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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, 2003

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	**54-1910453**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
160 Exeter Drive Winchester, Virginia	**22603-8605**
(Address of principal executive offices)	**(Zip Code)**

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

Not Applicable

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

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

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

The number of shares of the registrant's common stock, par value $.01 per share, outstanding at October 31, 2003 was 14,689,453 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, 2002	September 30, 2003
		(unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,893	$ 28,003
Trade accounts receivable	840	13,088
Inventories	22,429	27,533
Prepaid expenses and other assets	1,395	1,643
Deferred income taxes	2,269	2,574
Total current assets	41,826	72,841
Property, plant, and equipment, net	133,570	137,633
Goodwill	6,837	6,837
Other assets	1,323	1,615
Total assets	$ 183,556	$ 218,926
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Trade accounts payable	$ 10,056	$ 15,252
Accrued expenses	6,089	4,618
Income taxes payable	114	726
Other current liabilities	638	1,066
Current portion of long-term debt	795	888
Total current liabilities	17,692	22,550
Deferred income taxes	9,915	13,274
Debt-related derivatives	2,773	2,536
Long-term debt, net of current portion	54,401	53,697
Total liabilities	84,781	92,057
Stockholders’ equity:		
Preferred stock, $0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized; 14,297,711 and 14,686,981 shares issued and outstanding at December 31, 2002 and September 30, 2003, respectively	143	147
Additional capital	49,354	55,112
Retained earnings	53,397	75,149
Deferred compensation	(2,400)	(1,972)
Accumulated other comprehensive loss	(1,719)	(1,567)
Total stockholders’ equity	98,775	126,869
Total liabilities and stockholders’ equity	$ 183,556	$ 218,926

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

TREX COMPANY, INC.

Condensed Consolidated Statements of Operations
(unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2003	2002	2003
Net sales	$ 49,522	$ 41,224	$ 147,442	$ 169,100
Cost of sales	25,069	21,779	78,779	92,999
Gross profit	24,453	19,445	68,663	76,101
Selling, general and administrative expenses	13,546	10,457	32,505	38,919
Income from operations	10,907	8,988	36,158	37,182
Interest expense, net	(1,205)	(858)	(7,016)	(2,655)
Income before taxes	9,702	8,130	29,142	34,527
Income taxes	3,571	3,008	10,961	12,775
Net income	$ 6,131	$ 5,122	$ 18,181	$ 21,752
Basic earnings per common share	$ 0.43	$ 0.35	$ 1.28	$ 1.50
Weighted average basic shares outstanding	14,169,102	14,561,950	14,163,267	14,505,037
Diluted earnings per common share	$ 0.43	$ 0.35	$ 1.26	$ 1.48
Weighted average diluted shares outstanding	14,416,853	14,731,373	14,463,460	14,715,170

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, 2002	Nine Months Ended September 30, 2003
OPERATING ACTIVITIES		
Net income	$ 18,181	$ 21,752
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	2,164	2,817
Equity method losses	200	150
Amortization of deferred compensation and financing costs	408	677
Amortization of debt discount	3,712	—
Depreciation and amortization	6,877	9,206
Loss on disposal of property, plant and equipment	248	21
Changes in operating assets and liabilities:		
Trade accounts receivable	(9,591)	(12,248)
Inventories	25,282	(5,104)
Prepaid expenses and other assets	(342)	(939)
Trade accounts payable	4,697	5,196
Accrued expenses	5,581	(1,471)
Income taxes payable	4,175	612
Other current liabilities	(159)	428
Net cash provided by operating activities	61,433	21,097
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(2,702)	(13,290)
Net cash used in investing activities	(2,702)	(13,290)
FINANCING ACTIVITIES		
Financing costs	(1,300)	—
Borrowings under mortgages and term loans	52,600	—
Principal payments under mortgages and term loans	(68,173)	(611)
Payments under line of credit	(12,153)	—
Proceeds from employee stock purchase and option plans	243	646
Proceeds from exercise of warrant	—	5,268
Net cash provided by (used in) financing activities	(28,783)	5,303
Net increase in cash and cash equivalents	29,948	13,110
Cash and cash equivalents at beginning of period	—	14,893
Cash and cash equivalents at end of period	$ 29,948	$ 28,003
Supplemental Disclosure:		
Cash paid for interest	$ 2,397	$ 2,641
Cash paid for income taxes	$ 4,499	$ 9,219

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

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TREX COMPANY, INC.

