

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 001-14649

Trex Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

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

22603-8605
(Zip Code)

Registrant's telephone number, including area code: (540) 542-6300

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

(Check one): Yes No

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

TREX COMPANY, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands)

	December 31, 2005	September 30, 2006 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,931	\$ 2,235
Accounts receivable, net	12,364	23,156
Inventories	56,726	77,970
Prepaid expenses and other current assets	3,750	3,484
Income taxes receivable	8,297	75
Deferred income taxes	1,711	2,543
Total current assets	<u>84,779</u>	<u>109,463</u>
Property, plant and equipment, net	191,210	190,628
Goodwill	6,837	6,837
Debt-related derivatives	292	362
Other assets	3,151	3,185
Total assets	<u>\$ 286,269</u>	<u>\$ 310,475</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,405	\$ 23,908
Accrued expenses	17,514	21,651
Line of credit	4,070	3,200
Current portion long-term debt	9,031	9,093
Total current liabilities	<u>45,020</u>	<u>57,852</u>
Deferred income taxes	15,158	17,697
Debt-related derivatives	1,053	799
Long-term debt, net of current portion	60,505	51,676
Total liabilities	<u>121,736</u>	<u>128,024</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized; 14,889,674 and 14,981,572 shares issued and outstanding at December 31, 2005 and September 30, 2006, respectively	149	150
Additional paid-in capital	61,901	62,696
Deferred compensation	(1,076)	—
Accumulated other comprehensive loss	(481)	(289)
Retained earnings	104,040	119,894
Total stockholders' equity	<u>164,533</u>	<u>182,451</u>
Total liabilities and stockholders' equity	<u>\$ 286,269</u>	<u>\$ 310,475</u>

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

TREX COMPANY, INC.

Condensed Consolidated Statements of Operations

(unaudited)

(In thousands, except share and per share data)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Net sales	\$ 77,371	\$ 78,098	\$ 250,140	\$ 304,849
Cost of sales	53,035	55,277	169,595	221,404
Gross profit	24,336	22,821	80,545	83,445
Selling, general and administrative expenses	16,967	15,281	61,515	56,661
Income from operations	7,369	7,540	19,030	26,784
Interest expense, net	313	312	1,682	2,163
Income before income taxes	7,056	7,228	17,348	24,621
Provision for income taxes	1,891	2,668	4,793	8,766
Net income	\$ 5,165	\$ 4,560	\$ 12,555	\$ 15,855
Basic earnings per share	\$ 0.35	\$ 0.31	\$ 0.85	\$ 1.07
Basic weighted average shares outstanding	14,782,888	14,838,343	14,762,598	14,825,287
Diluted earnings per share	\$ 0.35	\$ 0.31	\$ 0.84	\$ 1.06
Diluted weighted average shares outstanding	14,847,519	14,921,151	14,881,423	14,908,475

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

TREX COMPANY, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2005	2006
OPERATING ACTIVITIES		
Net income	\$ 12,555	\$ 15,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	1,924	1,706
Equity method loss (income)	221	(116)
Stock-based compensation	597	1,920
Other noncash charges (income)	235	(48)
Tax benefit from stock-based awards	470	—
Depreciation	11,280	15,086
Loss on disposal of property, plant and equipment	972	221
Changes in operating assets and liabilities:		
Accounts receivable	8,316	(10,792)
Inventories	(7,600)	(21,244)
Prepaid expenses and other current assets	894	266
Accounts payable	3,353	9,503
Accrued expenses	(2,395)	4,137
Income taxes receivable	(4,982)	8,222
Net cash provided by operating activities	<u>25,840</u>	<u>24,716</u>
INVESTING ACTIVITIES		
Loan to Denplax, S.A.	(508)	—
Restricted cash	20,959	—
Expenditures for property, plant and equipment	(47,130)	(14,725)
Net cash used in investing activities	<u>(26,679)</u>	<u>(14,725)</u>
FINANCING ACTIVITIES		
Borrowings under line of credit	18,531	50,709
Principal payments under line of credit	(18,531)	(51,579)
Principal payments under mortgages and term loans	(8,712)	(8,767)
Tax benefit from stock-based awards	—	50
Proceeds from employee stock purchase and option plans	1,074	331
Purchases of common stock	(743)	(431)
Net cash used in financing activities	<u>(8,381)</u>	<u>(9,687)</u>
Net increase (decrease) in cash and cash equivalents	(9,220)	304
Cash and cash equivalents at beginning of period	23,925	1,931
Cash and cash equivalents at end of period	<u>\$ 14,705</u>	<u>\$ 2,235</u>
Supplemental Disclosure:		
Cash paid for interest, net of capitalized interest	\$ 1,042	\$ 1,835
Cash paid (received) for income taxes, net	\$ 7,852	\$ (528)

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

**Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2005 and 2006
(unaudited)**

1. BUSINESS AND ORGANIZATION

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

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements. The consolidated results of operations for the three-month and nine-month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2004 and 2005 and for each of the three years in the period ended December 31, 2005 included in the annual report of Trex Company, Inc. on Form 10-K, as filed with the Securities and Exchange Commission.

New Accounting Standards

In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, *Inventory Costs, an Amendment of ARB No. 43, Chapter 4*. SFAS No. 151 amends Accounting Research Bulletin 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is evaluating the effect that the adoption of SFAS No. 151 will have on its year-end LIFO calculation.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (“FIN 48”). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006, but earlier adoption is permitted. The Company is evaluating the effect that the adoption of FIN 48 will have on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 with earlier application encouraged. The Company is evaluating the effect that the adoption of SFAS No. 157 will have on its results of operations or financial position.

Reclassifications

Certain reclassifications have been made in the presentation of the financial statements for the three months and nine months ended September 30, 2005 to conform with the presentation of the financial statements for the three months and nine months ended September 30, 2006.

3. INVENTORY

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

	<u>December 31, 2005</u>	<u>September 30, 2006</u>
Finished goods	\$ 38,789	\$ 46,724
Raw materials	17,937	31,246
Total	<u>\$ 56,726</u>	<u>\$ 77,970</u>

An actual valuation of inventory under the LIFO (last-in, first-out) method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Since inventory levels and costs are subject to factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

4. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	December 31, 2005	September 30, 2006
Accrued sales and marketing costs	\$ 4,181	\$ 5,749
Accrued compensation and benefits	4,552	3,706
Accrued customer relations costs	1,808	3,392
Accrued manufacturing expenses	1,854	2,016
Accrued rent obligations	488	1,750
Accrued interest	349	903
Accrued freight	661	498
Accrued professional and legal costs	686	298
Other	2,935	3,339
Total	<u>\$ 17,514</u>	<u>\$ 21,651</u>

5. DEBT

The Company's outstanding debt consists of senior notes, a variable rate promissory note, real estate loans and a revolving credit facility. The revolving credit facility provides for borrowings of up to \$20.0 million outstanding at any time. Amounts drawn under the revolving credit facility are subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of September 30, 2006, \$3.2 million was outstanding under the revolving credit facility.

To remain in compliance with its credit facility, senior note, and bond loan document covenants, the Company is required, as of the end of each fiscal quarter, to meet specified financial tests and to maintain specified financial ratios based on levels of its debt, capital, net worth, fixed charges, and EBITDA, as these financial measures are defined for purposes of the covenants. As of September 30, 2006, the Company was in compliance with these covenants. Based on its recent and expected operating results, the Company currently believes that it will need to obtain amendments to one of the financial covenants under its credit facility agreement and bond loan documents to maintain compliance with the covenant as of December 31, 2006 and as of the end of subsequent fiscal quarters.

The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans and variable rate promissory note. At September 30, 2006, the Company had capped its interest rate exposure at an annual effective rate of approximately 9.0% on all of its \$11.8 million principal amount of variable-rate real estate loans and capped its interest rate exposure at an annual effective rate of approximately 3.1% for six years on \$10.0 million principal amount of its \$25.0 million variable rate promissory note and at an annual effective rate of approximately 3.0% for four years on an additional \$10.0 million principal amount of such note.

6. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
Numerator:				
Net income available to common shareholders	\$ 5,165	\$ 4,560	\$ 12,555	\$ 15,855
Denominator:				
Basic weighted average shares outstanding	14,782,888	14,838,343	14,762,598	14,825,287
Impact of potential common shares:				
Options	17,472	21,718	61,416	24,140
Restricted stock	47,159	61,090	57,409	59,048
Diluted weighted average shares outstanding	<u>14,847,519</u>	<u>14,921,151</u>	<u>14,881,423</u>	<u>14,908,475</u>
Basic earnings per share	<u>\$ 0.35</u>	<u>\$ 0.31</u>	<u>\$ 0.85</u>	<u>\$ 1.07</u>
Diluted earnings per share	<u>\$ 0.35</u>	<u>\$ 0.31</u>	<u>\$ 0.84</u>	<u>\$ 1.06</u>

7. STOCK-BASED COMPENSATION

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

Stock Options and Stock Appreciation Rights

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

In December 2004, the FASB issued Statement 123R, *Share-Based Payment* (“SFAS 123R”), a revision of Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock-Based Compensation*, which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”). SFAS 123R addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments of the company or liabilities that are based on the fair value of the company’s equity instruments or that may be settled by the issuance of such equity instruments. This statement requires that share-based transactions be accounted for using a fair-value-based method to recognize compensation expense, and that the benefits of tax deductions in excess of recognized compensation cost (excess tax benefits) be reported as a financing cash flow, rather than as an operating cash flow. The Company adopted this standard on January 1, 2006 using the modified prospective method. Accordingly, results for prior periods have not been restated.

As a result of its adoption of SFAS 123R, the Company recognized share-based compensation expense for stock options and SARs of approximately \$0.2 million and \$0.8 million, respectively, for the three-month and nine-month periods ended September 30, 2006. This expense was included in “Selling, general and administrative expenses” in the accompanying condensed consolidated statements of operations. As stock-based compensation expense recognized in the consolidated statements of operations for the three and nine months ended September 30, 2006 is based on awards ultimately expected to vest, such expense has been reduced for estimated forfeitures, as required by SFAS 123R. The Company’s income before income taxes and net income for the nine months ended September 30, 2006 were \$0.8 million and \$0.5 million, respectively, lower than if the Company had continued to account for stock options and SARs under APB 25. Basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2006 decreased \$0.01 and \$0.04 per share, respectively, as a result of the adoption of SFAS 123R. As of September 30, 2006, there was \$1.9 million of unrecognized compensation cost related to stock options and SARs expected to be recognized over a weighted-average period of approximately 2.2 years. The total fair value of stock options vested during the nine months ended September 30, 2005 and September 30, 2006 was \$1.6 million and \$0.4 million, respectively. In the nine months ended September 30, 2006, the Company also reflected \$0.1 million of excess tax benefits as a financing cash flow in the accompanying condensed consolidated statements of cash flows.

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

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net income, as reported	\$ 5,165	\$ 12,555
Less: stock-based employee compensation expense determined under fair value based method, net of related tax	1,148	2,079
Net income, pro forma	<u>\$ 4,017</u>	<u>\$ 10,476</u>
Diluted earnings per share, as reported	\$ 0.35	\$ 0.84
Diluted earnings per share, pro forma	\$ 0.27	\$ 0.70

The fair value of each stock option award and SAR is estimated on the date of grant using a Black-Scholes-Merton option-pricing formula. Expected volatilities are based on historical volatility of the Company’s common stock. The expected term of stock options

and SARs represents the period of time for which such awards are expected to be outstanding and has been determined based on an analysis of historical exercise behavior. The risk-free interest rate equals the five-year U.S. Treasury rate. For SARs issued in the three months ended September 30, 2006, the assumptions shown in the following table were used:

	<u>Three months ended September 30, 2006</u>
Expected volatility	.41
Expected dividends	—
Expected term (in years)	5
Risk-free rate	5.10%

The weighted-average grant-date fair value of SARs granted during the three months ended September 30, 2006 was \$10.75.

Performance Share Awards

In the year ended December 31, 2005 and the nine months ended September 30, 2006, the Company granted PSAs to certain of the Company's officers and other employees under the 2005 Plan. The PSAs consist of a contingent right to receive shares of the Company's common stock if the Company meets specified performance criteria over a three-year performance period.

If specified performance objectives are satisfied for the three-year performance periods ending in 2007 and 2008, the estimated number of shares to be earned is 39,244 and 71,800, respectively, although a maximum number of 58,866 and 107,700 shares, respectively, may be earned depending on the extent to which such performance objectives are satisfied. Prior to January 1, 2006, PSAs were accounted for as prescribed by APB 25. Under APB 25, PSAs were accounted for by charging a ratable portion of compensation expense during each accounting period based on the probable number of shares to be issued. Beginning January 1, 2006, all PSAs are accounted for in accordance with the provisions of SFAS 123R. The fair value of the PSAs is determined based on the closing price of the Company's shares on the New York Stock Exchange on the date of grant. In the nine months ended September 30, 2006, 71,800 PSAs were granted at \$24.17 per share. During the three-month and nine-month periods ended September 30, 2006, \$0.1 million and \$0.4 million, respectively, was charged to compensation expense for PSAs, based on the estimated number of shares that will be issued at the end of the applicable performance periods. There was no compensation expense for PSAs in the nine months ended September 30, 2005. At September 30, 2006, there was \$1.2 million of total unrecognized compensation expense related to PSAs remaining to be recognized. Compensation expense attributable to PSAs is included in "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of operations.

Restricted Stock

The 2005 Plan also authorizes the grant of shares of restricted stock to employees, officers, and directors. Shares of restricted stock vest either with respect to one-third of the award on each of the first, second and third anniversaries of the grant date or with respect to one-third of the award on each of the third, fourth and fifth anniversaries of the grant date. The fair value of the restricted stock is determined based on the closing price of the Company's shares on the New York Stock Exchange on the grant date. In the nine months ended September 30, 2006, 20,000 restricted shares were granted at \$26.65 per share. In the three-month and nine-month periods ended September 30, 2006, compensation expense of \$0.2 million and \$0.7 million, respectively, was recognized related to restricted stock awards. In the three-month and nine-month periods ended September 30, 2005, compensation expense of \$0.2 million and \$0.6 million, respectively, was recognized related to restricted stock awards. At September 30, 2006, there was \$0.9 million of total compensation expense related to unvested restricted stock remaining to be recognized. Compensation expense related to restricted stock is included in "Selling, general and administrative expenses" in the accompanying condensed consolidated statements of operations.

8. SEASONALITY

The Company's net sales and income from operations have historically varied from quarter to quarter. Such variations are principally attributable to seasonal trends in the demand for Trex®. The Company has historically experienced lower net sales during the fourth quarter because holidays and adverse weather conditions in certain regions reduce the level of home improvement and new construction activity. Net sales during the nine months ended September 30, 2004 and 2005 accounted for approximately 88% and 85% of annual net sales in the years ended December 31, 2004 and 2005, respectively.

9. COMMITMENTS AND CONTINGENCIES

Lease Contingency

In anticipation of relocating the Company's corporate headquarters, the Company entered into a lease agreement in July 2005. The Company has reconsidered and decided not to move its headquarters. The Company began paying rents under the lease on January 1, 2006. As of September 30, 2006, minimum payments remaining under the lease over the fiscal years ending December 31, 2006, 2007,

2008, 2009, and 2010 are \$0.2 million, \$1.1 million, \$1.5 million, \$1.6 million and \$1.6 million, respectively, and \$20.3 million thereafter. The Company is currently attempting to sublet the office space. Based on current market conditions, the Company estimates that the present value of the estimated future sublease rentals, net of transaction costs, will be less than the Company's remaining minimum lease payment obligations under its lease for the office space. Accordingly, pursuant to FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Company recorded a charge of \$0.4 million in "Selling, general and administrative expenses" in the three months ended September 30, 2006. The charge reflected a reduction in estimated future sublease income from previous estimates primarily as a result of a change in the Company's assumption regarding the commencement date of an anticipated sublease. The Company has recognized \$1.8 million of total expense related to the lease in the nine-month period ended September 30, 2006 and has a \$1.3 million liability recorded at September 30, 2006.

The Company's assumptions in estimating future sublease income included consideration of vacancy rates, rental rates and the timing of future sublease income. Vacancy rates in the area where the property is located have declined to 10% in 2006, including a 3% decrease over the twelve months ended September 30, 2006. Rental rates have increased 3% during the same twelve-month period. Management believes that the rates on the Company's lease are comparable to the current market rates in the area. However, the anticipated delivery of a significant amount of new office space in the area over the next 18 months may have a negative effect on vacancy and rental rates. The inability to sublet the office space or unfavorable changes to key management's assumptions used in the estimate of the future sublease income may result in additional charges in future periods.

