility, primarily to increase the maximum amount of borrowings available to the Company, to restructure the form of borrowings, and to modify the term of the facility. The terms of the revised credit agreement provided for borrowings under a revolving credit facility of up to \$17.0 million for working capital and general corporate purposes. Amounts outstanding under the revolving credit facility had an annual interest rate equal to LIBOR plus 3.00%, and were subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of December 31, 2001, \$12.2 million was outstanding under the revolving credit facility.

The amended agreement also provided for a \$58.0 million term loan, with scheduled principal reductions of \$5.0 million on each of March 1, April 1, May 1, June 1, and July 1, 2002. The remaining principal balance and accrued interest on the term loan was payable in full on January 31, 2003. Amounts drawn under the term loan up to \$33.0 million accrued interest at an annual rate equal to LIBOR plus 3.00%. Amounts drawn under the term loan in excess of \$33.0 million accrued interest at an annual rate equal to LIBOR plus 5.00%. As of December 31, 2001, the Company had borrowed \$58.0 million under the term loan. In connection with the revised agreement, the maturity dates of the Company's real estate mortgage loans with this lender were modified and the interest rates on these loans were increased. The

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amended agreement contained restrictive and financial covenants, and borrowings under the agreement were secured by liens on substantially all of the Company's assets.

### **Mortgage Loans**

In May 2000, the Company financed its purchase of a site adjacent to its Winchester, Virginia manufacturing facility through borrowings under its revolving credit facility. In August 2000, the Company refinanced the borrowings with a 15-year term loan in the original principal amount of \$5.9 million. Pursuant to terms adopted in connection with the June 19, 2002 refinancing described above, the loan provides for monthly payments of principal and interest and will be payable in full on June 30, 2005. Under an interest rate swap agreement, interest on this loan is payable at an annual effective rate of 9.10% at December 31, 2003.

In September 1999, the Company refinanced two loans incurred in connection with the site acquisition and construction of the Company's third manufacturing facility with a 15-year term loan in the original principal amount of approximately \$6.7 million. The loans provide for monthly payments of principal and interest over the 15-year amortization schedule. Pursuant to an interest rate swap agreement, interest on this loan is payable at an annual effective rate of 7.90% at December 31, 2003.

During 1998, the Company borrowed \$4.8 million under two loans to fund, in part, the acquisition of the site of its second manufacturing facility and the site of its research and development facility. The loans provided for monthly payments of principal and interest over a 15-year amortization schedule, with all remaining principal due on the tenth anniversary of the loan dates. Pursuant to terms adopted in connection with the June 19, 2002 refinancing described above, the loans will be payable in full on June 30, 2005. Under interest rate swap agreements, interest on these loans are payable at annual effective rates of 8.12% and 7.80%, respectively, at December 31, 2003.

The mortgage loans are secured by the Company's various real estate holdings and are held by financial institutions.

Long-term debt consists of the following as of December 31 (in thousands):

	2002	2003
Mortgage loan, due June 30, 2005	\$ 3,052	\$ 2,854
Mortgage loan, due June 30, 2005	852	799
Mortgage loan, due September 30, 2014	5,869	5,555
Mortgage loan, due June 30, 2005	5,423	5,168
Senior secured notes	40,000	40,000
	55,196	54,376
Less current portion	(795)	(886)
Long-term debt	\$54,401	\$53,490

Future maturities of long-term debt are as follows (in thousands):

Years ending December 31,	
2004	\$ 886
2005	16,648
2006	8,400
2007	8,433
2008	8,468
Thereafter	11,541
	\$54,376

During the years ended December 31, 2001, 2002 and 2003, the Company capitalized approximately \$1.9 million, \$0.5 million and \$1.1 million of interest, respectively.

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### Interest Rate Swaps

The Company has entered into interest-rate swap agreements to eliminate the impact of increases and decreases in interest rates on its floating-rate mortgages. At December 31, 2003, the Company had four interest-rate swap agreements outstanding. The agreements effectively entitle the Company to receive from (pay to) the bank the amount, if any, by which the Company's interest payments on its \$3.8 million, \$1.0 million, \$6.7 million and \$5.9 million LIBOR-based floating-rate mortgage loans exceed (fall below) 7.12%, 6.80%, 7.90% and 8.10%, respectively. The Company has not incurred a premium or other fee for these interest-rate swap agreements. Payments received (made) as a result of the agreements are recognized as a reduction of (increase to) interest expense on the LIBOR-based floating-rate debt. The notional amounts of these agreements correspond to the outstanding balances of the LIBOR-based debt. The Company has evaluated and documented these interest-rate swap agreements as cash flow hedges of LIBOR-based floating-rate debt, in which any changes in fair values of the derivatives are recorded in other comprehensive income, net of taxes, as there is no hedge ineffectiveness.

### Warrants

In connection with the November 2001 revisions to the senior bank credit facility, the Company issued the lender a warrant exercisable until January 31, 2005 to purchase up to 707,557 shares of the Common Stock at \$14.89 per share. The warrant relating to one-half of those shares was not exercisable until June 30, 2002 and only became exercisable if the Company did not repay the revolving credit facility and term loan and an outstanding letter of credit on or before such date. The Company valued the warrant at approximately \$4.4 million, based on calculations using a Black-Scholes option-pricing model. The \$4.4 million warrant value was recorded as a debt discount and was amortized into interest expense. The June 2002 refinancing eliminated the former lender's conditional right under the warrant to purchase 353,778 shares of common stock at \$14.89 per share. Early retirement of the outstanding indebtedness under the senior bank credit facility resulted in a one-time non-cash charge to interest expense in 2002 as a result of accelerated amortization of the remaining debt discount. On February 3, 2003, the lender exercised the warrant to purchase all 353,779 shares of common stock issuable thereunder for a total purchase price of \$5.3 million.

## 6. STOCKHOLDERS' EQUITY

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

	Year Ended December 31,		
	2001	2002	2003
<b>Numerator:</b>			
Net income	\$ 9,050	\$ 16,777	20,989
<b>Denominator:</b>			
Basic weighted average shares outstanding	14,145,660	14,166,307	14,522,092
<b>Effect of dilutive securities:</b>			
Stock options	27,091	56,325	117,127
Warrants	9,706	226,205	18,904
Restricted stock	—	32,397	69,715
Diluted weighted average shares outstanding	14,182,457	14,481,234	14,727,838
Basic earnings per share	\$ 0.64	\$ 1.18	\$ 1.45
Diluted earnings per share	\$ 0.64	\$ 1.16	\$ 1.43

On March 12, 1999, the Company adopted the 1999 Stock Option and Incentive Plan (the "Plan"). The Plan authorizes, among other things, the granting of options, restricted stock and other equity-based awards to purchase up to 1,400,000 shares of Common Stock. The exercise price per share under each

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option granted under the Plan may not be less than 100% of the fair market value of the common stock on the option grant date. The Compensation and Governance Committee of the Board of Directors determine vesting of the options. At December 31, 2003, 787,188 shares of Common Stock were reserved for future issuance under the Plan.

On March 19, 2002, the Company issued 120,000 shares of restricted stock to certain employees under the Plan. The shares vest in equal installments on the third, fourth and fifth anniversaries of the date of grant. The Company recorded \$2.8 million of deferred compensation relating to the issuance of the restricted stock. The deferred compensation will be amortized on a straight-line basis over the five-year vesting period.

Stock option activity of the Plan from December 31, 2001 through December 31, 2003 is as follows:

	Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2000	223,031	\$ 21.27
Granted	155,277	\$ 23.89
Exercised	(9,874)	\$ 10.04
Canceled	(18,477)	\$ 19.31
Outstanding at December 31, 2001	349,957	\$ 22.84
Granted	167,268	\$ 21.14
Exercised	(7,362)	\$ 12.53
Canceled	(57,474)	\$ 24.76
Outstanding at December 31, 2002	452,389	\$ 22.30
Granted	159,269	\$ 36.08
Exercised	(41,947)	\$ 16.73
Canceled	(31,260)	\$ 29.04
Outstanding at December 31, 2003	538,451	\$ 26.40
Exercisable at December 31, 2003	229,524	\$ 23.50

At December 31, 2003, the price range of options outstanding was as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
\$ 0.00-19.99	76,656	\$ 14.84	6.8	62,609	\$ 14.20
20.00-29.99	284,312	23.98	7.4	132,848	25.44
30.00-39.99	176,370	35.20	8.8	33,147	32.53
40.00 and over	1,113	50.00	6.5	920	50.00
	538,451	26.40	7.8	229,524	23.50

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The grant date weighted average fair value of options granted in 2001, 2002 and 2003 was \$15.91, \$13.21 and \$20.33, respectively. Options generally vest with respect to 25% of the shares subject to the option on each of the first, second, third and fourth anniversaries of the grant date. The options are generally forfeitable upon termination of an option holder's service as an employee or director.

### 7. LEASES

The Company leases office space, storage warehouses and certain office and plant equipment under various operating leases. Minimum annual payments under these non-cancelable leases as of December 31, 2003 were as follows (in thousands):

Year ending December 31,	
2004	\$ 2,922
2005	2,134
2006	1,608
2007	1,487
2008	1,309
Thereafter	5,727
	<hr/>
	\$15,187

For the years ended December 31, 2001, 2002 and 2003, the Company recognized rental expenses of approximately \$4.8 million, \$5.0 million and \$5.9 million, respectively.

### 8. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) Profit Sharing Plan and a Money Purchase Pension Plan for the benefit of all employees who meet certain eligibility requirements. These plans cover substantially all of the Company's full-time employees. The plan documents provide for the Company to make defined contributions as well as matching and other discretionary contributions, as determined by the Board of Directors. The Company's contributions totaled \$0.2 million, \$2.7 million and \$0.7 million for the years ended December 31, 2001, 2002, and 2003, respectively, for the 401(k) Profit Sharing Plan and \$0.4 million, \$0.6 million and \$0.7 million for the years ended December 31, 2001, 2002 and 2003, respectively, for the Money Purchase Pension Plan.

The Company has an employee stock purchase plan that permits eligible employees to purchase shares of common stock of the Company at prices no less than 85% of the current market price. Eligible employees may elect to participate in the plan by authorizing payroll deductions from 1% to 10% of gross compensation for each payroll period. On the last day of each quarter, each participant's contribution account is used to purchase the maximum number of whole and fractional shares of common stock determined by dividing the contribution account's balance by the lesser of 85% of the price of a share of common stock on the first day of the quarter or the last day of a quarter. The number of shares of common stock that may be purchased under the plan is 300,000. Through December 31, 2003, employees have purchased approximately 40,918 shares under the plan.

### 9. INCOME TAXES

The Company's provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2001	2002	2003
Current	\$2,938	\$8,099	\$ 9,256
Deferred	1,248	1,792	3,120
	<hr/>	<hr/>	<hr/>
Total provision	\$4,186	\$9,891	\$12,376

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The provision for income taxes differs from the amount of income tax determined by applying the U.S. federal statutory rate of 35% to income before taxes as a result of the following (in thousands):

	Year Ended December 31,		
	2001	2002	2003
U.S. federal statutory taxes	\$4,633	\$9,334	\$11,678
State and local taxes, net of U.S. federal benefit	(600)	434	581
Other	153	123	117
	<u>\$4,186</u>	<u>\$9,891</u>	<u>\$12,376</u>

Deferred tax assets and liabilities as of December 31, 2002 and 2003 consist of the following (in thousands):

	As of December 31,	
	2002	2003
Deferred tax assets:		
Accruals not currently deductible and other	\$ 2,269	\$ 3,321
Deferred tax liabilities:		
Depreciation	\$(9,915)	\$(14,326)
Net deferred tax liability	<u>\$(7,646)</u>	<u>\$(11,005)</u>

## 10. COMMITMENTS AND CONTINGENCIES

### Legal Matters

On December 5, 2001, Ron Nystrom commenced an action against the Company in the United States District Court, Eastern District of Virginia, Norfolk Division, alleging that the Company's decking products infringed his patent. The Company believes that this claim is without merit. The Company denied any liability and filed a counterclaim against the plaintiff for declaratory judgment and antitrust violations based upon patent misuse. The Company sought a ruling that the plaintiff's patent is invalid, that the Company does not infringe the patent, and that the Company is entitled to monetary damages against the plaintiff. On October 17, 2002, the district court issued a final judgment finding that the Company does not infringe any of the plaintiff's patent claims and holding that some of the plaintiff's patent claims are invalid. The plaintiff has appealed this decision to the United States Court of Appeals for the Federal Circuit. In February 2004, the United States Court of Appeals for the Federal Circuit heard oral arguments on this appeal. The court has not yet issued its decision.