Notes to Condensed Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2002 and 2003 (unaudited)

1. BUSINESS AND ORGANIZATION

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

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, 2003 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, 2001 and 2002 and for each of the three years in the period ended December 31, 2002 included in the annual report of Trex Company, Inc. on Form 10-K, as filed with the Securities and Exchange Commission.

3. INVENTORY

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

	December 31, 2002	September 30, 2003
		(unaudited)
Finished goods	$ 17,114	$ 19,897
Raw materials	5,315	7,636
	$ 22,429	$ 27,533

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. DEBT

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

The senior secured notes accrue interest at an annual rate of 8.32%. Five principal payments of $8.0 million annually to retire the notes will be payable beginning in June 2005. The revolving credit facility and real estate loans accrue interest at annual rates equal to LIBOR plus specified margins and mature on June 19, 2005. The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans. At September 30, 2003, the Company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on all of its approximately $14.6 million principal amount of real estate loans. Amounts drawn under the new revolving credit facility are subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of September 30, 2003, no borrowings were outstanding under the revolving credit facility and the borrowing base totaled approximately $18.9 million.

The revolving credit facility, real estate loans and the senior secured notes contain negative and financial covenants. As of September 30, 2003, the Company was in compliance with these covenants. Borrowings under these agreements are secured by liens on substantially all of the Company's assets.

5. STOCKHOLDERS' EQUITY

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,	
	2002	2003	2002	2003
Numerator:				
Net income available to common shareholders	$ 6,131	$ 5,122	$ 18,181	$ 21,752
Denominator:				
Weighted average shares outstanding, basic	14,169,102	14,561,950	14,163,267	14,505,037
Impact of potential common shares:				
Options	59,107	103,845	47,880	118,794
Warrants	161,490	—	232,818	25,339
Restricted stock	27,154	65,578	19,495	66,001
Weighted average shares outstanding, diluted	14,416,853	14,731,373	14,463,460	14,715,170
Basic earnings per share	$ 0.43	$ 0.35	$ 1.28	$ 1.50
Diluted earnings per share	$ 0.43	$ 0.35	$ 1.26	$ 1.48

In November 2001, in connection with amendments to the Company's senior bank credit facility, the Company issued to the lender a warrant to purchase up to 707,557 shares of the Company's common stock at $14.89 per share. In June 2002, the Company refinanced its indebtedness under the senior credit facility. The refinancing eliminated the former lender's conditional right to purchase 353,778 of the shares of common stock issuable under the warrant. On February 3, 2003, the lender exercised the warrant to purchase all 353,779 of the remaining shares of common stock issuable thereunder for a total purchase price of approximately $5.3 million.

6. STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25 to the fair value method of accounting of SFAS No. 123, "Accounting for Stock-Based Compensation," if a company so elects. In 2002, the Company adopted SFAS No. 148. The adoption of this standard had no material impact on the Company's results of operations or financial position.

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

	Three Months Ended Ended September 30,		Nine Months Ended Ended September 30,	
	2002	2003	2002	2003
Net income, as reported	$ 6,131	$ 5,122	$ 18,181	$ 21,752
Deduct: Additional stock-based employee compensation expense determined under fair value based method, net of related tax effects	$ 292	$ 393	$ 584	$ 1,151
Pro forma net income	$ 5,839	$ 4,729	$ 17,597	$ 20,601
Earnings per share:				
Basic-as reported	$ 0.43	$ 0.35	$ 1.28	$ 1.50
Basic-pro forma	$ 0.41	$ 0.32	$ 1.24	$ 1.42
Diluted-as reported	$ 0.43	$ 0.35	$ 1.26	$ 1.48
Diluted-pro forma	$ 0.41	$ 0.32	$ 1.22	$ 1.40

In accordance with SFAS No. 123, the fair value was estimated at the grant date using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 4-6%; no dividends; expected life of the options of approximately five years; and volatility of 72-81%.