Legal Matters

The Company is involved in certain litigation as described in Note 11 to the audited consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005 and in Part II of this report and of the Company's subsequent quarterly reports on Form 10-Q, as filed with the Securities and Exchange Commission. In addition, the Company currently has other lawsuits, as well as other claims, pending against it. Management believes that the ultimate resolution of these lawsuits and claims will not have a material effect on the Company's consolidated financial condition, results of operations, liquidity or competitive position.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as "may," "will," "anticipate," "estimate," "expect" or "intend." We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for fiscal year 2005 filed with the Securities and Exchange Commission on March 16, 2006.

Overview

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

In the last three years, the Company has expanded its product offerings by introducing the Trex Accents® and Trex Brasilia® decking product lines and the new Trex Designer Series Railing™ and Trex Artisan Series Railing™ products. Sales of the Trex Accents product, which was launched in the fourth quarter of 2003, accounted for approximately 70% of total gross sales in the third quarter of 2006. Sales of the Trex Brasilia and Trex Artisan Series Railing products accounted for approximately 11% of total gross sales in the third quarter of 2006. The Company expects that the demand for the Trex Brasilia and Trex Artisan Series Railing products will grow as these products become generally more available through the Company's distribution channels. The Company anticipates that net sales in the fourth quarter of 2006 will be negatively affected by general economic conditions and by the absence of any scheduled price increase for January 2007 that would provide distributors and dealers an incentive to purchase inventory in the fourth quarter.

The management of raw materials costs, the strengthening of manufacturing performance and the enhancement of product quality constitute some of the Company's principal operating objectives. In 2005, manufacturing unit costs increased primarily because of higher costs for reclaimed polyethylene, or "PE material," and lower manufacturing plant utilization resulting in part from the temporary suspension of operations of some production lines. In 2006, manufacturing unit costs have been negatively affected by continued increases in the cost of PE material and incremental costs associated with the Company's quality initiatives. In the first nine months of 2006, the Company's PE material costs increased 17% over the first nine months of 2005. The Company expects that new PE material sourcing and processing initiatives will be necessary for it to effectively manage its costs of PE material and improve manufacturing performance in future periods. The Company continues to focus on product quality initiatives to enhance the appearance of the entire product line. These initiatives emphasize color consistency and other product specifications. They also have contributed to higher manufacturing costs by reducing manufacturing line efficiencies, as well as increasing labor, packaging and raw material costs. Each manufacturing plant has added personnel to its inspection functions and finished goods packaging has been redesigned to minimize damage to the product in transit. To manage inventory levels, the Company expects to temporarily suspend the operation of five production lines in the fourth quarter of 2006, which will result in increased manufacturing unit costs due to lower absorption of fixed manufacturing costs.

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

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

Under the Company's limited warranty with consumers, the Company warrants that its products will be free from material defects in workmanship and material and will not check, split, splinter, rot or suffer structural damage from termites or fungal decay. If there is

such a defect in any of its products, the Company has an obligation either to replace the defective product or refund the purchase price, in either case without any payment for labor to replace the defective product or freight. Actual warranty costs have not been material during the nine months ended September 30, 2006. On some occasions, the Company will voluntarily replace a product or refund a portion of the purchase price to consumers as a matter of consumer relations, even though the Company does not have a legal obligation to do so. The Company considers on a case-by-case basis each situation in which it may effect such a discretionary replacement or refund.

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

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

Three Months Ended September 30, 2006 Compared With Three Months Ended September 30, 2005

Net Sales. Net sales in the quarter ended September 30, 2006 (the "2006 quarter") increased 0.9% to \$78.1 million from \$77.4 million in the quarter ended September 30, 2005 (the "2005 quarter.") The increase in net sales was primarily attributable to a 7.9% increase in revenue per product unit, which was partially offset by a 4.8% decrease in sales volume. The Company offered a sales incentive for certain products in the 2006 quarter, which included a price discount and extended payment terms on shipments made in August and September for which the related payment is due December 1, 2006. The increase in revenue per product unit resulted from a price increase of 4% on all products effective in January 2006 and an additional price increase of 7% on all products effective in May 2006. The effect of the price increases was partially offset by a 4% sales price discount offered on certain products during the 2006 quarter. Product returns were not material to net sales in either the 2005 or 2006 quarter.

Gross Profit. Gross profit decreased 6.2% to \$22.8 million in the 2006 quarter from \$24.3 million in the 2005 quarter. The decline was primarily attributable to the 4.8% decrease in sales volume, an 11% increase in the cost per pound of PE material and an additional \$2.6 million in labor and packaging expenses incurred as a result of product quality initiatives. Gross profit as a percentage of sales ("gross margin") decreased to 29.2% in the 2006 quarter from 31.5% in the 2005 quarter. The negative effect of the foregoing factors, which contributed to a 10.9% decrease in gross margin, was offset in part by higher sales prices and improved manufacturing utilization, which produced a 8.6% increase in gross margin.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 9.9% to \$15.3 million in the 2006 quarter from \$17.0 million in the 2005 quarter. The lower selling, general and administrative expenses resulted principally from the reversal of \$3.2 million in incentive compensation accruals made earlier in 2006. The reversal resulted from management's assessment that lesser amounts would be earned and payable under incentive compensation programs for 2006 as a result of a revised projection of financial results. The effect of the reversal in incentive compensation accruals was offset in part by a \$0.8 million increase in branding-related expenses, \$0.4 million in costs associated with the lease for office space the Company is attempting to sublet and a \$0.2 million increase in professional fees. For additional information regarding the lease, see Note 9 to the unaudited consolidated financial statements appearing elsewhere in this report. As a percentage of net sales, selling, general and administrative expenses decreased to 20% in the 2006 quarter from 22% in the 2005 quarter.

Interest Expense. Net interest expense was unchanged at \$0.3 million, although total interest expense for the 2006 quarter was \$0.2 million less than the 2005 quarter as a result of lower average debt balances. The Company capitalized \$0.4 million and \$0.6 million of interest on construction in process in the 2006 and 2005 quarters, respectively.

Provision for Income Taxes. The Company recorded a provision for income taxes of \$2.7 million in the 2006 quarter compared to a provision for income taxes of \$1.9 million in the 2005 quarter. The provisions reflected an effective tax rate of approximately 37% in the 2006 quarter and approximately 27% in the 2005 quarter. The 2005 effective rate was attributable to a lower state tax rate resulting from the recognition of incentives related to the expansion of the Company's operations in Mississippi and to the recognition of some state tax credits for which the Company qualified in the 2005 quarter.

Nine Months Ended September 30, 2006 Compared With Nine Months Ended September 30, 2005

Net Sales. Net sales in the nine-month period ended September 30, 2006 (the “2006 nine-month period”) increased 21.9% to \$304.8 million from \$250.1 million in the nine-month period ended September 30, 2005 (the “2005 nine-month period”). The increase in net sales was primarily attributable to a 12.3% growth in sales volume as a result of an increase in demand from dealers and distributors and, to a lesser extent, a 10.1% increase in revenue per product unit. The increase in revenue per product unit resulted from a price increase of 4% on all products effective in January 2006 and an additional price increase of 7% on all products effective in May 2006, as well as from increased sales of the higher unit-priced Trex Accents product. The effect of the price increases was partially offset by incentives offered by the Company as part of its early-buy annual discount programs and by a 4% sales price discount offered in the 2006 quarter. Product returns were not material to net sales in either the 2005 or 2006 nine-month period.