### Purchase Commitments

The Company fulfills requirements for raw materials under both purchase orders and supply contracts. In 2003, the Company purchased approximately 44% of its wood fiber requirements and

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approximately 66% of its polyethylene requirements under purchase orders, which do not involve long-term supply commitments. The Company is also party to supply contracts that require it to purchase wood fiber and polyethylene for terms that range from one to eight years. The wood fiber and polyethylene supply contracts have not had a material adverse effect on the Company's business.

If the wood fiber meets certain specifications, the wood fiber supply contracts generally require the Company to purchase at least a specified minimum and at most a specified maximum amount of wood fiber each year. Depending on its needs, the amount of wood fiber that the Company actually orders and purchases within the specified range under any supply contract may vary significantly from year to year. For the years ending December 31, 2004 and 2005, the minimum obligations for wood purchases under these contracts are approximately \$1.6 million and \$0.3 million, respectively.

The polyethylene supply contracts generally provide that the Company is obligated to purchase all of the polyethylene a supplier provides, if the polyethylene meets certain specifications. The amount of polyethylene the Company is required to purchase under these contracts varies with the production of its suppliers and, accordingly, is not fixed or determinable.

During the years ended December 31, 2001, 2002 and 2003, the amounts the Company has been obligated to purchase under polyethylene supply contracts and the minimum amounts the Company has been required to purchase under wood supply contracts have been less than the amounts of these materials needed for production. To meet all of production requirements, the Company obtained additional polyethylene and wood fiber materials under purchase orders and by purchasing wood fiber in excess of the minimum commitments under its supply contracts.

### 11. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2002 and 2003, the Company purchased approximately \$2.1 million and \$3.8 million of plastic raw material, respectively, excluding freight, from Denplax, and paid approximately \$0.4 million in 2002 to one of the Denplax joint venture partners for freight services. Receivables from and payables to Denplax were not significant as of December 31, 2001, 2002. The Company owed \$0.2 million in payables to Denplax as of December 31, 2003. The carrying value of the Company's investment in Denplax was approximately \$0.8 million at December 31, 2003 and its equity share of method losses from the investment was approximately \$0.1 million for the year then ended.

During 2003, the Company executed an agreement with Ferrari Consulting, LLC. Pursuant to the agreement, Andrew U. Ferrari will perform consulting services relating to the development of new business opportunities for the Company. The agreement was signed on March 17, 2003, extended twice in 2003 and, with current extension, is in effect until June 16, 2004. Approximately \$58,000 was paid under the agreement in 2003. Mr. Ferrari currently serves as a director of the Company and formerly served as the Company's Executive Vice President of Marketing and Business Development.

### 12. INTERIM FINANCIAL DATA (Unaudited)

	Three Months Ended							
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002	March 31, 2003	June 30 2003	September 30 2003	December 31 2003
	(In thousands, except per share data)							
Net sales	\$ 51,996	\$ 45,924	\$ 49,522	\$ 19,637	\$ 68,678	\$ 59,198	\$ 41,224	\$ 21,908
Gross profit	19,962	24,248	24,453	7,937	29,758	26,898	19,445	7,661
Net income (loss)	6,420	5,630	6,131	(1,404)	10,097	6,533	5,122	(763)
Basic net income (loss) per share	\$ 0.45	0.40	\$ 0.43	\$ (0.10)	\$ 0.70	\$ 0.45	\$ 0.35	\$ (0.05)
Diluted net income (loss) per share	\$ 0.45	0.39	\$ 0.43	\$ (0.10)	\$ 0.69	\$ 0.44	\$ 0.35	\$ (0.05)

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The Company's net sales, gross profit 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.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

By: /s/ Paul D. Fletcher

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Paul D. Fletcher  
Senior Vice President and Chief Financial Officer  
(Duly Authorized Officer)

Date: March 5, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed as of March 5, 2004 by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
/s/ Robert G. Matheny <hr/> Robert G. Matheny	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ Paul D. Fletcher <hr/> Paul D. Fletcher	Senior Vice President and Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
/s/ William F. Andrews <hr/> William F. Andrews	Director
/s/ Paul A. Brunner <hr/> Paul A. Brunner	Director
/s/ Anthony J. Cavanna <hr/> Anthony J. Cavanna	Director
/s/ Andrew U. Ferrari <hr/> Andrew U. Ferrari	Director
/s/ William H. Martin, III <hr/> William H. Martin, III	Director
/s/ Patricia B. Robinson <hr/> Patricia B. Robinson	Director

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the "Company"). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company. Filed herewith.
4.1	Specimen certificate representing the Company's common stock. Filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
10.1	Extension of Consulting Agreement, dated as of February 16, 2004, between the Company and Ferrari Consulting, LLC. Filed herewith.
10.2	Extension of Consulting Agreement, dated as of October 16, 2003, between the Company and Ferrari Consulting, LLC. Filed herewith.
10.3	Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
10.4	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors, as amended. Filed herewith.
10.5	Form of Non-Incentive Stock Option Agreement for Officers and Employee Directors under Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
10.6	Form of Non-Incentive Stock Option Agreement for Directors under Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.
10.7	Form of Restricted Stock Agreement under Trex Company, Inc. 1999 Stock Option and Incentive Plan. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 and incorporated herein by reference.
10.8	Description of Annual Bonus Plan. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference.
10.9	Consulting Agreement, dated as of March 17, 2003, between the Company and Ferrari Consulting, LLC. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
10.10	Extension of Consulting Agreement, dated as of July 16, 2003, between the Company and Ferrari Consulting, LLC. Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 and incorporated herein by reference.
10.11	Registration Rights Agreement, dated as of April 7, 1999, among the Company and each of the persons named on the schedule thereto. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
10.12	Form of Distributor Agreement of TREX Company, LLC. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference.
10.13	Deed of Lease, dated June 15, 2000, between TREX Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.

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- 10.14 Note Purchase Agreement, dated as of June 19, 2002, by and among Trex Company, Inc., TREX Company, LLC and the Purchasers listed therein. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.15 Credit Agreement, dated as of June 19, 2002, among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia. Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 10.16 Security Agreement, dated as of June 19, 2002, by and among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.17 Intercreditor and Collateral Agency Agreement, dated as of June 19, 2002, by and among Noteholders named in Schedule I therein, Branch Banking and Trust Company of Virginia, and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 10.18 Credit Line Deed of Trust, dated June 19, 2002, by and among TREX Company, LLC, as grantor, BB&T-VA Collateral Service Corporation, as trustee, and Branch Banking and Trust Company of Virginia and Branch Banking and Trust Company, as noteholder. Filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on June 25, 2002 and incorporated herein by reference.
- 21 Subsidiaries of the Company. Filed herewith.
- 23 Consent of Ernst & Young LLP, Independent Auditors. Filed herewith.
- 31.1 Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 31.2 Certification of Senior Vice President and Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350. Filed herewith.

**AMENDED AND RESTATED  
BY-LAWS  
OF  
TREX COMPANY, INC.**

November 20, 2003

**ARTICLE I  
OFFICES**

Section 1. Registered Office. The registered office of the Corporation in the State of Delaware is 1013 Centre Road, in the City of Wilmington, Delaware 19805, in the County of New Castle. The name of its registered agent at such address is Corporation Service Company.

Section 2. Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

**ARTICLE II  
STOCKHOLDERS MEETINGS**

Section 1. Places of Meetings. All meetings of stockholders shall be held at such place or places in or outside of the State of Delaware as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or waiver of notice thereof, subject to any provisions of the laws of the State of Delaware.

Section 2. Annual Meetings. Unless otherwise determined from time to time by the Board of Directors, the annual meeting of stockholders shall be held each year for the election of directors and the transaction of such other business as may properly come before the meeting at such date and time as may be designated by the Board of Directors. Written notice of the time and place of the annual meeting shall be given by mail to each stockholder entitled to vote at such meeting, at the stockholder's address as it appears on the records of the Corporation, not less than ten (10) nor more than sixty (60) days prior to the scheduled date thereof.

Section 3. Special Meetings. A special meeting of the stockholders of the Corporation may be called at any time by the Chairman of the Board or by the Board of Directors pursuant to a resolution adopted by a majority of the total

number of directors which the Corporation would have if there were no vacancies, but such special meeting may not be called by any other person or persons. Written notice of the date, time, place and specific purpose or purposes for which such meeting is called shall be given by mail to each stockholder entitled to vote thereat at such stockholder's address as it appears on the records of the Corporation not less than ten (10) nor more than sixty (60) days prior to the scheduled date thereof. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 4. Voting. At all meetings of stockholders, each stockholder entitled to vote on the record date as determined under these By-Laws or, if not so determined, as prescribed under the laws of the State of Delaware, shall be entitled to one vote for each share of stock standing on record in such stockholder's name, subject to any voting powers, restrictions or qualifications set forth in the Restated Certificate of Incorporation of the Corporation or any amendment thereto (the "Restated Certificate of Incorporation").

Section 5. Quorum; Voting. At any stockholders meeting, a majority of the voting power of the shares of stock outstanding and entitled to vote thereat, present in person or by proxy, shall constitute a quorum, but a smaller interest may adjourn any meeting from time to time, and the meeting may be held as adjourned without further notice, subject to such limitations as may be imposed under the laws of the State of Delaware. When a quorum is present at any meeting, the affirmative vote of the holders of a majority of the voting power of the shares of stock entitled to vote thereon, present in person or by proxy, shall decide any question brought before such meeting unless such question is one upon which a different vote is required by express provision of the Restated Certificate of Incorporation, these By-Laws, the rules or regulations of the New York Stock Exchange, Inc. or any law or other rule or regulation applicable to the Corporation, in which case such express provision shall govern.

Section 6. Inspectors of Election; Opening and Closing the Polls. The Board of Directors may, by resolution, appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the Corporation, to act at a meeting of stockholders and make a written report thereof. One or more persons may be designated as alternative inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her

ability. The inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware.

The chairman of the meeting shall fix and announce at the meeting the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting.

Section 7. List of Stockholders. At least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary or the transfer agent in charge of the stock ledger of the Corporation. Such list shall be open for examination by any stockholder as required by the laws of the State of Delaware. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine such list or the books of the Corporation or to vote in person or by proxy at such meeting.

Section 8. Written Consent in Lieu of Meeting. Except as otherwise provided for or fixed pursuant to the provisions of the Restated Certificate of Incorporation relating to the rights of the holders of any series of preferred stock, no action that is required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of stockholders may be effected by written consent of stockholders in lieu of a meeting of stockholders, unless the action to be effected by written consent of the stockholders and the taking of such action by written consent have been expressly approved in advance by the Board of Directors.

Section 9. Conduct of Meetings. The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. The Board of Directors may, to the extent not prohibited by law, adopt by resolution such rules and regulations for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may to the extent not prohibited by law include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall

determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 10. Notice of Stockholder Business and Nominations.

(a) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders only (i) pursuant to the Corporation's notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record of the Corporation at the time the notice provided for in this Section 10 is delivered to the Secretary of the Corporation, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 10.

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) of this Section 10, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Corporation). In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (ii) as to any other business that the stockholder proposes to bring before

the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the By-Laws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (a) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (b) the class and number of shares of capital stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, (c) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and intends to appear, in person or by proxy, at the meeting to propose such business or nomination and (d) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends to (A) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise solicit proxies from stockholders in support of such proposal or nomination. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation.

(c) Notwithstanding anything in the second sentence of paragraph (b) of this Section 10 to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 10 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation no later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(d) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this

Section 10 is delivered to the Secretary of the Corporation, who shall be entitled to vote at the meeting and upon such election, and who complies with the notice procedures set forth in this Section 10. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position or positions as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (b) of this Section 10 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting, or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above.

(e) Except as otherwise provided by law, only such persons who are nominated in accordance with the procedures set forth in this Section 10 shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 10. Except as otherwise provided by law or the Restated Certificate of Incorporation, the chairman of the meeting shall have the power and duty to (i) determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 10 and (ii) if any proposed nomination or business is not in compliance with this Section 10 (including whether the stockholder or beneficial owner, if any, on whose behalf the nomination or proposal is made solicits (or is part of a group which solicits), or fails to so solicit (as the case may be), proxies in support of such stockholder's proposal in compliance with such stockholder's representation as required by clause (iii)(d) of paragraph (b) of this Section 10, to declare that such defective nomination shall be disregarded or that such proposed business shall not be transacted.

(f) For purposes of this Section 10, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(g) Notwithstanding the foregoing provisions of this Section 10, a stockholder shall also comply with all applicable requirements of the Exchange Act

and the rule and regulations thereunder with respect to the matters set forth in this Section 10. Nothing in this Section 10 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

ARTICLE III  
BOARD OF DIRECTORS

Section 1. Number and Qualification. The authorized number of directors that shall constitute the full Board of Directors of the Corporation shall be fixed from time to time as provided in the Restated Certificate of Incorporation. Directors need not be stockholders of the Corporation.