In March 2002, the Company issued 120,000 shares of restricted stock to certain employees under the Company's 1999 Stock Option and Incentive Plan. The shares vest in equal installments on the third, fourth and fifth anniversaries of the date of grant. The Company recorded $2.8 million of deferred compensation relating to the issuance of the restricted stock. The deferred compensation is being amortized on a straight-line basis over the five-year vesting period. For the three and nine months ended September 30, 2002 and 2003, the Company recorded compensation expense of $143,000 and $143,000, and $309,000 and $428,000, respectively.

7. 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, 2001 and 2002 accounted for approximately 85% and 88% of annual net sales in 2001 and 2002, respectively.

8. NEW ACCOUNTING STANDARDS

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

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

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the "Interpretation"). The Interpretation requires the consolidation of an entity in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership or contractual or other financial interests in the entity. Currently, an entity is generally consolidated by an enterprise when the enterprise has a controlling financial interest in the entity through ownership of a majority voting interest in the entity.

In 2000, the Company formed a joint venture (the "Joint Venture") with a Spanish environmental company and an Italian equipment manufacturer to operate a plant in Spain designed to recycle waste polyethylene. The Joint Venture was financed with initial equity contributions from the Company and the other partners and debt financing. The Company does not control the Joint Venture and records its proportional 35% share of the Joint Venture's operating results using the equity method. Under the joint venture agreement, the Company has the right to purchase up to 100% of the plant's production. In the nine months ended September 30, 2002 and 2003, the Company purchased 94% and 100%, respectively, of the Joint Venture's production, for approximately $1.6 million and $2.9 million, respectively. As of September 30, 2003, the carrying value of the Company's investment in the Joint Venture was approximately $790,000. As of September 30, 2003, the Company owed approximately $51,000 to the Joint Venture for trade payables.

The Company does not believe that adoption of the Interpretation will have a material impact on the Company's results of operations or financial 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 risks. Such risks include the Company's ability to develop or increase market acceptance of Trex, including new products and applications; the Company's lack of product diversification and reliance on sales of Trex Wood-Polymer® lumber; the Company's plan to increase production levels; the Company's current dependence on its two manufacturing sites; the Company's reliance on the supply of raw materials used in its production process; the Company's sensitivity to economic conditions, which influence the level of activity in home improvements and new home construction; the Company's ability to manage its growth; the Company's significant capital investments and ability to access the capital markets; and the Company's dependence on its largest distributors to market and sell its products. A discussion of these and other risks and uncertainties is contained in the Company's 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2003.

Overview

The Company is the nation's largest manufacturer of non-wood decking alternative products, which are marketed under the brand name Trex®. Trex Wood-Polymer® lumber is a wood/plastic composite which is manufactured in a proprietary process that combines waste wood fibers and reclaimed polyethylene. Trex is used primarily for residential and commercial decking. Trex also has non-decking product applications, including applications for parks and recreational areas, floating and fixed docks and other marine applications, and landscape edging.

Net sales consist of sales and freight, net of returns and discounts. Cost of sales consists of raw material costs, direct labor costs and manufacturing overhead costs, including depreciation and freight. The largest component of selling, general and administrative expenses is branding and other sales and marketing costs. 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, and office occupancy costs attributable to such functions, as well as depreciation and amortization expense.

The Company experienced growth in net sales each year from 1996, when it began operations, through 2000. The sales increase resulted primarily from a growth in sales volume. From time to time since 1996, customer demand for Trex exceeded the Company's manufacturing capacity. The constraints on the Company's capacity during these periods limited the rate of the Company's sales growth. Because of these constraints, the Company had to allocate its product supply to its network of wholesale distributors and retail dealers. In response to this allocation practice, the Company's distributors and dealers generally stockpiled their inventories of Trex to meet anticipated customer demand.

In 2000, 2001 and 2002, the Company made capital expenditures totaling $98.3 million, principally to add production lines and increase the size of its facilities to accommodate the new lines. The resulting production capacity increases enabled the Company, beginning in the third quarter of 2000, to eliminate its historical allocation of product supply. As a result of the termination of the allocation practice in 2000 and adverse economic conditions in 2001, the Company's distributors and dealers generally reduced their inventories of Trex from levels built up as a result of stockpiling in prior years. Because distributors and dealers were able to meet much of the customer demand for Trex from their existing inventories, the Company experienced a decrease in product orders in 2001 compared to the prior year.