Gross Profit. Gross profit increased 3.6% to \$83.4 million in the 2006 nine-month period from \$80.5 million in the 2005 nine-month period. The increase was primarily attributable to the 12.3% higher net sales volume and higher average sales prices of 8%. The positive effect of these factors was offset in part by higher unit manufacturing costs, which resulted from a 17% increase in the cost per pound of PE material, an additional \$11.4 million in labor and packaging expenses incurred as a result of product quality initiatives, and an increase in freight costs. Gross profit as a percentage of net sales decreased to 27.4% in 2006 from 32.2% in 2005. The positive impact of the increased sales prices and increased sales of higher margin-priced products, which produced a 7.6% improvement in gross margin, was more than offset by the effect of the foregoing negative factors, which contributed to a 12.4% decline in gross margin.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 7.9% to \$56.7 million in the 2006 nine-month period from \$61.5 million in the 2005 nine-month period. The lower selling, general and administrative expenses resulted principally from a decrease of \$4.6 million in branding expenses and a decrease of \$1.2 million in professional fees. Selling, general and administrative expenses in the 2005 nine-month period also included the write-off of \$0.8 million in equipment which the Company disposed of during 2005 in connection with its retooling of some of its production lines. The effect of these factors was offset in part by a \$1.8 million increase in expenses related to the lease for office space the Company is attempting to sublet and \$0.6 million in personnel-related expenses, including salaries, benefit, and hiring costs. For additional information regarding the lease, see Note 9 to the unaudited consolidated financial statements appearing elsewhere in this report. As a percentage of net sales, selling, general and administrative expenses decreased to 18.6% in the 2006 nine-month period from 24.6% in the 2005 nine-month period.

Interest Expense. Net interest expense increased to \$2.2 million in the 2006 nine-month period from \$1.7 million in the 2005 nine-month period. The increase in net interest expense resulted from a decrease in interest capitalized on construction in process. The Company capitalized \$1.1 million and \$2.0 million of interest on construction in process in the 2006 and 2005 nine-month periods, respectively. The effect of such capitalization of interest was partially offset by a decrease in total interest expense, which resulted from lower average debt balances in the 2006 nine-month period.

Provision for Income Taxes. The Company recorded a provision for income taxes of \$8.8 million in the 2006 nine-month period compared to a provision of \$4.8 million in the 2005 nine-month period. The provisions reflected an effective tax rate of approximately 36% in the 2006 nine-month period and approximately 28% in the 2005 nine-month period. The 2005 effective rate was attributable to a lower state tax rate resulting from the recognition of incentives related to the expansion of the Company’s operations in Mississippi and to the recognition of some state tax credits for which the Company qualified in the 2005 nine-month period.

Liquidity and Capital Resources

Sources and Uses of Cash. The Company’s cash provided by operating activities for the 2006 nine-month period was \$24.7 million compared to \$25.8 million for the 2005 nine-month period. Cash from operating activities for the 2006 nine-month period was positively affected by the 26.3% increase in net income in the 2006 nine-month period over the 2005 nine-month period. Accounts receivable increased \$10.8 million from \$12.4 million at December 31, 2005 to \$23.2 million at September 30, 2006, compared to a decrease of \$8.4 million from \$22.0 million at December 31, 2004 to \$13.6 million at September 30, 2005. The reduced use of cash in 2005 to support accounts receivable was attributable to the effect of a higher than historical level of accounts receivable at December 31, 2004. The higher accounts receivable balance at December 31, 2004 resulted from the extended payment terms offered to customers in the fourth quarter of 2004 to facilitate the introduction on a national basis of the Trex Brasilia line of decking products and to provide additional incentives to customers to meet early season demand. The Company did not offer this type of program in the fourth quarter of 2005. The higher accounts receivable balance at September 30, 2006 compared to September 30, 2005 was principally attributable to a sales promotion implemented during the 2006 quarter that provided extended payment terms on sales during August and September 2006. The days of sales outstanding increased from 16 for the 2005 third quarter to 27 for the 2006 third quarter. The Company’s total inventories, including raw materials and finished goods, increased from \$56.7 million at December 31, 2005 to \$78.0 million at September 30, 2006, compared to an increase from \$44.4 million at December 31, 2004 to \$52.0 million at September 30, 2005. Raw materials inventories increased \$13.3 million during the 2006 nine-month period compared to an increase of \$5.6 million during the 2005 nine-month period. The Company accumulated additional raw materials during the 2006 nine-month period in preparation for a new PE processing technique that will be

introduced in the fourth quarter of 2006. Finished goods increased from \$38.8 million at December 31, 2005 to \$46.7 million at September 30, 2006, compared to an increase from \$32.6 million at December 31, 2004 to \$34.6 million at September 30, 2005. An increase in finished goods inventories during the first nine months of the year is consistent with the seasonality in the Company's business. The increase in finished goods inventories in the 2005 nine-month period was less than the 2006 nine-month period due to lower than expected shipments in the 2006 third quarter. An increase in accounts payable and accrued expenses and receipt of the Company's income tax refunds had a positive effect on cash from operating activities in the 2006 nine-month period. The increase in accounts payable resulted primarily from the timing of payments for raw materials and freight. The increase in accrued expenses was principally attributable to the timing of expenses and related payments.

The Company's cash used in investing activities decreased to \$14.7 million in the 2006 nine-month period from \$26.7 million in the 2005 nine-month period. In the 2006 nine-month period, most of the Company's expenditures were related to the purchase of PE reprocessing and manufacturing equipment and information technology equipment. In the 2005 nine-month period, the Company's expenditures were primarily used for the construction of the Olive Branch, Mississippi manufacturing site and for the purchase of related machinery and equipment.

The Company's cash used in financing activities increased to \$9.7 million in the 2006 nine-month period from \$8.4 million in the 2005 nine-month period. In the 2006 nine-month period, the Company's net debt reductions included \$0.9 million of payments under its revolving credit facility and \$8.0 million of payments on its senior notes. In the 2005 nine-month period, the Company's net debt reduction included \$8.0 million of payments on its senior notes.

Indebtedness. At September 30, 2006, the Company's indebtedness totaled \$64.8 million and the annualized overall weighted average interest rate of such indebtedness, including the effect of the Company's interest rate swaps, was approximately 6.5%.

The Company's ability to borrow under its revolving credit facility is tied to a borrowing base that consists of account receivables and finished goods inventories. At September 30, 2006, the borrowing base was \$34.0 million and \$3.2 million of borrowings were outstanding under the facility.

Debt Covenants. To remain in compliance with its credit facility, senior note and bond loan document covenants, the Company must maintain specified financial ratios based on its levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization. At September 30, 2006, the Company was in compliance with these covenants. Based on its recent and expected operating results, the Company currently believes that it will need to obtain amendments to the debt-to-EBITDA ratio covenant under its credit facility agreement and bond loan documents to maintain compliance with this covenant as of December 31, 2006 and as of the end of subsequent fiscal quarters. The Company may not permit the ratio of its total consolidated debt to its consolidated EBITDA to exceed 2.50 as of the end of any fiscal quarter. The Company will seek amendments to the foregoing financial covenant during the fourth quarter of 2006. To amend the financial covenant, the Company will be required to obtain lender consent under its credit facility and bond reimbursement agreements. The Company believes that it will be able to obtain the required lender consent. If, however, the Company does not obtain the consent of its lenders and fails to maintain compliance with all of its loan covenants as of December 31, 2006 and any subsequent measurement date, the Company would incur a default under the terms of the foregoing agreements and under the terms of its senior notes, which have cross-default provisions. Upon the occurrence of any such default, the Company's lenders would have the right to accelerate payment of the Company's indebtedness and enforce their claims against the Company to the extent provided by the applicable agreements and applicable law.

Capital Requirements. The Company made capital expenditures in the 2006 nine-month period totaling \$14.7 million, primarily related to the purchase of PE reprocessing and manufacturing equipment and information technology equipment. The Company currently estimates that its capital requirements in 2006 will be approximately \$25 million. The Company expects that it will continue to make significant capital expenditures in subsequent years as the Company expands its manufacturing operations in order to meet the anticipated increase in the demand for Trex.

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

Item 3. 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 variable-rate debt. The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates on its variable-rate mortgage debt, all of which is based on LIBOR, and on its \$25.0 million variable rate promissory note. The interest on the variable rate promissory note is based on auction rates and is reset every seven days. At September 30, 2006, the Company had capped its interest rate exposure at an annual effective rate of approximately 9.0% on its \$11.8 million of variable-rate mortgage debt. At September 30, 2006, the Company had capped its interest rate exposure at an annual effective rate of approximately 3.1% for six years on \$10.0 million principal amount of its variable rate promissory note and at an annual effective rate of approximately 3.0% for four years on an additional \$10.0 million principal amount of this note.

The Company has a purchase agreement for PE material under which it has market risk related to foreign currency fluctuations on euros. At current purchase levels, such exposure is not material. In addition, the Company had a euro-denominated note receivable of 1.3 million euros at September 30, 2006.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of its Chief Executive Officer, who is the Company's principal executive officer, and its Senior Vice President and Chief Financial Officer, who is the Company's principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2006.