Section 2. Powers. The business and affairs of the Corporation shall be carried on by or under the direction of the Board of Directors, which shall have all the powers authorized by the laws of the State of Delaware, subject to such limitations as may be provided by the Restated Certificate of Incorporation or these By-Laws. Except as otherwise expressly provided herein or in the Restated Certificate of Incorporation, the vote of the majority of directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

The Chairman of the Board, when present, shall preside at all meetings of the stockholders and of the Board of Directors.

Section 3. Compensation. The Board of Directors may from time to time by resolution authorize the payment of fees or other compensation to the directors for services as such to the Corporation, including, but not limited to, fees for attendance at all meetings of the Board or of the executive or other committees, and determine the amount of such fees and compensation. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor in amounts authorized or otherwise approved from time to time by the Board.

Section 4. Meetings and Quorum. Meetings of the Board of Directors may be held either in or outside of the State of Delaware. At all meetings of the Board, a majority of the then authorized number of directors shall constitute a quorum. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

The first meeting of the Board of Directors after the election of a new class of directors shall be held immediately after the annual meeting of stockholders and at the same place, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held at such time and place, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all the directors.

Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board. Notice of special meetings shall be given to each director on 24 hours notice to each director, either personally, by mail, telegram, facsimile, personal delivery or similar means. Special meetings may be called by the President or the Chairman of the Board of Directors and shall be called by the President or Secretary in the manner and on the notice set forth above upon the written request of a majority of the total number of directors which the Corporation would have if there were no vacancies.

Notice of any meeting shall state the time and place of such meeting, but need not state the purposes thereof unless otherwise required by the laws of the State of Delaware, the Restated Certificate of Incorporation, these By-Laws or the Board of Directors.

Section 5. Executive Committee. The Board of Directors may designate an Executive Committee to exercise, subject to applicable provisions of law, all the powers of the Board in the management of the business and affairs of the Corporation when the Board is not in session, including without limitation the power to declare dividends and to authorize the issuance of the Corporation's capital stock, and may, by resolution similarly adopted, designate one or more other committees, including such committees specified in Section 6 of this Article III. The Executive Committee shall consist of two or more directors of the Corporation. The Board may designate one or more directors as alternate members of the Executive Committee, who may replace any absent member at any meeting of the Executive Committee. The members of the Executive Committee present at any meeting, whether or not constituting a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent member. The Executive Committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required.

A majority of the Executive Committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the Executive Committee in the manner provided for in Section 4 of this Article III. The Board shall have

power at any time to fill vacancies in, to change the membership of, or to dissolve the Executive Committee.

Section 6. Other Committees.

(a) The Board may appoint the following standing committees, the members of which shall serve at the pleasure of the Board: a Nominating / Corporate Governance Committee, a Compensation Committee and an Audit Committee. The Board may appoint such other committees among the directors of the Corporation as it deems necessary and appropriate for the proper conduct of the Corporation's business and may appoint such officers, agents or employees of the Corporation to assist the committees of the Board as it deems necessary and appropriate. Meetings of committees may be called by the chairman of the committee on 24 hours notice to each committee member, either personally, by mail, telegram, facsimile or similar means and shall be called by the chairman of the committee in like manner and on like notice on the written request of a committee member. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

(b) The Nominating / Corporate Governance Committee shall consist of no fewer than three members of the Board, all of whom shall meet the independence requirements of the New York Stock Exchange. The Nominating / Corporate Governance Committee shall be responsible for proposing to the Board nominees for election as directors and shall possess and may exercise such additional powers and authority as may be delegated to it by the Board from time to time. The Nominating / Corporate Governance Committee shall report its actions to the Board at the next meeting of the Board following such actions. Vacancies in the membership of the Nominating / Corporate Governance Committee shall be filled by the Board of Directors.

(c) The Compensation Committee shall consist of no fewer than three members of the Board. The members of the Compensation Committee shall meet the independence requirements of the New York Stock Exchange and any legal requirements relevant to the proper administration of the Company's executive compensation program, including requirements under the federal securities laws and the Internal Revenue Code of 1986. The Compensation Committee shall be responsible for establishing salaries, bonuses and other compensation for the executive officers of the Corporation and for administering the Corporation's benefit plans, and shall possess and may exercise such additional powers and authority as may be delegated to it by the Board from time to time. The Compensation Committee shall report its actions to the Board at the next meeting of the Board following such actions. Vacancies in the membership of the Compensation Committee shall be filled by the Board of Directors.

(d) The Audit Committee shall consist of no fewer than three members of the Board. The members of the Audit Committee shall meet the independence requirements of the New York Stock Exchange, and any legal requirements relevant to the proper administration of the Company's financial reporting. The Audit Committee shall have general oversight responsibility with respect to the Corporation's financial reporting, shall engage the independent auditors and oversee, evaluate and, where appropriate, replace the independent auditors. Any engagement of the independent auditors by the Audit Committee may be subject to stockholder approval or ratification, as determined by the Board of Directors. The Audit Committee shall review with the independent auditors the scope of their examination and other matters (relating to both audit and non-audit activities), and review generally the internal auditing procedures of the Corporation. In undertaking the foregoing responsibilities, the Audit Committee shall have unrestricted access, if necessary, to personnel of the Corporation and documents and shall be provided with the resources and assistance necessary to discharge its responsibilities, including periodic reports from management assessing the impact of regulation, accounting, and reporting of other significant matters that may affect the Corporation. The Audit Committee shall review the financial reporting and adequacy of internal controls of the Corporation, consult with the internal auditors and certified public accountants, and from time to time, but not less than annually, report to the Board. Vacancies in the membership of the Audit Committee shall be filled by the Board of Directors.

Section 7. Conference Telephone Meetings. Any one or more members of the Board of Directors or any committee thereof may participate in meetings by means of a conference telephone or similar communications equipment and such participation in a meeting shall constitute presence in person at the meeting.

Section 8. Action Without Meetings. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken by unanimous written consent without a meeting to the extent and in the manner authorized by the laws of the State of Delaware.

#### ARTICLE IV OFFICERS

Section 1. Titles and Election. The officers of the Corporation may consist of a Chairman, a Chief Executive Officer, a President, one or more Vice Presidents (who may be designated as corporate Vice Presidents, Senior Vice Presidents, Executive Vice Presidents or Group Vice Presidents) a Secretary and a Treasurer, as appointed by the Board of Directors. The Corporation may have such additional or assistant officers as the Board of Directors may deem necessary for the Corporation's business and may appoint from time to time. The Board of

Directors shall also have the authority, but shall not be required, to designate officers as the Chief Operating Officer, the Chief Financial Officer or similar such titles. Any two or more offices may be held by the same person.

The officers of the Corporation shall be appointed annually by the Board of Directors at the first meeting of the Board held after each annual meeting of the stockholders. If officers are not appointed at such meeting, such appointment shall occur as soon as possible thereafter, or may be left vacant. Each officer shall hold office until a successor shall have been appointed and qualified or until said officer's earlier death, resignation, or removal.

If a director has not been designated as Chairman, or if the designated Chairman is not present at a meeting, the Board of Directors shall elect a Chairman from amongst its members to serve as Chairman of the Board of Directors for such meeting. The Chairman shall preside at all meetings of the Board of Directors, and shall have such other powers as the Board may determine.

Section 2. Duties. Subject to such extension, limitations, and other provisions as the Board of Directors or these By-Laws may from time to time prescribe or determine, the following officers shall have the following powers and duties:

(a) Chief Executive Officer. The Chief Executive Officer shall have general charge and supervision of the business of the Corporation, shall see that all orders, actions and resolutions of the Board of Directors are carried out, and shall have such other authority and shall perform such other duties as set forth in these Bylaws or, to the extent consistent with the Bylaws, such other authorities and duties as prescribed by the Board.

(b) Authority and Duties of Other Officers. Each officer other than the Chief Executive Officer shall have the authority and shall perform the duties prescribed by the Board of Directors, by the Chief Executive Officer, or by an officer authorized by the Board to prescribe the duties of such officer. Any designation of duties by the Chief Executive Officer or other officer shall be subject to review by the Board of Directors but shall be in full force and effect in the absence of such review.

In the absence or disability of the President, the Vice Presidents in order of seniority may, unless otherwise determined by the Board, exercise the powers and perform the duties pertaining to the office of President, except that if one or more executive Vice Presidents has been elected or appointed, the person holding such office in order of seniority shall exercise the powers and perform the duties of the office of President.

(c) Delegation of Authority. The Board of Directors may at any time delegate the powers and duties of any officer for the time being to any other officer, director or employee.

ARTICLE V  
RESIGNATIONS AND VACANCIES

Section 1. Resignations. Any director or officer may resign at any time by giving written notice thereof to the Board of Directors, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof; and unless otherwise specified therein, the acceptance of any resignation shall not be necessary to make it effective.

Section 2. Vacancies.

(a) Directors. Except for the rights of the holders of any series of preferred stock to elect additional directors, newly created directorships resulting from any increase in the authorized number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or in which the vacancy occurred and until such director's successor is duly elected and has been qualified. The directors also may reduce the authorized number of directors by the number of vacancies on the Board. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) Officers. The Board of Directors may at any time or from time to time fill any vacancy among the officers of the Corporation.

ARTICLE VI  
CAPITAL STOCK

Section 1. Certificate of Stock. Every stockholder shall be entitled to a certificate or certificates for shares of the capital stock of the Corporation in such form as may be prescribed or authorized by the Board of Directors, duly numbered and setting forth the number and kind of shares represented thereby. Such certificates shall be signed by the Chairman of the Board, the President or a Vice President and by the Treasurer or an assistant Treasurer or by the Secretary or an assistant Secretary. Any or all of such signatures may be in facsimile if and to the extent authorized under the laws of the State of Delaware.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on a certificate has ceased to be such officer, transfer agent or registrar before the certificate has been issued, such certificate may nevertheless be issued and delivered by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Shares of the capital stock of the Corporation shall be transferable only upon the books of the Corporation upon the surrender of the certificate or certificates properly assigned and endorsed for transfer. If the Corporation has a transfer agent or agents or transfer clerk and registrar of transfers acting on its behalf, the signature of any officer or representative thereof may be in facsimile.

The Board of Directors may appoint a transfer agent and one or more co-transfer agents and a registrar and one or more co-registrars of transfer and may make or authorize the transfer agents to make all such rules and regulations deemed expedient concerning the issue, transfer and registration of shares of stock.

Section 3. Record Dates.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix in advance a record date which, in the case of a meeting, shall not be less than ten (10) nor more than sixty (60) days prior to the scheduled date of such meeting and which, in the case of any other action, shall be not more than the maximum or less than the minimum number of days prior to any such action permitted by the laws of the State of Delaware.

(b) If no such record date is fixed by the Board, the record date shall be that prescribed by the laws of the State of Delaware.

(c) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 4. Lost Certificates. In case of loss or mutilation or destruction of a stock certificate, a duplicate certificate may be issued upon such terms as may be determined or authorized by the Board of Directors or by the President if the Board does not do so.

ARTICLE VII  
FISCAL YEAR, BANK DEPOSITS, CHECK, ETC.

Section 1. Fiscal Year. The fiscal year of the Corporation shall commence or end at such time as the Board of Directors may designate.

Section 2. Bank Deposits, Checks, etc. The funds of the Corporation shall be deposited in the name of the Corporation or of any division thereof in such banks or trust companies in the United States or elsewhere as may be designated from time to time by the Board of Directors, or by such officer or officers as the Board may authorize to make such designations.

All checks, drafts or other orders for the withdrawal of funds from any bank account shall be signed by such person or persons as may be designated from time to time by the Board of Directors. The signatures on checks, drafts or other orders for the withdrawal of funds may be in facsimile if authorized in the designation.

ARTICLE VIII  
BOOKS AND RECORDS

Section 1. Place of Keeping Books. Unless otherwise expressly required by the laws of the State of Delaware, the books and records of the Corporation may be kept outside of the State of Delaware.

Section 2. Examination of Books. Except as may otherwise be provided by the laws of the State of Delaware, the Restated Certificate of Incorporation or these By-Laws, the Board of Directors shall have power to determine from time to time whether and to what extent and at what times and places and under what conditions any of the accounts, records and books of the Corporation are to be open to the inspection of any stockholder. No stockholder shall have any right to inspect any account or book or document of the Corporation except as prescribed by the laws of the State of Delaware or authorized by express resolution of the Board of Directors.

ARTICLE IX  
NOTICES

Section 1. Requirements of Notice. Whenever notice is required to be given by the laws of the State of Delaware, the Restated Certificate of Incorporation or these By-Laws, it shall not mean personal notice unless so specified, but such notice may be given in writing by depositing the same in a post office, letter box, or mail chute postpaid and addressed to the person to whom such notice is directed at the address of such person on the records of the Corporation,

and such notice shall be deemed given at the time when the same shall be thus mailed.