In response to these developments, the Company took a number of actions to reduce its finished goods inventories and conserve working capital. The Company curtailed its production capacity by temporarily suspending operation of a portion of its existing production lines. At the end of 2001, the Company was operating at approximately 40% of its manufacturing capacity. In addition, the Company suspended construction of production lines at various stages of completion and suspended construction of a new plastic processing plant.

In 2002, the Company sought to further reduce inventory levels before increasing utilization of its production capacity. The Company's finished goods inventory decreased to $17.1 million at December 31, 2002 from $27.2 million at December 31, 2001, as sales exceeded production. As a result of the sales growth in 2002, the Company placed into operation all of the production lines whose operations it had suspended in 2001. At December 31, 2002, the Company's capacity utilization was above 90%.

In the third quarter of 2003, the Company increased its finished goods and raw materials inventory. As a result of lower sales in that quarter, production exceeded sales. The Company's finished goods inventory increased to $19.9 million at September 30, 2003 from $17.1 million at December 31, 2002. In addition, the Company operated all available production lines and neared completion of construction of two additional lines. As a result of the continued increases in sales, production utilization and capacity, the Company intensified its selling and branding activities in the first three quarters of 2003. In connection with its intensified selling activities in 2003, the Company augmented its sales force, enlarged its dealer base and enhanced its TrexPro™ marketing programs.

Three Months Ended September 30, 2003 Compared with Three Months Ended September 30, 2002

Net Sales

Net sales in the three months ended September 30, 2003 (the "2003 quarter") decreased 16.8% to $41.2 million from $49.5 million in the three months ended September 30, 2002 (the "2002 quarter"). The decrease in net sales was primarily attributable to a decline in sales volume as a result of adverse weather conditions in some of the Company's principal markets. The effects of the lower volume were partially offset by an increase in average prices. The number of dealer outlets increased to approximately 3,300 at September 30, 2003 from approximately 2,900 at September 30, 2002.

Cost of Sales

Cost of sales decreased 13.1% to $21.8 million in the 2003 quarter from $25.1 million in the 2002 quarter. The decrease in cost of sales was primarily attributable to the lower net sales volume, which was offset by higher unit manufacturing costs. Increased costs of polyethylene supplies were primarily responsible for the higher unit manufacturing costs. Cost of sales as a percentage of net sales increased to 52.8% in the 2003 quarter from 50.6% in the 2002 quarter primarily as a result of the increased unit manufacturing costs. The higher unit manufacturing costs were partially offset by an increase in the manufacturing utilization rate and the associated improvement in absorption of fixed manufacturing expenses.

Gross Profit

Gross profit decreased 20.5% to $19.4 million in the 2003 quarter from $24.5 million in the 2002 quarter because of the decrease in net sales volume. As a percentage of net sales, gross profit decreased to 47.2% in the 2003 quarter from 49.4% in the 2002 quarter as a result of higher unit manufacturing costs. The effect of the higher unit manufacturing costs was partially offset by increased manufacturing efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 22.8% to $10.5 million in the 2003 quarter from $13.5 million in the 2002 quarter. The lower selling, general and administrative expenses resulted principally from a $2.4 million decrease in certain incentive-based compensation accruals and a $1.7 million decrease in legal expenses. In the 2003 quarter, the Company reversed $1.3 million in incentive compensation accruals made earlier in 2003. The reversal resulted from management's assessment that lesser amounts would be earned and payable under these programs for the year ended December 31, 2003. The foregoing decreases were partially offset by a $1.1 million increase in costs relating to new plant site expenses, customer relations, corporate personnel and research and development. As a percentage of net sales, selling, general and administrative expenses decreased to 25.4% in the 2003 quarter from 27.4% in the 2002 quarter.

Interest Expense

Net interest expense decreased to $0.9 million in the 2003 quarter from $1.2 million in the 2002 quarter. The decrease in net interest expense resulted from an increased amount of interest capitalized on construction in process, an increase in interest income and lower average debt balances. The Company capitalized $0.3 million and $0.1 million of interest on construction in process in the 2003 and 2002 quarters, respectively.

Provision for Income Taxes

The Company recorded a provision for income taxes of $3.0 million in the 2003 quarter compared to a provision of $3.6 million in the 2002 quarter. The provisions reflect an effective tax rate of 37% in both the 2003 and 2002 quarters.