As previously disclosed under "Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for our 2005 fiscal year, our management identified a material weakness in our internal control over financial reporting as of December 31, 2005. Our management determined that, as of that date, we lacked a sufficient complement of personnel with experience in our financial reporting processes and with adequate technical expertise in resolving non-routine or complex accounting matters. During the 2006 nine-month period, we took actions to remediate this material weakness that included the adoption of changes to our quarterly closing procedures, the hiring of additional accounting personnel and the implementation of a series of quality control procedures over financial reporting. As of September 30, 2006, we had not yet completed the remediation of this material weakness. Our Chief Executive Officer and our Senior Vice President and Chief Financial Officer have concluded that, as a result of the foregoing material weakness in our internal control over financial reporting, our disclosure controls and procedures were not effective as of September 30, 2006. Our current plan anticipates the remediation of this material weakness before the end of our 2006 fiscal year.

Changes in Internal Control Over Financial Reporting. Except in connection with actions we are taking to remediate the material weakness in our internal control financial reporting discussed above under "Evaluation of Disclosure Controls and Procedures," there was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As most recently reported on the Company's Annual Report on Form 10-K for the 2005 fiscal year, commencing on July 8, 2005, two lawsuits, both of which sought certification as a class action, were filed in the United States District Court for the Western District of Virginia naming as defendants the Company, Robert G. Matheny, a director and the former Chairman and Chief Executive Officer of the Company, and Paul D. Fletcher, Senior Vice President and Chief Financial Officer of the Company. Following agreement by the plaintiffs and the defendants that the two lawsuits should be consolidated, the plaintiffs filed a consolidated class action complaint. The complaints principally allege that the Company, Mr. Matheny and Mr. Fletcher violated Sections 10(b) and 20(a) of and Rule 10b-5 under the Securities Exchange Act of 1934 by, among other things, making false and misleading public statements concerning the Company's operating and financial results and expectations. The complaints also allege that certain directors of the Company sold shares of the Company's common stock at artificially inflated prices. The plaintiffs seek unspecified compensatory damages. The Company believes that the lawsuits are without merit and intends to vigorously defend against them and any other similar lawsuits that may be served on the Company or any individual director or officer. On February 28, 2006, the Company filed a motion to have the consolidated class action complaint dismissed with prejudice for failure to state a claim. On October 6, 2006, the District Court granted the Company's motion to dismiss the claim. On November 2, 2006, the plaintiffs filed a notice of appeal with the Fourth Circuit Court of Appeals. Two separate derivative lawsuits have been filed in the United States District Court for the Western District of Virginia naming as defendants Mr. Matheny, Mr. Fletcher and each director of the Company. The filed complaints are based upon the same factual allegations as the complaints in the class action lawsuits, and allege that the directors and Mr. Fletcher breached their fiduciary duties by permitting the Company to issue false and misleading public statements concerning the Company's operating and financial results, and also allege that directors of the Company sold shares of the Company's common stock at artificially inflated prices. The plaintiffs and the defendants have agreed that the two derivative lawsuits should be consolidated, and that the consolidated complaint should be stayed pending final resolution of the class action lawsuit.

As reported in the Company's Annual Report on Form 10-K for the 2005 fiscal year and most recently reported on the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, on December 5, 2001, Ron Nystrom commenced an action against the Company in the United States District Court for the Eastern District of Virginia, Norfolk Division, alleging that the Company's decking products infringed his patent. 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 certain of the plaintiff's patent claims are invalid. The plaintiff appealed this decision to the United States Court of Appeals for the Federal Circuit. On June 28, 2004, the Court of Appeals reversed the District Court's grant of summary judgment to the Company, and remanded the case to the District Court for further proceedings. The Company sought a rehearing of the decision by the Court of Appeals, which, on September 14, 2005, withdrew its prior decision and affirmed the District Court's grant of summary judgment to the Company with respect to non-infringement. On January 25, 2006, the District Court issued a judgment dismissing plaintiff's case against the Company. On January 30, 2006, the plaintiff filed a petition for writ of certiorari in the United States Supreme Court and on February 22, 2006, filed a notice of appeal of the District Court's judgment to the United States Court of Appeals for the Federal Circuit. On April 3, 2006, the United States Supreme Court denied the plaintiff's writ of certiorari. On October 4, 2006, the Court of Appeals affirmed the District Court's judgment dismissing the plaintiff's action against the Company.

On October 16, 2006, Mr. Nystrom commenced another lawsuit against the Company, which also names as defendants Home Depot, Inc. and Snavelly Forest Products, Inc., through which the Company markets its products. Mr. Nystrom alleges that the Company's Accents® product and other new products introduced subsequent to the commencement of the first action infringe his patent. The Company believes that this claim is without merit and is barred by the judgment in the preceding action.

Item 1A. Risk Factors

In addition to the other information set forth in this report, the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for our 2005 fiscal year could materially affect the Company's business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect our business, financial condition or operating results.

Item 6. Exhibits

The Company herewith files the following exhibits:

- 10.1 Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors.
- 10.2 Form of Non-Incentive Stock Option Agreement under the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors.
- 10.3 Form of Stock Appreciation Rights Agreement under the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors.
- 10.4 Form of Trex Company, Inc. Fencing Agreement for Installers/Retailers.
- 31.1 Certification of Chief Executive Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Senior Vice President and Chief Financial Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

SIGNATURE

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

Trex Company, Inc.

Date: November 9, 2006

By: /s/ Paul D. Fletcher

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

EXHIBIT INDEX

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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. 2005 Stock 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 or SARs, as provided in Sections 4.1.1 and 4.3 hereof.
- 1.5 "Committee" means the Nominating/Corporate Governance 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 or SARs.
- 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. 2005 Stock Incentive Plan as may be amended from time to time.

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/SAR Portion of the Annual Director Fee" means the portion of the Annual Director Fee to be received in Options or SARs, 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 "SAR Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the SARs.

1.20 "Stock Appreciation Right" or "SAR" means a right granted pursuant to, and in accordance with the terms of, the Trex Company, Inc. 2005 Stock Incentive Plan to receive, upon exercise thereof, the excess of (x) the Fair Market Value of one share of Common Stock on the date of exercise over (y) the grant price of the SAR, determined pursuant to Section 6 hereof.

1.21 "SAR Price" means the grant price of the SAR.

1.22 "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. 2005 Stock 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 four thousand dollars (\$24,000), plus one thousand dollars (\$1,000) for each Board meeting that the Eligible Director attends personally, and five hundred dollars (\$500) for each Board meeting that the Eligible Director participates in telephonically (collectively, 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/SAR Portion of the Annual Director Fee. Each Eligible Director shall receive either Options or SARs (the "Option/SAR Portion of the Annual Director Fee") valued at twenty eight thousand eight hundred dollars (\$28,800), with the number of Options or SARs granted being determined by dividing such amount by the value of each Option or SAR on the grant date as determined pursuant to the methodology then in use by the Company's Finance Department to value Options and SARs granted pursuant to the Trex Company, Inc. 2005 Stock Incentive Plan. The form of the grant (either Options or SARs, or some combination) shall be determined by the Board prior to the Grant Date. The Option/SAR 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) twelve thousand five hundred dollars (\$12,500) for the Audit Committee Chairman, (b) six thousand five hundred dollars (\$6,500) for each Audit Committee member (other than the Chairman), (c) seven thousand five hundred dollars (\$7,500) for the Nominating/Corporate Governance Committee Chairman and the Compensation Committee Chairman, (d) four thousand dollars (\$4,000) for each Compensation Committee member (other than the Chairman), and (e) three thousand five hundred dollars (\$3,500) for each Nominating/Corporate Governance Committee member (other than the Chairman). In addition, each Eligible Director shall receive one thousand dollars (\$1,000) for

each Committee meeting that the Eligible Director attends personally not held in conjunction with a Board of Directors meeting, and five hundred dollars (\$500) for each Committee meeting that the Eligible Director participates in telephonically not held in conjunction with a Board of Directors meeting. 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 or SARs of equal value. In such event, the value of such Options or SARs shall be determined pursuant to the methodology then in use by the Company's Finance Department to value Options and SARs granted pursuant to the Trex Company, Inc. 2005 Stock Incentive Plan. The Board shall determine whether payment is made in the form of Options or SARs, or some combination, prior to the Grant Date.