Section 2. Waivers. Any stockholder, director or officer may, in writing or by telegram or cable, at any time waive any notice or other formality required by statute, the Restated Certificate of Incorporation or these By-Laws. Such waiver of notice, whether given before or after any meeting or action, shall be deemed equivalent to notice. Presence of a stockholder either in person or by proxy at any stockholders meeting and presence of any director at any meeting of the Board of Directors shall constitute a waiver of such notice as may be required by any statute, the Restated Certificate of Incorporation or these By-Laws.

ARTICLE X  
SEAL

The corporate seal of the Corporation shall consist of two concentric circles between which shall be the name of the Corporation and the date of its incorporation, and in the center of which shall be inscribed "Corporate Seal, Delaware."

ARTICLE XI  
POWERS OF ATTORNEY

The Board of Directors may authorize one or more of the officers of the Corporation to execute powers of attorney delegating to named representatives or agents power to represent or act on behalf of the Corporation, with or without power of substitution.

In the absence of any action by the Board, the President, any Vice President, the Secretary or the Treasurer of the Corporation may execute for and on behalf of the Corporation waivers of notice of stockholders meetings and proxies for such meetings in any company in which the Corporation may hold voting securities.

ARTICLE XII  
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Definitions. As used in this article, the term "person" means any past, present or future director or officer of the Corporation or any subsidiary or operating division thereof.

Section 2. Indemnification Granted. The Corporation shall indemnify, to the full extent and under the circumstances permitted by the General Corporation Law of the State of Delaware in effect from time to time, any person as defined above, made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or

investigative, by reason of the fact that such person is or was a director or officer of the Corporation or a subsidiary or operating division thereof, or is or was serving at the specific request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges, expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person or on such person's behalf in connection with such action, suit or proceeding and any appeal therefrom, if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such conduct was unlawful.

Section 3. Requirements for Indemnification Relating to an Action or Suit by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the Corporation, or a subsidiary thereof or a designated officer of an operating division of the Corporation, or is or was serving at the specific request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by such person or on such person's behalf in connection with the defense or settlement of such action or suit and any appeal therefrom, if such person acted in good faith and in a manner that such person reasonably believed to be in or not opposed to the best interest of the Corporation except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such costs, charges and expenses which the Court of Chancery or such other court shall deem proper.

Section 4. Success on Merits of Any Action. Notwithstanding any other provision of this Article XII, to the extent that a director or officer of the

Corporation or any subsidiary or operating division thereof has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in defense of any action, suit or proceeding referred to in this Article XII, or in defense of any claim, issue or matter therein, such person shall be indemnified against all costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by such person or on such person's behalf in connection therewith.

Section 5. Determination of Standard of Conduct. Any indemnification under Sections 2 and 3 of this Article XII (unless ordered by a court) shall be paid by the Corporation only after a determination has been made (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders, that indemnification of the director or officer is proper in the circumstances of the specific case because such person has met the applicable standard of conduct set forth in Sections 2 and 3 of this Article XII.

Section 6. Advance Payment; Representation by Corporation. Costs, charges and expenses (including attorneys' fees) incurred by a person referred to in Sections 2 and 3 of this Article XII in defending a civil or criminal action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; provided, however, that the payment of such costs, charges and expenses incurred by a director or officer in such capacity as officer or director (and not in any other capacity and which service was or is rendered by such person while a director or officer) in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay all amounts so advanced in the event that it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation as authorized in this Article XII. Such costs, charges and expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Corporation may, in the manner set forth above, and upon approval of such director or officer, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

Section 7. Procedure for Obtaining Indemnity. Any indemnification under Sections 2, 3 and 4, or advance of costs, charges and expenses under Section 6, of this Article XII shall be made promptly, and in any event within sixty (60) days, of the written notice of the director or officer. The right to indemnification or advances as granted by this Article XII shall be enforceable by

the director or officer in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within sixty (60) days. Such person's costs and expenses incurred in connection with successfully establishing a right to indemnification or advancement of expenses, in whole or in part, in any action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 6 of this Article XII where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Section 2 or 3 of this Article XII, but the burden of proving such defense shall be on the Corporation. Neither failure of the Corporation (including its Board of Directors, a committee thereof, its independent legal counsel, and its stockholders) to have made a determination that indemnification of the claimant is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 2 or 3 of this Article XII, nor the fact that there has been an actual determination by the Corporation (including its directors, a committee thereof, its independent legal counsel and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 8. Indemnification Not Exclusive. This right of indemnification shall not be deemed exclusive of any other rights to which a person indemnified herein may be entitled by law, agreement, vote of stockholders or disinterested directors or otherwise, and shall continue as to a person who has ceased to be a director, officer, designated officer, employee or agent and shall inure to the benefit of the heirs, executors, administrators and other legal representatives of such person. It is not intended that the provisions of this Article XII be applicable to, and they are not to be construed as granting indemnity with respect to, matters as to which indemnification would be in contravention of the laws of Delaware or of the United States of America, whether as a matter of public policy or pursuant to statutory provision.

Section 9. Invalidity of Certain Provisions. If this Article XII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation or any subsidiary or operating division thereof as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including any action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article XII that shall not have been invalidated and to the full extent permitted by applicable law.

Section 10. Miscellaneous. The Board of Directors may also on behalf of the Corporation grant indemnification to any individual other than a person defined herein to such extent and in such manner as the Board in its sole discretion may from time to time and at any time determine.

ARTICLE XIII  
AMENDMENTS

These By-Laws may be altered, amended or repealed, and new By-Laws may be made, by the affirmative vote of a majority of the directors then in office.

**Extension of Consulting Agreement**

This Extension of Consulting Agreement is made as of February 16, 2004, by and between TREX COMPANY, INC. and FERRARI CONSULTING, LLC.

The parties agree as follows:

1. The parties entered into a Consulting Agreement dated as of March 17, 2003, and extended as of July 16, 2003 and October 16, 2003 (the "Consulting Agreement"). The parties desire that the Consulting Agreement be extended an additional four (4) months. Accordingly, the first and last sentence of Section 4 of the Consulting Agreement are amended to replace "February 16, 2004" with "June 16, 2004".

2. Subject to the amendment above, all of the terms of the Consulting Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this document as of the date first set forth above.

TREX COMPANY, INC.

By:           /s/ Robert G. Matheny          

Title:           Chief Executive Officer          

FERRARI CONSULTING, LLC

By:           /s/ Andrew U. Ferrari          

Title:           President

**Extension of Consulting Agreement**

This Extension of Consulting Agreement is made as of October 16, 2003, by and between TREX COMPANY, INC. and FERRARI CONSULTING, LLC.

The parties agree as follows:

1. The parties entered into a Consulting Agreement dated as of March 17, 2003, and extended as of July 16, 2003 (the "Consulting Agreement"). The parties desire that the Consulting Agreement be extended an additional four (4) months. Accordingly, the first and last sentence of Section 4 of the Consulting Agreement are amended to replace "October 16, 2003" with "February 16, 2004".

2. Subject to the amendment above, all of the terms of the Consulting Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this document as of the date first set forth above.

TREX COMPANY, INC.

By: /s/ Robert G. Matheny

Title: President

FERRARI CONSULTING, LLC

By: /s/ Andrew U. Ferrari

Title: President

**TREX COMPANY, INC.**  
**AMENDED AND RESTATED 1999 STOCK OPTION AND INCENTIVE PLAN**

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**TREX COMPANY, INC.**  
**AMENDED AND RESTATED 1999 STOCK OPTION AND INCENTIVE PLAN**

Trex Company, Inc., a Delaware corporation (the “Company”), sets forth herein the terms of its Amended and Restated 1999 Stock Option and Incentive Plan (the “Plan”) as follows:

**1. PURPOSE**

The Plan is intended to enhance the Company’s ability to attract and retain highly qualified officers, key employees, outside directors and other persons, and to motivate such officers, key employees, outside directors and other persons to serve the Company and its affiliates (as defined herein) and to expend maximum effort to improve the business results and earnings of the Company, by providing to such officers, key employees, outside directors and other persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, restricted stock, restricted stock units, unrestricted stock and stock appreciation rights in accordance with the terms hereof. Stock options granted under the Plan may be non-qualified stock options or incentive stock options, as provided herein, except that stock options granted to outside directors and all Service Providers shall in all cases be non-qualified stock options.

**2. DEFINITIONS**

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

- 2.1. “Affiliate” of, or person “affiliated” with, a person means any company or other trade or business that controls, is controlled by or is under common control with such person within the meaning of Rule 405 of Regulation C under the Securities Act.
- 2.2. “Award Agreement” means the stock option agreement, restricted stock agreement, restricted stock unit agreement, stock appreciation right agreement or other written agreement between the Company and a Grantee that evidences and sets out the terms and conditions of a Grant.
- 2.3. “Board” means the Board of Directors of the Company.
- 2.4. “Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

- 2.5. "Committee" means a committee of, and designated from time to time by resolution of, the Board, which shall consist of no fewer than two members of the Board, none of whom shall be an officer or other salaried employee of the Company or any affiliate of the Company.
- 2.6. "Company" means Trex Company, Inc., a Delaware corporation and any entity which is treated as a "disregarded entity" pursuant to Section 7701 of the Code.
- 2.7. "Effective Date" means the date designated by the Board in its resolution adopting the Plan.
- 2.8. "Exchange Act" means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.
- 2.9. "Fair Market Value" means the closing price of a share of Stock reported on the New York Stock Exchange ("NYSE") on the date Fair Market Value is being determined, provided that if there should be no closing price reported on such date, the Fair Market Value of a share of Stock on such date shall be deemed equal to the closing price as reported by the NYSE for the last preceding date on which sales of shares were reported. Notwithstanding the foregoing, in the event that the shares of Stock are listed upon more than one established stock exchange, Fair Market Value means the closing price of a share of Stock reported on the exchange that trades the largest volume of shares on such date. If the Stock is not at the time listed or admitted to trading on a stock exchange, Fair Market Value means the mean between the lowest reported bid price and highest reported asked price of the Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Board and regularly reporting the market price of Stock in such market. If the Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, Fair Market Value shall be as determined in good faith by the Board.
- 2.10. "Grant" means an award of an Option, Restricted Stock, Restricted Stock Unit, Unrestricted Stock, or Stock Appreciation Right under the Plan.
- 2.11. "Grant Date" means, as determined by the Board or authorized Committee, (i) the date as of which the Board or such Committee approves a Grant or (ii) such other date as may be specified by the Board or such Committee.
- 2.12. "Grantee" means a person who receives or holds an Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right or Unrestricted Stock under the Plan.

- 2.13. "Immediate Family Members" means the spouse, children, grandchildren, parents and siblings of the Grantee.
- 2.14. "Incentive Stock Option" means an "incentive stock option" within the meaning of Section 422 of the Code.
- 2.15. "Option" means an option to purchase one or more shares of Stock pursuant to the Plan.
- 2.16. "Option Period" means the period during which Options may be exercised as set forth in **Section 10** hereof.
- 2.17. "Option Price" means the purchase price for each share of Stock subject to an Option.
- 2.18. "Outside Director" means a member of the Board who is not an officer or employee of the Company or any Subsidiary.
- 2.19. "Plan" means this Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan, as amended from time to time.
- 2.20. "Reporting Person" means a person who is required to file reports under Section 16(a) of the Exchange Act.
- 2.21. "Restricted Period" means the period during which Restricted Stock or Restricted Stock Units are subject to restrictions or conditions pursuant to **Section 12.2** hereof.
- 2.22. "Restricted Stock" means shares of Stock, awarded to a Grantee pursuant to **Section 12** hereof, that are subject to restrictions and to a risk of forfeiture.
- 2.23. "Restricted Stock Unit" means a unit awarded to a Grantee pursuant to **Section 12** hereof, which represents a conditional right to receive a share of Stock in the future, and which is subject to restrictions and to a risk of forfeiture.
- 2.24. "Securities Act" means the Securities Act of 1933, as now in effect or as hereafter amended.
- 2.25. "Service Provider" means a consultant or adviser to the Company, a manager of the Company's properties or affairs, or other similar service provider or Affiliate of the Company, and employees of any of the foregoing, as such

persons may be designated from time to time by the Board pursuant to **Section 6** hereof.

- 2.26. "Stock" means the common stock, par value \$0.01 per share, of the Company.
- 2.27. "Stock Appreciation Right" or "SAR" means a right granted to a Grantee pursuant to **Section 13** hereof.
- 2.28. "Subsidiary" means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code.
- 2.29. "Termination Date" means the date upon which an Option shall terminate or expire, as set forth in **Section 10.2** hereof.
- 2.30. "Unrestricted Stock" means an award of Stock granted to a Grantee pursuant to **Section 14** hereof.