Nine Months Ended September 30, 2003 Compared with Nine Months Ended September 30, 2002

Net Sales

Net sales in the nine months ended September 30, 2003 (the "2003 nine-month period") increased 14.7% to $169.1 million from $147.4 million in the nine months ended September 30, 2002 (the "2002 nine-month period"). The increase in net sales was primarily attributable to a growth in sales volume as a result of an increase in demand from dealers and distributors and, to a lesser extent, an increase in the average price of Trex, which increased 3.5% effective as of January 1, 2003. The number of dealer outlets increased to approximately 3,300 at September 30, 2003 from approximately 2,900 at September 30, 2002.

Cost of Sales

Cost of sales increased 18.1% to $93.0 million in the 2003 nine-month period from $78.8 million in the 2002 nine-month period. The increase in cost of sales was primarily attributable to increased net sales volume and, to a lesser extent, higher unit manufacturing costs. Increased costs of polyethylene supplies were primarily responsible for the higher unit manufacturing costs. Cost of sales as a percentage of net sales increased to 55.0% in the 2003 nine-month period from 53.4% in the 2002 nine-month period primarily as a result of the increased unit manufacturing costs. The higher unit manufacturing costs were partially offset by an increase in the manufacturing utilization rate and the associated improvement in absorption of fixed manufacturing expenses.

Gross Profit

Gross profit increased 10.8% to $76.1 million in the 2003 nine-month period from $68.7 million in the 2002 nine-month period because of the increased net sales volume. As a percentage of net sales, gross profit decreased to 45.0% in the 2003 nine-month period from 46.6% in the 2002 nine-month period as a result of higher unit manufacturing costs. The effect of the higher unit manufacturing costs was partially offset by increased manufacturing efficiencies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 19.7% to $38.9 million in the 2003 nine-month period from $32.5 million in the 2002 nine-month period. The increase in selling, general and administrative expenses primarily resulted from an increase of $6.4 million in branding costs and an increase of $3.7 million in corporate personnel expenses and hiring costs, including compensation and benefits. The foregoing increases were partially offset by a $3.2 million decrease in certain incentive-based compensation accruals and a $1.7 million decrease in legal fees. The lower incentive-based compensation expenses resulted from a reversal of $1.3 million in incentive compensation accruals upon management's assessment that lesser amounts would be earned and payable under these programs for the year ended December 31, 2003. As a percentage of net sales, selling, general and administrative expenses increased to 23.0% in the 2003 nine-month period from 22.0% in the 2002 nine-month period.

Interest Expense

Net interest expense decreased to $2.7 million in the 2003 nine-month period from $7.0 million in the 2002 nine-month period. The decrease in net interest expense included a reduction of approximately $3.7 million in the non-cash amortization of debt discount. Lower average debt balances and an increase in the amount of interest capitalized on construction in process also contributed to lower net interest expense in the 2003 nine-month period. The Company capitalized $0.8 million and $0.1 million of interest on construction in process in the 2003 and 2002 nine-month periods, respectively.

Provision for Income Taxes

The Company recorded a provision for income taxes of $12.8 million in the 2003 nine-month period compared to a provision of $11.0 million in the 2002 nine-month period. The provisions reflect a 37% effective tax rate in the 2003 nine-month period and 38% effective tax rate in the 2002 nine-month period.

Liquidity and Capital Resources

The Company's cash provided by operating activities for the 2003 nine-month period was $21.1 million compared to cash provided by operating activities of $61.4 million for the 2002 nine-month period. Trade accounts receivable, net, increased from $0.8 million at December 31, 2002 to $13.1 million at September 30, 2003. The Company's inventories increased from $22.4 million at December 31, 2002 to $27.5 million at September 30, 2003, as the Company's production of Trex exceeded net sales. Trade accounts payable increased from $10.0 million at December 31, 2002 to $15.3 million at September 30, 2003.