4.4 Proration

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

4.5 Initial Grant upon Election to Board

Upon initial election to the Board (but not subsequent re-elections), each Eligible Director shall receive Options or SARs valued at twenty eight thousand eight hundred dollars (\$28,800), with the number of Options or SARs granted being determined by dividing such amount by the value of each Option or SAR on the grant date as determined pursuant to the methodology then in use by the Company's Finance Department to value Options and SARs granted pursuant to the Trex Company, Inc. 2005 Stock Incentive Plan. The form of the grant (either Options or SARs, or some combination) shall be determined by the Board prior to the Grant Date.

5. GRANT DATE

The date of grant for the Option/SAR 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 SARs or Options, as the case may be, 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/SAR PRICE

The Option Price or SAR Price of Common Stock covered by each SAR or Option, as the case may be, granted under the Plan shall be the Fair Market Value of such Common Stock on the Grant Date.

7. TERM OF OPTIONS/SARS

Each Option or SAR, as the case may be, granted under the Plan shall terminate, and all rights to purchase shares of Common Stock thereunder shall cease, upon the expiration of ten years (eleven years if the service of the Participant as a director of the Company shall terminate due to death in the tenth year of the Option or SAR term) from the date such Option or SAR is granted.

8. VESTING OF OPTIONS/SARS

Each Option or SAR, as the case may be, granted hereunder shall be exercisable in respect of 100 percent (100%) of the number of shares covered by the grant on the date of the grant of such Option or SAR. Any limitation on the exercise of an Option or SAR contained in any Option or SAR 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 or SAR. The Option or SAR, as the case may be, shall be exercisable, in whole or in part, at any time and from time to time, prior to the termination of the Option or SAR; provided, that no single exercise of the Option or SAR 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 or SAR.

9. SERVICE TERMINATION

Except as otherwise provided in the Option or SAR Agreement, upon the termination of service (a "Service Termination") of the Participant as a director of the Company for any reason, 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 or SAR pursuant to Section 7 hereof, to exercise any Option or SAR held by such Participant at the date of such Participant's Service Termination. After the termination of the Option or SAR, the Participant shall have no further right to purchase shares of Common Stock pursuant to such Option or SAR.

10. ELECTION TO RECEIVE ADDITIONAL OPTIONS OR SARS

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 or SARs 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 or SARs, at the election of the Board, 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 or SARs 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 and 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 Form may be submitted by each Eligible Director no more than once each Plan Year, and any new election shall not be effective until the start of the next calendar year.

11. ADMINISTRATION

11.1 Committee

The general administration of the Plan and the responsibility for carrying out its provisions shall be placed in the Nominating/Corporate Governance Committee.

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, or (ii) by telephone or other means by which all members can hear one another shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office. The Committee may also act without a meeting by unanimous written consent.

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.

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 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, October 24, 2003, July 27, 2004, February 10, 2005, July 21, 2005, February 8, 2006 and July 20, 2006.

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

Grant Date:
Stock Option Exercise Price:
Last Date to Exercise:

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

We are pleased to inform you that the Board of Directors or the Compensation Committee of the Board of Directors has granted you an option to purchase Trex Company, Inc. common stock. Your grant has been made under the Company's Amended and Restated 1999 Incentive Plan for Outside Directors (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. A copy of the Plan is attached. Please review it carefully. 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 January 3, 2006 on
behalf of Trex Company, Inc.

(Chairman's Name)
Chairman and Chief Executive Officer

ACCEPTED AND AGREED TO:

(Director's Name)

*This is not a stock certificate or a negotiable instrument. Transferable only pursuant to Section 11.2 of the Company's 2005
Stock Incentive Plan.*

1. Vesting:

Subject to the terms of the Plan, the Option becomes vested as to 100% of the shares of Stock purchasable pursuant to the Option on the date of grant of the Option.

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 covers sheet), or such earlier termination of the Option. 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. Option Termination:

Your Option will terminate immediately upon termination of your service for "Cause." If your service terminates for a reason other than for Cause, the Option will expire five (5) years after your termination, or, if earlier, immediately after the Last Date to Exercise. "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.

5. Transferability:

The Option may be transferred in a manner consistent with Section 10.2 of the Company's 2005 Stock Incentive Plan.

* * * * *

TREX COMPANY, INC.
AMENDED AND RESTATED 1999 INCENTIVE PLAN FOR OUTSIDE DIRECTORS
STOCK APPRECIATION RIGHTS AGREEMENT

Trex Company, Inc., a Delaware corporation (the "Company"), hereby grants stock appreciation rights (SARs) relating to its common stock, \$.01 par value, (the "Stock") to the Grantee named below. The terms and conditions of the SARs are set forth in this cover sheet, in the attachment, and in the Company's 2005 Stock Incentive Plan (the "Plan").

Grant Date:

Name of Grantee:

Number of Shares of Stock Subject to the SARs:

SAR Grant Price per Share:

Last Date to Exercise¹:

By signing this cover sheet, you agree to all of the terms and conditions described in the attached Agreement and in the Plan, a copy of which is available on request. You acknowledge that you have carefully reviewed the Plan, and agree that the Plan will control in the event any provision of this Agreement should appear to be inconsistent.

Grantee: _____
 (Signature)

Company: _____
 (Chairman's Name)
 Chairman and Chief Executive Officer

Attachment

This is not a stock certificate or a negotiable instrument.

¹ Certain events can cause an earlier termination of the SAR. See "Effects of Changes in Capitalization" in the Plan. This date shall be extended for one (1) year in the event your services as a director terminates due to your death during the tenth year of the term.

Payment for SARs	Upon your exercise of the SARs, the Company will pay you in shares of Stock an amount equal to the positive difference (if any) between the Fair Market Value of a share of Stock on the exercise date and the SAR Grant Price, multiplied by the number of SARs being exercised. Any fractional shares of Stock will be paid to you in cash.
Withholding Taxes	You will not be allowed to exercise the SARs unless you make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the exercise of the SARs. 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, withhold such amount from the proceeds of the exercise of your SARs, or withhold such amounts from other payments due to you from the Company or any Affiliate.
Transfer of SARs	<p>Other than as provided in Section 10.2 of the Plan, during your lifetime, only you (or, in the event of your legal incapacity or incompetency, your guardian or legal representative) may exercise the SARs, and you cannot transfer or assign the SARs. For instance, you may not sell the SARs or use them as security for a loan. If you attempt to do any of these things, the SARs will immediately become invalid. You may, however, dispose of the SARs in your will or the SARs may be transferred upon your death by the laws of descent and distribution.</p> <p>Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your spouse, nor is the Company obligated to recognize your spouse's interest in your SARs in any other way.</p>
Shareholder Rights	You, or your estate or heirs, have no rights as a shareholder of the Company until a certificate for shares of Stock received pursuant to the exercise of your SARs has been issued (or an appropriate book entry has been made). No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued (or an appropriate book entry has been made), except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in the Stock, the number of shares covered by the SARs and the SAR Grant Price per share shall be adjusted (and rounded down to the nearest whole number) if required pursuant to the Plan. Your SARs shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.
The Plan	<p>The text of the Plan is incorporated in this Agreement by reference. Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.</p> <p>This Agreement and the Plan constitute the entire understanding between you and the Company regarding the SARs. Any prior agreements, commitments or negotiations concerning the SARs are superseded.</p>
Data Privacy	<p>In order to administer the Plan, the Company may process personal data about you. Such data includes but is not limited to the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as home address and business addresses and other contact information, payroll information and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan.</p> <p>By accepting the SARs, you give explicit consent to the Company to process any such personal data. You also give explicit consent to the Company to transfer any such personal data outside the country in which you work or are employed, including, with respect to non-U.S. resident Grantees, to the United States, to transferees who shall include the Company and other persons who are designated by the Company to administer the Plan.</p>
Consent to Electronic Delivery	The Company may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting the SARs you agree that the Company may deliver the Plan prospectus and the Company's annual report to you in an electronic format. If at any time you would prefer to receive paper copies of these documents, as you are entitled to, the Company would be pleased to provide copies. Please contact the Corporate Secretary to request paper copies of these documents.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

AGREEMENT

THIS AGREEMENT is made as of _____, 2006, by and between TREX COMPANY, INC., having its principal office at 160 Exeter Drive, Winchester, Virginia 22603-8605 (the "Company") and _____, with its principal office at _____ (the "Dealer").