### **3. ADMINISTRATION OF THE PLAN**

#### **3.1. Board**

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company's certificate of incorporation, bylaws and applicable law. The Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Grant or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan, any Grant or any Award Agreement. All such actions and determinations shall be by the affirmative vote of a majority of the members of the Board present at a meeting or by unanimous consent of the Board executed in writing in accordance with the Company's certificate of incorporation, bylaws and applicable law. The interpretation and construction by the Board of any provision of the Plan, any Grant or any Award Agreement shall be final and conclusive. As permitted by law, the Board may delegate its authority under the Plan to a member of the Board or an executive officer of the Company; provided, however, that, unless otherwise provided by resolution of the Board, only the Board or the Committee may make a Grant to an executive officer of the Company and establish the number of shares of Stock that may be subject to Grants with respect to any fiscal period.

### **3.2. Committee.**

The Board from time to time may delegate to a Committee such powers and authorities related to the administration and implementation of the Plan, as set forth in **Section 3.1** hereof and in other applicable provisions of the Plan, as the Board shall determine, consistent with the Company's certificate of incorporation, bylaws and applicable law. In the event that the Plan, any Grant or any Award Agreement provides for any action to be taken or determination to be made by the Board, such action may be taken by or such determination may be made by the Committee if the power and authority to do so has been delegated to the Committee by the Board as provided for in this **Section 3.2**. Unless otherwise expressly determined by the Board, any such action or determination by the Committee shall be final, binding and conclusive. As permitted by law, the Committee may delegate the authority delegated to it under the Plan to a member of the Board of Directors or an executive officer of the Company; provided, however, that, unless otherwise provided by the Board, only the Board or the Committee may make a Grant to a Reporting Person of the Company and establish the number of shares of Stock that may be subject to Grants during any fiscal period.

### **3.3. Grants.**

Subject to the other terms and conditions of the Plan, the Board shall have full and final authority (i) to designate Grantees, (ii) to determine the types of Grants to be made to a Grantee, (iii) to determine the number of shares of Stock to be subject to a Grant, (iv) to establish the terms and conditions of each Grant, including, but not limited to, the Option Price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof, including lapse relating to a change in control of the Company) relating to the vesting, exercise, transfer or forfeiture of a Grant or the shares of Stock subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options, (v) to prescribe the form of each Award Agreement evidencing a Grant, (vi) to make Grants alone, in addition to, in tandem with, or in substitution or exchange for any other Grant or any other award granted under another plan of the Company or a Subsidiary, and (vii) to amend, modify or supplement the terms of any outstanding Grant. Such authority specifically includes the authority, in order to effectuate the purposes of the Plan but without amending the Plan, to modify Grants to eligible individuals who are foreign nationals or are individuals who are employed outside the United States to recognize differences in local law, tax policy or custom. As a condition to any subsequent Grant, the Board shall have the right, at its discretion, to require Grantees to return to the Company any Grants previously awarded under the Plan. Subject to the terms and conditions of the Plan, any such subsequent Grant shall be upon such terms and conditions as are specified by the Board at the time the subsequent Grant is made.

The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee on account of actions taken by the Grantee in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any affiliate thereof or any confidentiality obligation with respect to the Company or any affiliate thereof or otherwise in competition with the Company, to the extent specified in such Award Agreement applicable to the Grantee. Furthermore, the Company may annul a Grant if the Grantee is an employee of the Company or an affiliate thereof and is terminated “for cause” as defined in the applicable Award Agreement. The Board may permit or require the deferral of any award payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Stock equivalents.

**3.4. No Liability.**

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant or Award Agreement.

**3.5. Applicability of Rule 16b-3.**

Those provisions of the Plan that make express reference to Rule 16b-3 under the Exchange Act shall apply only to Reporting Persons.

**4. STOCK SUBJECT TO THE PLAN**

**4.1. Aggregate Limitation.**

Subject to adjustment as provided in **Section 18** hereof, the aggregate number of shares of Stock available for issuance under the Plan pursuant to Options or other Grants shall be one million four hundred thousand (1,400,000) shares and shares may be authorized but unissued shares, treasury shares or issued and outstanding shares that are purchased in the open market. Any shares of Stock granted under the Plan which are forfeited to the Company because of the failure to meet an award contingency or condition shall again be available for issuance pursuant to new awards granted under the Plan. Any shares of Stock covered by an award (or portion of an award) granted under the Plan which is forfeited or canceled, expires or is settled in cash shall be deemed not to have been issued for purposes of determining the maximum number of shares of Stock available for issuance under the Plan. If any stock option is exercised by tendering shares of Stock, either actually or by attestation, to the Company as full or partial payment in connection with the exercise of a stock option under the Plan or any

prior plan of the Company as hereinabove described, only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed issued for purposes of determining the maximum number of shares of Stock available for issuance under the Plan. Shares of Stock issued under the Plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards resulting from the acquisition of another entity shall not reduce the maximum number of shares available for issuance under the Plan.

**4.2. Other Plan Limits.**

Subject to adjustment as provided in **Section 18** hereof, the following additional limitations are imposed under the Plan. The maximum number of shares of Stock that may be delivered through stock options intended to be Incentive Stock Options shall be one million four hundred thousand (1,400,000). Subject to adjustment as provided in **Section 19** hereof, the maximum number of shares of Stock that may be issued in conjunction with awards granted pursuant to **Section 12** and **14** hereof shall be two hundred fifty thousand (250,000); provided, however, that shares issued in satisfaction of other compensation obligations of the Company shall not count against this maximum number.

**4.3. Payment Shares.**

Subject to the overall limitation on the number of shares of Stock that may be delivered under the Plan, the Board may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company, including the plan of any entity acquired by the Company, and such payment shares shall not count against the limitation on the maximum number of shares specified in **Section 4.2**.

**4.4. Application of Aggregate Limitation.**

The Board may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares of Stock previously counted in connection with a Grant.

**4.5. Per-Grantee Limitation.**

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act:

- (i) no person eligible for a Grant under **Section 6** hereof may be awarded Options for purposes of the Plan exercisable for greater than five hundred thousand (500,000) shares of Stock (subject to adjustment as provided in **Section 18** hereof);
- (ii) the maximum number of shares of Unrestricted Stock and Restricted Stock that may be awarded under the Plan (including for this purpose any shares of Stock represented by Restricted Stock Units) to any person eligible for a Grant under **Section 12** and **14** hereof is two hundred fifty thousand (250,000) for purposes of the Plan (subject to adjustment as provided in **Section 18** hereof);
- (iii) the maximum number of shares of Stock that may be the subject of SARs awarded to any Grantee under **Section 13** hereof is two hundred fifty thousand (250,000) for purposes of the Plan (subject to adjustment as provided in **Section 18** hereof).

**5. EFFECTIVE DATE AND TERM OF THE PLAN**

**5.1. Effective Date.**

The Plan shall be effective as of the Effective Date, subject to approval of the Plan by the stockholders of the Company, within one year before or after the date upon which the Plan was adopted by the Board. Such approval shall be by a majority of the votes cast on the proposal at a meeting of stockholders, provided that a quorum is present. Upon approval of the Plan by the stockholders of the Company as set forth above, all Grants made under the Plan on or after the Effective Date shall be fully effective as if the stockholders of the Company had approved the Plan on the Effective Date. If the stockholders fail to approve the Plan within the time period set forth above, any Grants made hereunder shall be null and void and of no effect.

**5.2. Term.**

The Plan has no termination date; however, no Incentive Stock Option may be granted under the Plan on or after April 7, 2009.

**6. PERMISSIBLE GRANTEES**

**6.1. Employees and Service Providers.**

Subject to the provisions of **Section 7** hereof, Grants may be made under the Plan to any employee of the Company or any Subsidiary, including any such

employee who is an officer or director of the Company, to an Outside Director, to a Service Provider or employee of a Service Provider providing, or who has provided, services to the Company or any Subsidiary, and to any other individual whose participation in the Plan is determined by the Board to be in the best interests of the Company, as the Board shall determine and designate from time to time.

## **6.2. Multiple Grants.**

An eligible person may receive more than one Grant, subject to such restrictions as are provided herein.

## **7. LIMITATIONS ON GRANTS OF INCENTIVE STOCK OPTIONS**

An Option shall constitute an Incentive Stock Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its affiliates) does not exceed \$100,000. This limitation shall be applied by taking Options into account in the order in which they were granted.

## **8. AWARD AGREEMENT**

Each Grant pursuant to the Plan shall be evidenced by an Award Agreement, in such form or forms as the Board shall from time to time determine. Award Agreements issued from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing a Grant of Options shall specify whether such Options are intended to be non-qualified stock options or Incentive Stock Options, and in the absence of such specification such options shall be deemed non-qualified stock options.

## **9. OPTION PRICE**

The Option Price of each Option shall be no less than the Fair Market Value of a share of Stock on the date of grant and stated in the Award Agreement evidencing such Option; provided, however, that in the event that a Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent (10%) of the Company's outstanding shares of Stock), the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than one hundred ten percent (110%) of the

Fair Market Value of a share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a share of Stock.

## **10. VESTING, TERM AND EXERCISE OF OPTIONS**

### **10.1. Vesting and Option Period.**

Subject to **Sections 10.2 and 18** hereof, each Option granted under the Plan shall become exercisable at such times and under such conditions as shall be determined by the Board and stated in the Award Agreement. For purposes of this **Section 10.1**, fractional numbers of shares of Stock subject to an Option shall be rounded down to the next nearest whole number. The period during which any Option shall be exercisable shall constitute the "Option Period" with respect to such Option.

### **10.2. Term.**

Each Option granted under the Plan shall terminate, and all rights to purchase shares of Stock thereunder shall cease, upon the expiration of ten years from the date such Option is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and thereafter stated in the Award Agreement relating to such Option; provided, however, that in the event that the Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent (10%) of the outstanding shares of Stock), an Option granted to such Grantee that is intended to be an Incentive Stock Option shall not be exercisable after the expiration of five years from its date of grant.

### **10.3. Acceleration.**

Any limitation on the exercise of an Option contained in any Award Agreement may be rescinded, modified or waived by the Board, in its sole discretion, at any time and from time to time after the Grant Date of such Option, so as to accelerate the time at which the Option may be exercised.

### **10.4. Termination of Employment or Other Relationship for a Reason Other than Retirement, Death or Disability.**

Unless otherwise provided by the Board or in the Option Agreement, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries other than by reason of death, "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) or retirement, any Option or

portion thereof held by such Grantee that has not vested in accordance with the provisions of **Section 10.1** hereof shall terminate immediately, and any Option or portion thereof that has vested in accordance with the provisions of **Section 10.1** hereof but has not been exercised shall terminate at the close of business on the 90th day following the Grantee's termination of employment or other relationship (or, if such 90th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday). Upon termination of an Option or portion thereof, the Grantee shall have no further right to purchase shares of Stock pursuant to such Option or portion thereof. Whether a leave of absence or leave on military or government service shall constitute a termination of employment or other relationship for purposes of the Plan shall be determined by the Board, whose determination shall be final and conclusive. For purposes of the Plan, a termination of employment, service or other relationship shall not be deemed to occur if the Grantee is immediately thereafter employed with the Company, a Subsidiary or a Service Provider, or is engaged as a Service Provider or an Outside Director. Whether a termination of a Grantee's employment or other relationship with the Company and its Subsidiaries shall have occurred shall be determined by the Board, whose determination shall be final and conclusive.

**10.5. Rights in the Event of Death.**

Unless otherwise provided by the Board, if a Grantee dies while employed by or providing services to the Company, all Options granted to such Grantee that have not previously terminated shall fully vest on the date of death, and the executors or administrators or legatees or distributees of such Grantee's estate shall have the right, at any time within five years after the date of such Grantee's death and prior to termination of the Option pursuant to **Section 10.2** hereof, to exercise any Option held by such Grantee at the date of such Grantee's death.

**10.6. Rights in the Event of Disability.**

Unless otherwise provided by the Board, if a Grantee's employment or other relationship with the Company is terminated by reason of the "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) of such Grantee, such Grantee's Options that have not previously terminated shall fully vest, and shall be exercisable for a period of five years after such termination of employment or other relationship, subject to earlier termination of the Option as provided in **Section 10.2** hereof. Whether a termination of employment or other relationship is considered to be by reason of "permanent and total disability" for purposes of the Plan shall be determined by the Board, whose determination shall be final and conclusive.

#### **10.7. Rights in the Event of Retirement.**

Unless otherwise provided by the Board, if a Grantee retires under the terms of any Company retirement plan applicable to the Grantee or as determined by the Board, the Grantee shall be considered retired and all Options granted to such Grantee that have not previously terminated shall fully vest on the date of retirement, and the Grantee shall have the right, at any time within five years after the date of such Grantee's retirement and prior to termination of the Option pursuant to **Section 10.2** hereof, to exercise any Option held by such Grantee at the date of such Grantee's retirement.