On June 19, 2002, the Company refinanced total indebtedness of $47.6 million outstanding under a senior bank credit facility and various real estate loans. The Company refinanced this indebtedness from the proceeds of its sale of senior secured notes in the aggregate principal amount of $40.0 million and borrowings under new real estate loans having an aggregate principal amount of $12.6 million. In connection with the refinancing, the Company replaced its existing $17 million revolving credit facility with a $20 million revolving credit facility with a new lender. For information about this refinancing and terms of the Company's principal current indebtedness, see Note 4 to the Condensed Consolidated Financial Statements included elsewhere in this report.

The Company uses interest rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans. As of September 30, 2003, the Company's indebtedness totaled $57.1 million and the annualized overall weighted average interest rate of such indebtedness was approximately 8.3%. As of December 31, 2002, the Company's indebtedness totaled $58.0 million and the annualized overall weighted average interest rate of such indebtedness was approximately 8.3%.

The Company's principal source of short-term funding consists of its $20 million revolving credit facility. The Company's ability to borrow under the revolving credit facility is tied to a borrowing base that consists of certain receivables and inventories. As of September 30, 2003, no borrowings were outstanding under the revolving credit facility and the borrowing base totaled approximately $18.9 million. The Company's revolving credit facility, real estate loans and senior secured notes require the Company to meet certain financial and negative covenants. As of September 30, 2003, the Company was in compliance with these covenants.

The Company's ability to pay down its senior secured notes, borrow under its revolving credit facility and maintain compliance with the related financial covenants is dependent primarily on its ability to generate substantial cash flow from operations. The generation of operating cash flow is subject to the risks of the Company's business.

Capital expenditures in the 2003 nine-month period totaled $13.3 million. The Company currently estimates that its total capital requirements in 2003 will total approximately $20.0 million. The Company expects that its capital requirements will be significantly higher in subsequent years as the Company completes its construction in process and invests in additional production lines and facilities to meet an anticipated increase in the demand for Trex.

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

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 floating-rate debt. The Company uses interest rate swap contracts to manage its exposure to fluctuations in the interest rates on its floating-rate mortgage debt, all of which is based on LIBOR. At September 30, 2003, the Company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on its $14.6 million of floating-rate debt.

Item 4. Controls and Procedures

The Company's management, with the participation of its President, who is the Company's principal executive officer, and its 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, 2003. Based upon that evaluation, the President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in this report and the other reports that the Company files or submits under the Securities Exchange Act of 1934.

During the third fiscal quarter, there have been no changes in the Company's internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, its internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 5. Other Information

The Company announced on July 14, 2003 that Paul D. Fletcher was appointed as Senior Vice President and Chief Financial Officer. Anthony J. Cavanna, who previously served as Executive Vice President and Chief Financial Officer, intends to retire at the end of 2003. Until that time, Mr. Cavanna will serve as Executive Vice President and focus his efforts on strategic planning, investor relations and special projects.

Item 6. Exhibits and Reports on Form 8-K

(a) The Company files herewith the following exhibits:

- 31.1 Certification of President 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.

(b) Reports on Form 8-K. During the period covered by this report, the Company furnished information in the current reports on Form 8-K identified below. The information in these current reports on Form 8-K was furnished pursuant to Item 9 or Item 12 and, as such, shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

Date of Report	Item Reported
September 29, 2003	Item 12 (press release announcing updated full year financial guidance and preliminary for the quarter ended September 30, 2003)
July 30, 2003	Item 9 (execution of Rule 10b5-1 sales plans by an executive officer and a director)
July 28, 2003	Item 12 (press release announcing operating results for the quarter ended June 30, 2003)
July 14, 2003	Item 9 (press release announcing the retirement of Anthony J. Cavanna from his position as Chief Financial Officer and the appointment of Paul D. Fletcher as Senior Vice President and Chief Financial Officer)

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 7, 2003

By: /s/ Paul D. Fletcher

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

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EXHIBIT INDEX

Exhibit No.	
31.1	Certification of President of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
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32	Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

Exhibit 31.1

CERTIFICATION

I, Robert G. Matheny, 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)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ Robert G. Matheny

Robert G. Matheny
President

Exhibit 31.2

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)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function(s)):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ Paul D. Fletcher

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

Exhibit 32

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 President 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, 2003 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert G. Matheny

Robert G. Matheny
President
November 7, 2003

/s/ Paul D. Fletcher

Paul D. Fletcher
Senior Vice President and Chief Financial Officer
November 7, 2003