1. Appointment of Dealer.

(a) Appointment: Dealer's Location(s)/Territory. Upon the terms and conditions of this Agreement, the Company hereby appoints the Dealer as an authorized non-exclusive installer/retailer of the Company's line of composite fencing products (the "Trex Products"), and the Dealer hereby accepts such appointment, with respect to the Dealer's location(s) and within the territory ("Territory") set forth in Schedule A attached hereto and incorporated herein. In such capacity, the Dealer will purchase Trex Products from the Company and will devote its continuing best efforts to the promotion, sale and installation of such Trex Products in the Territory.

(b) Amendments to Schedule A. The parties may amend Schedule A from time to time to add or remove Dealer location(s) and/or modify the Dealer's Territory.

(c) Reservation of Rights by the Company. The Company reserves the right to take the following actions within the Dealer's Territory: (i) to appoint or be represented by other or additional installers/retailers; (ii) to make sales directly to any or all customers of the same and/or other Company products, and (iii) to sell exclusively, on a direct basis, to certain types of customers or specific accounts which Company may, in its sole discretion, designate from time to time in accordance with then current Company policies.

(d) Addition, Discontinuance and Modification of Products. The Company shall have the right at any time to introduce new Trex Products, discontinue the manufacture or sale of any of its Trex Products and make changes in the design or construction of any of such Trex Products without incurring any obligation or liability whatsoever. The Company will give the Dealer thirty (30) days prior notice of any discontinuance of a Trex Product.

2. Terms of Purchase.

(a) Ordering of Trex Products. All orders for Trex Products placed by Dealer shall be in writing or by fax or e-mail. (A telephone request to purchase, or to modify an existing order, shall not be considered an order unless and until followed up in writing.) All orders shall be subject to acceptance by the Company at Winchester, Virginia.

(b) Prices. The Dealer shall purchase Trex Products at the prices in effect at the time of order. The Company may implement price changes at any time during the term of this Agreement upon thirty (30) days prior written notice thereof to Dealer. In addition to the purchase price, Dealer shall pay to the Company the amount of all taxes, excises or other governmental charges (except taxes on or measured by net income) that the Company may be required to pay on the sale or delivery of any Products sold and delivered hereunder, except where the law otherwise provides.

(c) Delivery. All products shall be shipped FOB shipping point, with title and risk of loss passing at such point. The shipment destination must be within the Dealer's Territory. The Company will not ship product outside of the Dealer's Territory unless the Company elects to do so in certain limited situations. Any taxes, administrative or governmental charges incurred as a result of the purchase of Trex Products are the sole responsibility of the Dealer.

(d) Payment. The Company shall invoice the Dealer for the Trex Products at the time of shipment and the Dealer shall pay such invoices on a net ten (10) day basis unless otherwise approved by the Company prior to shipment. In the event the Dealer fails to pay such invoices within such period, the Dealer hereby agrees to pay a monthly service charge at one and one-half percent (1 1/2%), or, if such rate is prohibited under applicable law, a service charge at such lesser rate of interest as is the maximum rate permitted to be contracted for under such applicable law.

(e) Warranty. The Company warrants that for a period of one (1) year from the date of shipment to the Dealer, the Trex Products sold shall be free from defects in workmanship and materials, and shall conform to the Company's standard specifications for such Trex Products in effect at the time of the shipment. If defects occur within the warranty period, the Dealer shall notify the Company immediately and, upon confirmation by an authorized Company sales representative of the defects, the Company's sole responsibility shall be to replace the defective items. This warranty does not apply to defects not caused by the Company (for example, accidents or abuse while in Dealer's possession). The Company shall not have any liability of any kind under this warranty unless the Dealer gives the Company notice of its claim within thirty (30) days after the date the Dealer knows or should know of its claim. EXCEPT AS SET FORTH HEREIN, THERE ARE NO WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO TREX PRODUCTS. THE COMPANY EXPRESSLY EXCLUDES AND DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY AND ANY WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, APPLICATION OR USE. UNDER NO CIRCUMSTANCES WILL THE COMPANY BE LIABLE FOR SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, WHETHER SUCH DAMAGES ARE SOUGHT IN CONTRACT, IN TORT (INCLUDING BUT NOT LIMITED TO NEGLIGENCE AND STRICT LIABILITY) OR OTHERWISE, AND THE COMPANY'S LIABILITY SHALL IN NO EVENT EXCEED THE PURCHASE PRICE OF THE TREX PRODUCTS ON WHICH SUCH LIABILITY IS BASED.

3. Trex Trademarks. The Dealer shall have the right hereunder to represent that it is an authorized retailer/installer of Trex Company Products. Any other use by the Dealer of the trademark "Trex" or any other trademark owned by the Company must be in a form and format approved by the Company in advance of such usage.

4. Promotional Materials. During the term of this Agreement, the Company shall take reasonable action to assist the Dealer in the Dealer's efforts to promote, sell and install Trex Products, including the provision of reasonable quantities of support materials such as product information and sales promotional literature.

5. Duties of the Dealer.

(a) Sales Activities. The Dealer agrees to use its best efforts vigorously and actively to promote the (1) sale and installation of Trex Products in the Territory, and (2) sale of Trex Products to other installers in the Territory. In connection with such efforts, the Dealer, at its sole cost and expense, shall organize and maintain a sales force and shall maintain adequate sales and warehouse facilities within the Territory that are satisfactory to the Company.

(b) Storage of Inventory. The Dealer agrees to store Trex Products in accordance with Trex's storage guidelines.

(c) Inventory Levels. The Dealer agrees to maintain an inventory equal to at least fifteen percent (15%) of the mutually agreed upon annual objective, in various profiles and colors, to adequately serve the needs of its customers.

(d) Advertising. Each printed advertisement, flyer, handbill, television spot, radio script, yellow pages listing, webpage or any other advertising or promotional material bearing or using the trademark or trade name "Trex" or pertaining to Trex Products must be approved by the Company in writing prior to its use by the Dealer. Such approval will not be unreasonably withheld or delayed.

(e) Reputation. The Dealer shall continually maintain to the satisfaction of the Company a general reputation for honesty, integrity and good credit standing and shall maintain the highest quality standards.

(f) Competing Products. With respect to each Dealer location set forth on Schedule A, the Dealer shall not, directly or indirectly, promote, advertise, manufacture, market, distribute, sell or install a fencing product that is comprised of a wood-plastic composite, or natural or man-made fibers, which competes with Trex Products.

(g) Compliance With Law. The Dealer shall comply with all laws, ordinances and regulations, both state and federal, applicable to the Dealer's business.

(h) Expenses. The Dealer shall pay and discharge, and the Company shall have no obligation to pay for, any expenses or costs of any kind or nature incurred by the Dealer in connection with its distribution function hereunder, including, without limitation, any expenses or costs involved in marketing Trex Products.

(i) Financial Statements. Within forty-five (45) days after the end of each fiscal year, the Dealer shall submit audited financial statements to the Company.

6. Force Majeure. The Company shall be excused from delay or non-performance in the delivery of an order and the Dealer shall have no claim for damage if and to the extent such delay or failure is caused by occurrences beyond the control of the Company including, but not limited to, market conditions; acts of God; war, acts of terrorism, riots and civil disturbances; expropriation or confiscation of facilities or compliance with any order or request of governmental authority; strikes, labor or employment difficulties whether direct or indirect; or any cause whatsoever which is not within the reasonable control of the Company. The Company shall immediately notify the Dealer of the existence of any such force majeure condition and the anticipated extent of the delay or non-delivery. The Company shall, in such event, have the right to allocate available Trex Products among its customers in its sole discretion.

7. Dealer's Remedies. If the Company, for any reason whatsoever, fails or is unable to deliver any Trex Products ordered by the Dealer, the Dealer's sole and exclusive remedy shall be the recovery of the purchase price, if any, paid by the Dealer to the Company for such Trex Products. The Company shall not incur any liability whatsoever for any delay in the delivery to the designated delivery location of any Trex Products. In no event shall the Company be liable for any incidental, consequential or other damages arising out of any failure to deliver any Trex Products to the Dealer or any delay in the delivery thereof.

8. Relationship of Parties; Indemnification of Company.

(a) Independent Dealer Status. The relationship of the parties established by this Agreement is that of vendor and vendee, and all work and duties to be performed by the Dealer as contemplated by this Agreement shall be performed by it as an independent dealer. The full cost and responsibility for hiring, firing and compensating employees of the Dealer shall be borne by the Dealer.