#### **10.8. Limitations on Exercise of Option.**

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, prior to the date the Plan is approved by the stockholders of the Company as provided herein, or after ten years following the date upon which the Option is granted, or after the occurrence of an event referred to in **Section 18** hereof which results in termination of the Option.

#### **10.9. Method of Exercise.**

An Option that is exercisable may be exercised by the Grantee's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, addressed to the attention of the Board. Such notice shall specify the number of shares of Stock with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares of Stock for which the Option is being exercised. The minimum number of shares of Stock with respect to which an Option may be exercised, in whole or in part, at any time shall be the lesser of (i) 100 shares or such lesser number set forth in the applicable Award Agreement and (ii) the maximum number of shares of Stock available for purchase under the Option at the time of exercise. Payment of the Option Price for the shares of Stock purchased pursuant to the exercise of an Option shall be made (i) in cash or in cash equivalents acceptable to the Company; (ii) to the extent permitted by law and at the Board's discretion, through the actual or constructive tender to the Company of shares of Stock, which shares of Stock, if acquired from the Company, shall have been held for at least six months prior to such tender and which shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at their Fair Market Value on the date of exercise; or (iii) to the extent permitted by law and at the Board's discretion, by a combination of the methods described in clauses (i) and (ii). The Board may provide, by inclusion of appropriate language in an Award Agreement, that payment in full of the Option Price need not accompany the written notice of exercise, provided that the notice is accompanied by delivery of an unconditional

and irrevocable undertaking by a licensed broker acceptable to the Company as the agent for the individual exercising the Option to deliver promptly to the Company sufficient funds to pay the Option Price and directs that the certificate or certificates for the shares of Stock for which the Option is exercised be delivered to a licensed broker acceptable to the Company as the agent for the individual exercising the Option and, at the time such certificate or certificates are delivered, the broker tenders to the Company cash (or cash equivalents acceptable to the Company) equal to the Option Price for the shares of Stock purchased pursuant to the exercise of the Option plus the amount (if any) of federal or other taxes which the Company may in its judgment be required to withhold with respect to the exercise of the Option. An attempt to exercise any Option granted hereunder other than as set forth above shall be invalid and of no force and effect.

**10.10. Rights as a Stockholder; Dividend Equivalents.**

Unless otherwise stated in the applicable Award Agreement, an individual holding or exercising an Option shall have none of the rights of a stockholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject shares of Stock or to direct the voting of the subject shares of Stock) until the shares of Stock covered thereby are fully paid and issued to such individual. Except as provided in **Section 18** hereof, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance. However, the Board may, on such conditions as it deems appropriate, provide that a Grantee will receive a benefit in lieu of cash dividends that would have been payable on any or all shares of Stock subject to the Grant if such shares of Stock had been outstanding. Without limitation, the Board may provide for payment to the Grantee of amounts representing such dividends, either currently or in the future, or for the investment of such amounts on behalf of the Grantee.

**10.11. Delivery of Stock Certificates.**

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price, such Grantee shall be entitled to the issuance of a Stock certificate or certificates evidencing such Grantee's ownership of the shares of Stock subject to the Option.

**11. TRANSFERABILITY OF OPTIONS**

**11.1. General Rule**

Except as provided in **Section 11.2** hereof, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's

guardian or legal representative) may exercise an Option. Except as provided in **Section 11.2** hereof, no Option shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

### **11.2. Family Transfers.**

To the extent permitted by the Board and under such rules and conditions as imposed by the Board, a Grantee may transfer all or part of an Option that is not an Incentive Stock Option to (i) any Immediate Family Member, (ii) a trust or trusts for the exclusive benefit of any Immediate Family Member or (iii) a partnership or limited liability company in which Immediate Family Members are the only partners or members, provided that (x) there may be no consideration for any such transfer, and (y) subsequent transfers of transferred Options or transfers of an interest in a trust, partnership, or limited liability company to which an Option has been transferred are prohibited except those in accordance with this **Section 11.2** or by will or the laws of descent and distribution. Following such transfer, any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer, provided that, for purposes of this **Section 11.2**, the term "Grantee" shall be deemed to refer to the transferee. The events of termination of employment or other relationship referred to in **Section 10.4** hereof shall continue to be applied with respect to the original Grantee, following which the Option shall be exercisable by the transferee only to the extent and for the periods specified in **Section 10.4, 10.5, 10.6** or **10.7** hereof.

## **12. RESTRICTED STOCK**

### **12.1. Grant of Restricted Stock or Restricted Stock Units.**

The Board from time to time may grant Restricted Stock or Restricted Stock Units to persons eligible to receive Grants under **Section 6** hereof, subject to such restrictions, conditions and other terms as the Board may determine.

### **12.2. Restrictions.**

At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Board shall establish a period of time (the "Restricted Period") applicable to such Restricted Stock or Restricted Stock Units. Unless otherwise determined by the Board, unless the Grant is being made in consideration of compensation due under another plan, or unless vesting is subject to performance, the Restricted Period will be a minimum of three years. Each Grant of Restricted Stock or Restricted Stock Units may be subject to a different Restricted Period. At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Board may, in its sole discretion, prescribe restrictions in addition to or other than the expiration of the

Restricted Period, including the satisfaction of corporate or individual performance objectives, which may be applicable to all or any portion of the Restricted Stock or Restricted Stock Units. Such performance objectives shall be established in writing by the Board by not later than the 90th day of the period of service to which such performance objectives relate and while the outcome is substantially uncertain. Performance objectives may be stated either on an absolute or relative basis and may be based on any of the following criteria: earnings per share, total stockholder return, operating earnings, growth in assets, return on equity, return on capital, market share, stock price, net income, cash flow, sales growth (in general, by type of product and by type of customer), retained earnings, completion of acquisitions, completion of divestitures and asset sales, cost or expense reductions, introduction or conversion of product brands and achievement of specified management information systems objectives. Performance objectives may include positive results, maintaining the status quo or limiting economic losses. Subject to the fifth sentence of this **Section 12.2**, the Board also may, in its sole discretion, shorten or terminate the Restricted Period or waive any other restrictions applicable to all or a portion of the Restricted Stock or Restricted Stock Units. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Board with respect to such Restricted Stock or Restricted Stock Units.

### **12.3. Restricted Stock Certificates.**

The Company shall issue, in the name of each Grantee to whom Restricted Stock has been granted, Stock certificates representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee's benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends complying with the applicable securities laws and regulations and making appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

### **12.4. Rights of Holders of Restricted Stock.**

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock shall have the right to vote such shares of Stock and the right to receive any dividends declared or paid with respect to such shares of Stock. The Board may provide that any dividends paid on Restricted Stock must be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any,

received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares or other similar transaction shall be subject to the restrictions applicable to the original Grant.

#### **12.5. Rights of Holders of Restricted Stock Units.**

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock Units shall have no rights as stockholders of the Company. The Board may provide in an Award Agreement evidencing a Grant of Restricted Stock Units that the holder of such Restricted Stock Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Restricted Stock Unit held equal to the per-share dividend paid on the shares of Stock. Such Award Agreement may also provide that such cash payment will be deemed reinvested in additional Restricted Stock Units at a price per unit equal to the Fair Market Value of a share on the date that such dividend is paid.

#### **12.6. Termination of Employment or Other Relationship for a Reason Other than Death or Disability.**

Unless otherwise provided by the Board, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries, in either case other than, in the case of individuals, by reason of death or "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code), any Restricted Stock or Restricted Stock Units held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of Restricted Stock or Restricted Stock Units, the Grantee shall have no further rights with respect to such Grant, including, but not limited to, any right to vote Restricted Stock or any right to receive dividends with respect to Restricted Stock or Restricted Stock Units. Whether a leave of absence or leave on military or government service shall constitute a termination of employment or other relationship for purposes of the Plan shall be determined by the Board, whose determination shall be final and conclusive. For purposes of the Plan, a termination of employment, service or other relationship shall not be deemed to occur if the Grantee is immediately thereafter employed with the Company or any other Service Provider, or is engaged as a Service Provider or an Outside Director. Whether a termination of a Grantee's employment or other relationship with the Company and its Subsidiaries shall have occurred shall be determined by the Board, whose determination shall be final and conclusive.

### **12.7. Rights in the Event of Death.**

Unless otherwise provided by the Board, if a Grantee dies while employed by the Company or a Service Provider, or while serving as a Service Provider, all Restricted Stock or Restricted Stock Units granted to such Grantee shall fully vest on the date of death unless the Board provided otherwise in the Award Agreement relating to such Restricted Stock or Restricted Stock Units. Upon such vesting, the shares of Stock represented thereby shall be deliverable in accordance with the terms of the Plan to the executors, administrators, legatees or distributees of the Grantee's estate.

### **12.8. Rights in the Event of Disability.**

Unless otherwise provided by the Board, if a Grantee's employment or other relationship with the Company or a Service Provider, or service as a Service Provider, is terminated by reason of the "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) of such Grantee, such Grantee's then unvested Restricted Stock or Restricted Stock Units shall be fully vested. Whether a termination of employment, service or other relationship is to be considered by reason of "permanent and total disability" for purposes of the Plan shall be determined by the Board, whose determination shall be final and conclusive.

### **12.9. Delivery of Shares and Payment Therefor.**

Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to Restricted Stock or Restricted Stock Units shall lapse, and, unless otherwise provided in the Award Agreement, upon payment by the Grantee to the Company, in cash or by check, of the greater of (i) the aggregate par value of the shares of Stock represented by such Restricted Stock or Restricted Stock Units or (ii) the purchase price, if any, specified in the Award Agreement relating to such Restricted Stock or Restricted Stock Units, a certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be.

## **13. STOCK APPRECIATION RIGHTS**

### **13.1. Grant of Stock Appreciation Rights.**

The Board may from time to time grant SARs to persons eligible to receive grants under **Section 6** hereof, subject to the provisions of this **Section 13** and to such restrictions, conditions and other terms as the Board may determine.

### **13.2. Nature of a Stock Appreciation Right.**

An SAR shall confer on the Grantee a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR, as determined by the Board. Unless the Board provides otherwise in the Award Agreement, the grant price of an SAR shall not be less than the Fair Market Value of a share of Stock on the Grant Date.

### **13.3. Terms and Conditions Governing SARs.**

The Board shall determine at the Grant Date or thereafter the time or times at which and the circumstances under which an SAR may be exercised in whole or in part (including exercise based on achievement of performance objectives or future service requirements), the time or times at which and the circumstances under which an SAR shall cease to be exercisable, the method of exercise, the method of settlement, form of consideration payable in settlement, whether or not an SAR shall be in tandem or in combination with any other Grant, and any other terms and conditions of any SAR.

### **14. UNRESTRICTED STOCK**

The Board may, in its sole discretion, grant Stock (or sell Stock at par value or such other higher purchase price determined by the Board) free of restrictions other than those required under federal or state securities laws ("Unrestricted Stock") to persons eligible to receive grants under **Section 6** hereof. Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of any cash compensation due to such Grantee.

### **15. PARACHUTE LIMITATIONS**

If the Grantee is a "disqualified individual" (as defined in Section 280G(c) of the Code), any Option, Restricted Stock, Restricted Stock Unit or SAR and any other right to receive any payment or benefit under the Plan shall not vest or become exercisable (i) to the extent that the right to vest or any other right to any payment or benefit, taking into account all other rights, payments or benefits to or for the Grantee, would cause any payment or benefit to the Grantee under the Plan to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under any Award Agreements, the Plan, and all other rights, payments or benefits to or for the Grantee would be less than the maximum after-tax amount that could be received by the Grantee without causing the payment or benefit to be considered a Parachute Payment. In the event that, but for the

provisions of this **Section 15**, the Grantee would be considered to have received a Parachute Payment under any Award Agreements that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then the Grantee shall have the right, in the Grantee's sole discretion, to designate any rights, payments or benefits under any Award Agreements, the Plan, any other agreements and any benefit arrangements to be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under any Award Agreements be deemed to be a Parachute Payment.