(b) No Authority to Bind Company. Nothing in this Agreement or otherwise shall be construed as constituting an appointment of the Dealer as an agent, legal representative, joint venturer, partner, employee or servant of the Company for any purpose whatsoever. The Dealer is not authorized to transact business, incur obligations, sell goods, solicit orders, or assign or create any obligation of any kind, express or implied, on behalf of the Company, or to bind it in any way whatsoever, or to make any contract, promise, warranty or representation on the Company's behalf with respect to products sold by the Company or any other matter, or to accept any service of process upon the Company or receive any notice of any nature whatsoever on the Company's behalf.

(c) Indemnification. Under no circumstances shall the Company be liable for any act, omission, contract, debt or other obligation of any kind of the Dealer or any salesman, employee, agent or other person acting for or on behalf of the Dealer. The Dealer shall indemnify and hold the Company harmless from any and all claims, liabilities, losses, damages or expenses (including reasonable attorneys, fees and costs) arising directly or indirectly from, as a result of, or in connection with, the Dealer's operation of the Dealer's business, including the installation of Trex Products. The terms of this indemnity shall survive the termination of this Agreement.

9. Confidential Information.

(a) Definition. As used in this Section, "Proprietary Information" means information developed by or for the Company which is not otherwise generally known in any industry in which the Company is or may become engaged and includes, but is not limited to, information developed by or for the Company, whether now owned or hereafter obtained, concerning plans, marketing and sales methods, materials, processes, procedures, devices utilized by the Company, prices, quotes, suppliers, manufacturers, customers with whom the Company deals (or organizations or other entities or persons associated with such customers), trade secrets and other confidential information of any type, together with all written, graphic and other materials relating to all or any part of the same.

(b) Non-Disclosure. Except as authorized in writing by the Company, the Dealer shall not at any time, either during or after the term of this Agreement, disclose or use, directly or indirectly, any Proprietary Information of which the Dealer gains knowledge during or by reason of this Agreement and the Dealer shall retain all such information in trust in a fiduciary capacity for the sole use and benefit of the Company. In the event that the Dealer operates one or more locations other than those set forth on Schedule A, the Dealer shall not disclose any Proprietary Information to local management or employees of such other location(s).

10. Patent and Trademark Indemnity. The Company will defend at its expense any legal proceeding brought against the Dealer based on a claim that

Trex Products sold by the Company under this Agreement infringe upon a United States patent or trademark, provided that the Company is notified promptly and given full authority, information and assistance for such defense. If the Dealer complies with the foregoing obligation, the Company will pay all damages and costs finally adjudicated against the Dealer, but will not be responsible for any compromise made without the Company's consent. If the Trex Products are held to be infringing and their use enjoined, the Company may, at its election and expense, either (1) obtain for the Dealer the right to continue selling the Trex Products, (2) replace the Trex Products with noninfringing Products, or (3) refund the purchase price paid, upon return of the Trex Products to the Company.

11. Term and Termination.

(a) Term. The term of this Agreement shall be for a period beginning on the date hereof and ending on December 31, 2007. Thereafter, this Agreement shall automatically renew for successive one (1) year periods unless either party gives to the other party written notice of termination at least thirty (30) days prior to the end of the initial or any renewal term.

(b) Voluntary Termination. Either party may terminate this Agreement in its entirety, or with respect to one (1) or more Dealer location(s) set forth on Schedule A, at any time during the term hereof, with or without cause, by giving to the other party thirty (30) days prior written notice of termination. If this Agreement is only terminated with respect to one (1) or more Dealer location(s) set forth on Schedule A, and there are remaining Dealer location(s) still remaining on Schedule A, the provisions of this Agreement relating to termination shall only apply to the terminated location(s), and this Agreement shall remain in full force and effect with respect to the other Dealer location(s).

(c) Default by the Dealer. This Agreement may be terminated by the Company immediately upon the failure of the Dealer to pay for Trex Products purchased by the Dealer in accordance with the terms of Section 2(d) hereof or upon the material default by the Dealer of any other obligation under this Agreement, or upon the filing of a petition in bankruptcy or for reorganization under the Bankruptcy Act by the Dealer, or upon the making of an assignment for benefit of creditors by the Dealer, or upon the Dealer's taking any action or failing to act in such a manner as to unfavorably reflect upon the Company.

(d) Effect on Outstanding Orders. Upon the effective date of termination of this Agreement, all outstanding orders from the Dealer to the Company shall be deemed cancelled, to the extent Trex Products have not yet been shipped by the Company.

(e) Repurchase of Inventory. Upon termination of this Agreement for any reason, the Company shall have the option, within sixty (60) days after the effective date of such termination, to purchase the Dealer's inventory which was purchased by the Dealer within the past twelve (12) months prior to the date of termination. If the Company exercises such option, the Dealer will sell and

release to the Company such inventory at a price equal to the price initially paid by the Dealer for such Trex Products, provided the Trex Products have been properly stored in accordance with Trex's storage guidelines and are in a good and saleable condition.

(f) Return of Company Property. Upon termination of this Agreement for any reason, the Dealer shall promptly return to the Company any property of the Company, including, without limitation, all sales and marketing documents, manuals and other records and proprietary information of the Company, as well as any samples in the Dealer's possession or control. The Dealer agrees that it will not make or retain any copy of, or extract from, such property or materials. The Company agrees to compensate the Dealer for the cost of any returned sales materials that were authorized by the Company and purchased by the Dealers within twelve (12) months of the date of termination.

12. General.

(a) Waiver. Failure of either party at any time to require performance by the other party of any provision hereof shall not be deemed to be a continuing waiver of that provision, or a waiver of its rights under any other provision of this Agreement, regardless of whether such provision is of the same or a similar nature.

(b) Complete Agreement. This Agreement (including the exhibits hereto and all documents and papers delivered pursuant hereto and any written amendments hereof executed by the parties to this Agreement) constitutes the entire agreement, and supersedes all prior agreements and understandings, oral and written, among the parties to this Agreement with respect to the subject matter hereof. This Agreement may be amended only by written agreement executed by all of the parties hereto. No purchase order or sales form will be applicable to any sales pursuant to this Agreement and only the terms of this Agreement shall govern such sales.

(c) Applicable Law; Jurisdiction and Venue. This Agreement shall be construed under, and governed by, the laws of the Commonwealth of Virginia. The parties agree that jurisdiction and venue for any legal proceedings arising from or in any way connected to this Agreement will lie in the United States District Court, Western District of Virginia or Frederick County, Virginia, and both parties hereby submit and consent to the jurisdiction and venue of said courts.

(d) Severability. If any provision of this Agreement is unenforceable or invalid, the Agreement shall be ineffective only to the extent of such provisions, and the enforceability or validity of the remaining provisions of this Agreement shall not be affected thereby.

(e) Assignment. This Agreement may not be transferred or assigned in whole or in part by operation of law or otherwise by the Dealer without the prior written consent of the Company. Upon thirty (30) days prior written notice to the

Dealer, the Company may assign its rights, duties and obligations under this Agreement. Without written notice, the Company may assign its rights, duties and obligations under this Agreement to any parent, subsidiary or other affiliated corporation of the Company.

(f) Notices. Any notice or other communication related to this Agreement shall be effective if sent by first class mail, postage prepaid, to the address set forth in this Agreement, or to such other address as may be designated in writing to the other party.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first set forth above.

Trex Company, Inc.

By: _____

By: _____

Its: _____

Its: _____

SCHEDULE A
Dealer Location(s) and Territory

Dealer Location(s)

Territory

Initials: Company _____

Dealer _____

CERTIFICATION

I, Anthony J. Cavanna, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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
 - (d) 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: November 9, 2006

/s/ Anthony J. Cavanna

Anthony J. Cavanna

Chairman and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Paul D. Fletcher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this quarterly 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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
 - (d) 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: November 9, 2006

/s/ Paul D. Fletcher

Paul D. Fletcher

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

**Written Statement of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 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 Quarterly Report on Form 10-Q of the Company for the Period Ended September 30, 2006 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.

Date: November 9, 2006

/s/ Anthony J. Cavanna

Anthony J. Cavanna
Chairman and Chief Executive Officer

Date: November 9, 2006

/s/ Paul D. Fletcher

Paul D. Fletcher
Senior Vice President and Chief Financial Officer