## **16. REQUIREMENTS OF LAW**

### **16.1. General.**

The Company shall not be required to sell or issue any shares of Stock under any Grant if the sale or issuance of such shares of Stock would constitute a violation by the Grantee, any other person exercising a right emanating from such Grant, or the Company of any provision of any law or regulation of any governmental authority, including, without limitation, any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares of Stock subject to a Grant upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares of Stock hereunder, no shares of Stock may be issued or sold to the Grantee or any other person exercising a right emanating from such Grant unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Grant. Without limiting the generality of the foregoing, upon the exercise of any Option or any SAR that may be settled in shares of Stock or the delivery of any Restricted Stock or shares of Stock underlying Restricted Stock Units, unless a registration statement under the Securities Act is in effect with respect to the shares of Stock covered by such Grant, the Company shall not be required to sell or issue such shares of Stock unless the Board has received evidence satisfactory to it that the Grantee or any other person exercising a right emanating from such Grant may acquire such shares of Stock pursuant to an exemption from registration under the Securities Act. Any such determination by the Board shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or an SAR or the issuance of shares of Stock pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option (or SAR that may be settled in shares of Stock) shall not be exercisable until the shares of Stock covered by such Option (or SAR) are registered or are exempt from

registration, the exercise of such Option (or SAR) under circumstances in which the laws of such jurisdiction apply shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

**16.2. Rule 16b-3.**

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Grants pursuant to the Plan and the exercise of Options and SARs granted hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board does not comply with the requirements of Rule 16b-3, such provision or action shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify the Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

**17. AMENDMENT AND TERMINATION OF THE PLAN**

The Board may, at any time and from time to time, amend, suspend or terminate the Plan as to any shares of Stock as to which Grants have not been made. Except as permitted under this **Section 17** or **Section 18** hereof, no amendment, suspension or termination of the Plan shall, without the consent of the Grantee, alter or impair rights or obligations under any Grant theretofore awarded under the Plan.

**18. EFFECT OF CHANGES IN CAPITALIZATION**

**18.1. Changes in Stock.**

Subject to **Section 18.2** hereof, in the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, spin-off, split-up, share combination or other change in the corporate structure of the Company affecting the shares of Stock, (a) such adjustment may be made in the number and class of shares which may be delivered under **Section 4** hereof and the Grant limits under **Section 4** hereof, and in the number and class of or price of shares subject to outstanding Grants as may be determined to be appropriate and equitable by the Board, in its sole discretion, to prevent dilution or enlargement of existing rights; and (b) the Board or, if another legal entity assumes the obligations of the Company hereunder, the board of directors, compensation committee or similar body of such other legal entity shall either (i) make appropriate provision for the protection of outstanding Grants by the substitution on an equitable basis of appropriate equity interests or awards similar to the Grants, provided that the

substitution neither enlarges nor diminishes the value and rights under the Grants, or (ii) upon written notice to the Grantees, provide that Grants shall be exercised distributed, canceled or exchanged for value pursuant to such terms and conditions (including the waiver of any existing terms or conditions) as shall be specified in the notice. Any adjustment of an Incentive Stock Option under this **Section 18.1** shall be made in such a manner so as not to constitute a “modification” within the meaning of Section 424(h)(3) of the Code. The conversion of any convertible securities of the Company shall not be treated as a change in the corporate structure of the Company affecting the shares of Stock. Subject to any contrary language in an Award Agreement evidencing a Grant of Restricted Stock, any restrictions applicable to such Restricted Stock shall apply as well to any replacement shares received by the Grantee as a result of the merger, reorganization or other transaction referred to in this **Section 18.1**.

**18.2. Reorganization, Sale of Assets or Sale of Stock.**

Upon the dissolution or liquidation of the Company or upon a merger, consolidation or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, or upon a sale of substantially all of the assets of the Company to another entity, or upon any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving entity) approved by the Board that results in any person or entity (or person or entities acting as a group or otherwise in concert) owning eighty percent (80%) or more of the combined voting power of all classes of securities of the Company, (i) all outstanding Restricted Stock and Restricted Stock Units shall be deemed to have vested, and all restrictions and conditions applicable to such Restricted Stock and Restricted Stock Units shall be deemed to have lapsed, immediately prior to the occurrence of such transaction, and (ii) all Options and SARs outstanding hereunder shall become immediately exercisable for a period of fifteen days immediately prior to the scheduled consummation of such transaction. Any exercise of an Option or SAR during such fifteen-day period shall be conditioned upon the consummation of the transaction and shall be effective only immediately before the consummation of the transaction.

This **Section 18.2** shall not apply to any transaction to the extent that (A) provision is made in writing in connection with such transaction for the continuation of the Plan or the assumption of the Options, SARs, Restricted Stock and Restricted Stock Units theretofore granted, or for the substitution for such Options, SARs, Restricted Stock and Restricted Stock Units of new options, stock appreciation rights, restricted stock and restricted stock units covering the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares or units and exercise prices, in which event the Plan and Options, SARs, Restricted Stock and Restricted Stock Units

thereof granted shall continue in the manner and under the terms so provided or (B) a majority of the full Board determines that such transaction shall not trigger application of the provisions of this **Section 18.2** and limited by any “change in control” provision in any employment agreement or Award Agreement applicable to the Grantee. Upon consummation of any such transaction, the Plan and all outstanding but unexercised Options and SARs shall terminate, except to the extent provision is made in writing in connection with such transaction for the continuation of the Plan or the assumption of such Options and SARs theretofore granted, or for the substitution for such Options and SARs of new options and stock appreciation rights covering the shares of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares or units and exercise prices, in which event the Plan and Options and SARs theretofore granted shall continue in the manner and under the terms so provided. The Board shall send written notice of an event that will result in such a termination to all individuals who hold Options and SARs not later than the time at which the Company gives notice thereof to its stockholders.

**18.3. Adjustments.**

Adjustments under this **Section 18** related to shares of Stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

**18.4. No Limitations on Company.**

The making of Grants pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

**19. DISCLAIMER OF RIGHTS**

No provision in the Plan or in any Grant or Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any affiliate thereof, or to interfere in any way with any contractual or other right or authority of the Company or Service Provider either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any affiliate thereof. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable

Award Agreement or employment agreement, no Grant awarded under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a director, officer, consultant or employee of the Company. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any participant or beneficiary under the terms of the Plan. No Grantee shall have any of the rights of a stockholder with respect to the shares of Stock subject to an Option or SAR except to the extent such shares of Stock shall have been issued upon the exercise of the Option or SAR.

#### **20. NONEXCLUSIVITY OF THE PLAN**

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable, including, without limitation, the granting of Stock options otherwise than under the Plan.

#### **21. WITHHOLDING TAXES**

The Company or a Subsidiary, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to Restricted Stock or Restricted Stock Units or upon the exercise of an Option or SAR or the grant of Unrestricted Stock. At the time of such vesting, lapse or exercise, the Grantee shall pay to the Company or the Subsidiary, as the case may be, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, which may be withheld by the Company or the Subsidiary, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold shares of Stock otherwise issuable to the Grantee or (ii) by delivering to the Company or the Subsidiary shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary as of the date that the amount of tax to be withheld is to be determined. A Grantee who

has made an election pursuant to this **Section 21** may satisfy such Grantee's withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirement.

**22. CAPTIONS**

The use of captions in the Plan or any Award Agreement is for convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

**23. OTHER PROVISIONS**

Each Grant awarded under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion.

**24. NUMBER AND GENDER**

With respect to words used in this Plan, the singular form shall include the plural form and, the masculine gender shall include the feminine gender, as the context requires.

**25. SEVERABILITY**

If any provision of the Plan or any Award Agreement shall be finally determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

**26. GOVERNING LAW**

The validity and construction of this Plan and the instruments evidencing the Grants awarded hereunder shall be governed by the laws of the State of Delaware (without giving effect to the choice of law provisions thereof).

\* \* \* \*

The Plan was duly adopted and approved by the Board of Directors of the Company as of the 12th day of March, 1999. The Plan was amended and restated effective May 14, 2002.

The Plan was duly approved by the stockholders of the Company on the 7th day of April, 1999.

**TREX COMPANY, INC.**  
**AMENDED AND RESTATED**  
**1999 INCENTIVE PLAN FOR OUTSIDE DIRECTORS**

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## 1. DEFINITIONS

To the extent any capitalized words used in this Plan are not defined, they shall have the definitions stated for them in the Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan.

1.1 "Annual Director Fee" means an annual fee earned by an Eligible Director for service on the Board of Directors.

1.2 "Annual Committee Fee" means an annual fee earned by an Eligible Director for service on various committees of the Board of Directors.

1.3 "Board of Directors" or "Board" means the Board of Directors of the Company.

1.4 "Cash Portion of the Annual Director Fee" means the portion of the Annual Director Fee to be received in cash, or if elected by the Eligible Director, in Options, as provided in Sections 4.1.1 and 4.3 hereof.

1.5 "Committee" means the Administrative Committee which administers the Plan.

1.6 "Common Stock" means the common stock, par value \$0.01 per share, of the Company.

1.7 "Company" means Trex Company, Inc., a Delaware corporation, or any successor thereto.

1.8 "Election Form" means the form used by an Eligible Director to elect to receive all or a portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee for a Plan Year in the form of Options.

1.9 "Eligible Director" for each Plan Year means a member of the Board of Directors who is not an employee of the Company or any Subsidiary.

1.10 "Fair Market Value" means the closing price of a share of Common Stock reported on the New York Stock Exchange (the "NYSE") on the date Fair Market Value is being determined, provided that if there is no closing price reported on such date, the Fair Market Value of a share of Common Stock on such date shall be deemed equal to the closing price as reported by the NYSE for the last preceding date on which sales of shares of Common Stock were reported. Notwithstanding the foregoing, in the event that the shares of Common Stock are listed upon more than one established stock exchange, "Fair Market Value" means the closing price of the shares of Common Stock reported on the exchange that trades the largest volume of

shares of Common Stock on the date Fair Market Value is being determined. If the Common Stock is not at the time listed or admitted to trading on a stock exchange, Fair Market Value means the mean between the lowest reported bid price and highest reported asked price of the Common Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Board and regularly reporting the market price of Common Stock in such market. If the Common Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, Fair Market Value shall be as determined in good faith by the Board.

1.11 "Grant Date" has the meaning set forth in Section 5 hereof.

1.12 "Option" means a non-qualified Option granted pursuant to the Trex Company, Inc. 1999 Stock Option and Incentive Plan.

1.13 "Option Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the Option.

1.14 "Option Portion of the Annual Director Fee" means the portion of the Annual Director Fee to be received in Options, as provided in Section 4.1.2 hereof.

1.15 "Option Price" means the purchase price for each share of Common Stock subject to an Option.

1.16 "Participant" for any Plan Year means an Eligible Director who participates in the Plan for that Plan Year in accordance with Section 10.1 hereof.

1.17 "Plan" means the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors as set forth herein and as amended from time to time.

1.18 "Plan Year" means the twelve-month period beginning on July 1 and ending on June 30.

1.19 "Subsidiary," means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended.

**2. PURPOSE**

The purpose of the Plan is to compensate Eligible Directors for service on the Board of Directors and various committees of the Board, and to provide an incentive for Eligible Directors to increase their equity holdings in the Company so that the financial interests of the Eligible Directors shall be more closely aligned with the financial interests of the Company's stockholders.

**3. SHARES SUBJECT TO THE PLAN**

The shares of Common Stock issuable under the Plan shall be issued pursuant to the Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan.

**4. ANNUAL DIRECTOR AND COMMITTEE FEES**

**4.1 Annual Director Fee**

Each Eligible Director shall be entitled to an Annual Director Fee, which may be adjusted by the Board from time to time, as follows:

4.1.1 Cash Portion of the Annual Director Fee. Each Eligible Director shall receive the amount of twenty thousand dollars (\$20,000) (the "Cash Portion of the Annual Director Fee"). The Cash Portion of the Annual Director Fee (after reduction pursuant to Section 4.3 hereof, if any) shall be paid to an Eligible Director in four equal quarterly installments in arrears on the first business day following the end of each quarter of the Plan Year in which the Eligible Director provided services to the Company.

4.1.2 Option Portion of the Annual Director Fee. Each Eligible Director shall receive one thousand five hundred (1,500) Options (the "Option Portion of the Annual Director Fee"). The Option Portion of the Annual Director Fee shall be paid in arrears as provided in Section 5 below.

**4.2 Annual Committee Fee**

Each Eligible Director shall be entitled to an Annual Committee Fee, which may be adjusted by the Board from time to time, as follows (a) \$10,000 for the Audit Committee Chairman, (b) \$5,000 for each Audit Committee member (other than the Chairman), (c) \$5,000 for the Nominating/Corporate Governance Committee Chairman and the Compensation Committee Chairman, and (d) \$2,500 for each Nominating/Corporate Governance Committee member and Compensation Committee member (other than the Chairmen). The Annual Committee Fee shall be paid to an Eligible Director in four equal quarterly installments in arrears on

the first business day following each quarter of the Plan Year in which the Eligible Director served on the applicable committee(s).

#### **4.3 Election**

Pursuant to Section 10 hereof, an Eligible Director may elect to receive all or a portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee in the form of Options of equal value. In such event, the value of such Options shall be determined pursuant to the methodology then in use by the Company's Finance Department to value stock options granted pursuant to the Trex Company, Inc. 1999 Stock Option and Incentive Plan.

#### **4.4 Proration**

The Cash Portion of the Annual Director Fee, the Option Portion of the Annual Director Fee and the Annual Committee Fee shall be prorated for any partial periods served.

#### **5. GRANT DATE**

The date of grant for the Option Portion of the Annual Director Fee shall be the date of the first regularly scheduled Board of Directors' Meeting following the end of each Plan Year in which the Eligible Director provided services to the Company, and the date of grant for Options issued in lieu of the Cash Portion of the Annual Director Fee and the Annual Committee Fee, as provided in Section 10 hereof, shall be the date such Fees would otherwise be due (each of such dates being referred to as the "Grant Date").

#### **6. OPTION PRICE**

The Option Price of Common Stock covered by each Option granted under the Plan shall be the Fair Market Value of such Common Stock on the Grant Date.

#### **7. TERM OF OPTIONS**

Each Option granted under the Plan shall terminate, and all rights to purchase shares of Common Stock thereunder shall cease, upon the expiration of ten years from the date such Option is granted.

#### **8. VESTING OF OPTIONS**

On the first anniversary of the Grant Date, the Option shall be exercisable in respect of 100 percent (100%) of the number of shares covered by the grant. Any limitation on the exercise of an Option contained in any Option

Agreement may be rescinded, modified or waived by the Committee, in its sole discretion, at any time and from time to time after the date of grant of such Option. The Option shall be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option.

## **9. SERVICE TERMINATION**

Except as otherwise provided in the Option Agreement, upon the termination of service (a "Service Termination") of the Participant as a director of the Company for any reason, any Option granted to a Participant pursuant to the Plan shall become vested, and the Participant shall have the right, at any time within five years after the date of such Participant's Service Termination and prior to termination of the Option pursuant to Section 7 hereof, to exercise any Option held by such Participant at the date of such Participant's Service Termination. After the termination of the Option, the Participant shall have no further right to purchase shares of Common Stock pursuant to such Option.

## **10. ELECTION TO RECEIVE ADDITIONAL OPTIONS**

### **10.1 Election Form**

A Participant who wishes to receive all or any portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee in the form of Options shall file an Election Form with the Company, in the form and manner prescribed by the Committee. Filing of a completed Election Form will authorize the Company to issue Options to the Participant in lieu of all or any portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee, in accordance with the Participant's instructions on the Election Form. Options issued pursuant to an election made under this Section 10 shall vest in accordance with the schedule set forth in Section 8 hereof.

### **10.2 Time for Filing Election Form**

An Election Form shall be completed and filed by each newly elected Eligible Director within thirty (30) days after the Participant's election to the Board, and elections under the Plan made by a newly elected Eligible Director shall apply to the Participant's Annual Director Fee and Annual Committee Fee for the remainder of the Plan Year. Such elections shall remain in effect for subsequent Plan Years unless and until a new Election Form is submitted by an Eligible Director to the Corporate Secretary. Notwithstanding the foregoing, a new Election

## **11. ADMINISTRATION**

### **11.1 Committee**

The general administration of the Plan and the responsibility for carrying out its provisions shall be placed in an Administrative Committee. The Committee shall consist of at least two members appointed from time to time by the Board of Directors to serve at the pleasure thereof. The initial Administrative Committee shall consist of the President and the Chief Financial Officer of the Company. Any member of the Committee may resign by delivering a written resignation to the Company, and may be removed at any time by action of the Board of Directors.

### **11.2 Rules for Administration**

Subject to the limitations of the Plan, the Committee may from time to time establish such rules and procedures for the administration and interpretation of the Plan and the transaction of its business as the Committee may deem necessary or appropriate. The determination of the Committee as to any disputed question relating to the administration and interpretation of the Plan shall be conclusive.

### **11.3 Committee Action**

Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of such majority, expressed from time to time by a vote at a meeting (i) in person, (ii) by telephone or other means by which all members can hear one another or (iii) in writing without a meeting shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

### **11.4 Delegation**

The members of the Committee may authorize one or more of their number to execute or deliver any instrument, make any payment or perform any other act which the Plan authorizes or requires the Committee to do.

### **11.5 Services**

The Committee may employ or retain agents to perform such clerical, accounting and other services as it may require in carrying out the provisions of the Plan.

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### **11.6 Indemnification**

The Company shall indemnify and save harmless each member of the Committee against all expenses and liabilities arising out of membership on the Committee, other than expenses and liabilities arising from the such member's own gross negligence or willful misconduct, as determined by the Board of Directors.

### **12. AMENDMENT AND TERMINATION**

The Company, by action of the Board of Directors or the Administrative Committee, may at any time or from time to time modify or amend any or all of the provisions of the Plan, or may at any time terminate the Plan. No such action shall adversely affect the accrued rights of any Participant hereunder without the Participant's consent thereto.

### **13. GENERAL PROVISIONS**

#### **13.1 Limitation of Rights**

No Participant shall have any right to any payment or benefit hereunder except to the extent provided in the Plan.

#### **13.2 No Rights as Stockholders**

Nothing contained in this Plan shall be construed as giving any Participant rights as a stockholder of the Company.

#### **13.3 Rights as a Non-Employee Director**

Nothing contained in this Plan shall be construed as giving any Participant a right to be retained as a non-employee director of the Company.

#### **13.4 Assignment, Pledge or Encumbrance**

No assignment, pledge or other encumbrance of any payments or benefits under the Plan shall be permitted or recognized and, to the extent permitted by law, no such payments or benefits shall be subject to legal process or attachment for the payment of any claim of any person entitled to receive the same, except to the extent such assignment, pledge or other encumbrance is in favor of the Company to secure a loan or other extension of credit from the Company to the Participant.

#### **13.5 Binding Provisions**

The provisions of this Plan shall be binding upon each Participant as a consequence of the Participant's election to participate in the Plan, upon the

Company, upon the Participant's heirs, executors and administrators and upon the successors and assigns of the Participant and the Company.

**13.6 Notices**

Any election made or notice given by a Participant pursuant to the Plan shall be in writing to the Committee or to such representative thereof as may be designated by the Committee for such purpose and shall be deemed to have been made or given on the date received by the Committee or its representative.

**13.7 Governing Law**

The validity and interpretation of the Plan and of any of its provisions shall be construed under the laws of the State of Delaware without giving effect to the choice of law provisions thereof.

**13.8 Withholding**

The Company shall have the right to deduct from the amounts distributable hereunder any federal, state or local taxes required by law to be withheld with respect to such distributions, and such additional amounts of withholding as are reasonably requested by the Participant.

**13.9 Effective Date**

This Plan shall be effective as of March 12, 1999. The Plan was amended and restated effective May 14, 2002 and October 24, 2003.

**TREX COMPANY, INC.**  
**Amended and Restated**  
**1999 Stock Option and Incentive Plan**  
**Non-Incentive Stock Option Agreement**

Grant Date: \_\_\_\_\_  
 Last Date to Exercise: \_\_\_\_\_<sup>1/</sup>

Stock Option Exercise Price: \_\_\_\_\_

Number of Shares of Common Stock  
 Covered by Grant of Options: \_\_\_\_\_

We are pleased to inform you that the Board of Directors has granted you an option (the "Option") to purchase Trex Company, Inc. common stock. Your grant has been made under the Company's Amended and Restated 1999 Stock Option and Incentive Plan (the "Plan"), which, together with the terms contained in this Agreement, sets forth the terms and conditions of your grant and is incorporated herein by reference. If any provisions of the Agreement should appear to be inconsistent with the Plan, the Plan will control.

This stock option grant has been executed and delivered as of  
 \_\_\_\_\_ on behalf of Trex Company, Inc.

\_\_\_\_\_  
 Robert G. Matheny  
 President

ACCEPTED AND AGREED TO:

\_\_\_\_\_  
 Employee Name

*This is not a stock certificate or a negotiable instrument. Transferable only pursuant to Section 11.2 of the Plan.*

<sup>1</sup> Certain events can cause an earlier termination of the Option. See "Effects of Changes in Capitalization" in the Plan.

## **1. Vesting:**

Subject to the terms of the Plan, the Option becomes vested as to 25% of the shares of Stock purchasable pursuant to the Option on the first anniversary of the date of grant of the Option, if you have been providing services to the Company or a Subsidiary continuously from the Option's date of grant to the first anniversary of the date of grant (the "Anniversary Date") and, so long as continuous provision of services has not been interrupted, the Option becomes vested as to an additional 25% of the shares of Stock subject to the Option on each of the next three (3) Anniversary Dates. Notwithstanding the foregoing, if you should incur an Involuntary Termination within a one year period following a Change in Control, the Option shall become 100% vested at the time of your termination. "Change in Control" means the dissolution or liquidation of the Company or a merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of substantially all of the assets of the Company to another person or entity, or (iii) any transaction (including without limitation a merger or reorganization in which the Company is the surviving entity) which results in any person or entity (other than persons who are shareholders or Affiliates immediately prior to the transaction) owning 50% or more of the combined voting power of all classes of stock of the Company. "Involuntary Termination" means a termination of employment by the Company for a reason other than Cause or by you if the Company takes any action which results in a diminution in any material respect with your position (including status, offices, titles and reporting requirements), compensation authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by you.

## **2. Exercise:**

You may exercise this Option, in whole or in part, to purchase a whole number of vested shares at any time of not less than 100 shares, unless the number of shares purchased is the total number available for purchase under the Option, by following the exercise procedures as set forth in the Plan. All exercises must take place before the Last Date to Exercise (shown on the cover sheet), or such earlier date following your death, disability, retirement, or your ceasing to provide services as described below under "Service Requirements." The number of shares you may purchase as of any date cannot exceed the total number of shares vested by that date, less any shares you have previously acquired by exercising this Option.

## **3. Service Requirements and Termination of Option:**

If your service terminates, except as provided in Section 1 above and this Section 3, all further vesting of shares under this Option stops and all unvested shares are canceled.

If your service terminates for a reason other than: (i) for Cause or (ii) because of your death, permanent and total disability or retirement, you will have ninety (90) days after your provision of services ceases to exercise your vested Option shares, but in no event may the Option be exercised after the Last Date to Exercise. After the 90 days have elapsed, your Option will terminate.

If your service terminates because of your death, permanent and total disability, or retirement, you or your estate will have a period of five years to exercise any Options, whether or not the Options were otherwise exercisable at the time of your death, permanent and total disability, or retirement, but in no event may the Options be exercised after the Last Date to Exercise. After the five year period has elapsed, your Options will terminate.

Your Option will terminate immediately upon termination of your services for Cause. "Cause" means, as determined by the Board, (i) gross negligence or willful misconduct in connection with the performance of duties; (ii) conviction of a felony or of a crime involving moral turpitude; or (iii) material breach of any term of any employment, consulting or other services, confidentiality, intellectual property or non-competition agreements.

## **4. Taxes and Withholding:**

This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. In the event that the Company determines that any federal, state, local or foreign tax or withholding payment is required relating to the exercise or sale of shares arising from this grant, the Company shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company, a Subsidiary or an Affiliate.

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**5. Transferability:**

The Option may be transferred in a manner consistent with Section 11.2 of the Plan.

\* \* \* \* \*

**Subsidiaries of the Registrant**

<u>Name of Subsidiary</u>	<u>Jurisdiction of Formation</u>
Winchester Capital, Inc.	Virginia
Trex Wood-Polymer Espana, S.L.	Spain
Winchester SP, Inc.	Delaware

**Consent of Ernst & Young LLP, Independent Auditors**

We consent to the incorporation by reference in the following Registration Statements

- Form S-8, No. 333-76847, and
- Form S-8, No. 333-83998

of our report dated February 13, 2004, with respect to the consolidated financial statements of Trex Company, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2003, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

McLean, Virginia  
March 4, 2004

## CERTIFICATION

I, Robert G. Matheny, certify that:

1. I have reviewed this annual report on Form 10-K of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2004

/s/ Robert G. Matheny

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Robert G. Matheny  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Paul D. Fletcher, certify that:

1. I have reviewed this annual report on Form 10-K of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function(s)):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2004

/s/ Paul D. Fletcher

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Paul D. Fletcher, Senior Vice  
President and Chief Financial Officer  
(Principal Financial Officer)

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

The undersigned, the Chairman and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Trex Company, Inc. (the "Company"), each hereby certifies that, on the date hereof:

- (a) the Annual Report on Form 10-K of the Company for the Period Ended December 31, 2003 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert G. Matheny

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Robert G. Matheny  
Chairman and Chief Executive Officer  
March 5, 2004

/s/ Paul D. Fletcher

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Paul D. Fletcher  
Senior Vice President and Chief Financial Officer  
March 5, 2004