
**UNITED STATES
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, 2008

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)

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

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

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, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (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 30, 2008 was 15,318,445 shares.

TREX COMPANY, INC.

INDEX

| | <u>Page</u> |
|---|-------------|
| <u>PART I FINANCIAL INFORMATION</u> | |
| Item 1. Financial Statements | 3 |
| Condensed Consolidated Balance Sheets as of December 31, 2007 and September 30, 2008 (unaudited) | 3 |
| Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2007 and 2008 (unaudited) | 4 |
| Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2008 (unaudited) | 5 |
| Notes to Condensed Consolidated Financial Statements (unaudited) | 6 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 16 |
| Item 4. Controls and Procedures | 16 |
| <u>PART II OTHER INFORMATION</u> | |
| Item 1. Legal Proceedings | 17 |
| Item 1A. Risk Factors | 17 |
| Item 6. Exhibits | 17 |
| Signature | 18 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands)

| | December 31, 2007 | September 30, 2008 (unaudited) |
|---|----------------------|--------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 66 | \$ 42,757 |
| Accounts receivable, net | 6,588 | 19,177 |
| Inventories | 92,569 | 49,052 |
| Prepaid expenses and other assets | 2,617 | 3,250 |
| Income taxes receivable | 2,376 | 2,532 |
| Deferred income taxes | 16,007 | 16,007 |
| Total current assets | 120,223 | 132,775 |
| Property, plant, and equipment, net | 193,944 | 181,315 |
| Goodwill | 6,837 | 6,837 |
| Other assets | 7,722 | 7,869 |
| Total assets | <u>\$ 328,726</u> | <u>\$ 328,796</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,776 | \$ 10,766 |
| Accrued expenses | 21,583 | 21,522 |
| Accrued warranty | 21,084 | 11,137 |
| Current portion of long-term debt | 1,198 | 1,267 |
| Total current liabilities | 63,641 | 44,692 |
| Deferred income taxes | 15,763 | 15,798 |
| Accrued taxes | 3,620 | 3,525 |
| Non-current accrued warranty | 18,901 | 13,634 |
| Debt-related derivatives | 1,044 | 1,054 |
| Long-term debt | 131,730 | 130,770 |
| Total liabilities | 234,699 | 209,473 |
| 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; 15,076,738 and 15,318,445 shares issued and outstanding at December 31, 2007 and September 30, 2008, respectively | 151 | 153 |
| Additional paid in capital | 66,523 | 68,247 |
| Accumulated other comprehensive loss | (557) | (496) |
| Retained earnings | 27,910 | 51,419 |
| Total stockholders' equity | 94,027 | 119,323 |
| Total liabilities and stockholders' equity | <u>\$ 328,726</u> | <u>\$ 328,796</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)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2008 | 2007 | 2008 |
| Net sales | \$ 63,971 | \$ 85,379 | \$ 298,663 | \$ 299,905 |
| Cost of sales | 73,631 | 61,827 | 254,530 | 215,372 |
| Gross profit (loss) | (9,660) | 23,552 | 44,133 | 84,533 |
| Selling, general and administrative expenses | 52,074 | 15,112 | 91,974 | 54,338 |
| Income (loss) from operations | (61,734) | 8,440 | (47,841) | 30,195 |
| Interest expense, net | 2,021 | 2,041 | 6,241 | 6,901 |
| Income (loss) before income taxes | (63,755) | 6,399 | (54,082) | 23,294 |
| Benefit for income taxes | (22,528) | (318) | (19,168) | (215) |
| Net income (loss) | \$ (41,227) | \$ 6,717 | \$ (34,914) | \$ 23,509 |
| Basic earnings (loss) per common share | \$ (2.77) | \$ 0.45 | \$ (2.35) | \$ 1.57 |
| Basic weighted average common shares outstanding | 14,892,507 | 14,964,110 | 14,878,951 | 14,952,210 |
| Diluted earnings (loss) per common share | \$ (2.77) | \$ 0.44 | \$ (2.35) | \$ 1.56 |
| Diluted weighted average common shares outstanding | 14,892,507 | 15,253,680 | 14,878,951 | 15,082,325 |

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, | |
|---|------------------------------------|------------------|
| | 2007 | 2008 |
| Operating Activities | | |
| Net income (loss) | \$ (34,914) | \$ 23,509 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,552 | 19,522 |
| Equity method losses (income) | (483) | 17 |
| Derivatives | (153) | 107 |
| Deferred income taxes | (18,364) | — |
| Accrued taxes | (516) | (95) |
| Stock-based compensation | 3,116 | 1,618 |
| Loss on disposal of property, plant, and equipment | 4 | 21 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (9,001) | (12,590) |
| Inventories | 37,791 | 43,517 |
| Prepaid expenses and other assets | 713 | (559) |
| Accounts payable | (23,951) | (9,011) |
| Accrued expenses | 45,515 | (15,344) |
| Income taxes receivable | (843) | (85) |
| Net cash provided by operating activities | <u>15,466</u> | <u>50,627</u> |
| Investing Activities | | |
| Note receivable, net | — | (702) |
| Expenditures for property, plant and equipment | (21,197) | (6,214) |
| Proceeds from sales of property, plant and equipment | — | 42 |
| Net cash used in investing activities | <u>(21,197)</u> | <u>(6,874)</u> |
| Financing Activities | | |
| Financing costs | (3,628) | (279) |
| Proceeds from sale of convertible senior subordinated notes | 97,500 | — |
| Principal payments under mortgages and notes | (24,789) | (891) |
| Borrowings under line of credit | 86,120 | 44,178 |
| Principal payments under line of credit | (130,252) | (44,178) |
| Repurchases of common stock | (377) | (74) |
| Proceeds from employee stock purchase and option plans | 252 | 182 |
| Tax effect of stock-based compensation | (21) | — |
| Net cash (used in) provided by financing activities | <u>24,805</u> | <u>(1,062)</u> |
| Net increase in cash and cash equivalents | 19,074 | 42,691 |
| Cash and cash equivalents at beginning of period | 672 | 66 |
| Cash and cash equivalents at end of period | <u>\$ 19,746</u> | <u>\$ 42,757</u> |
| Supplemental Disclosure: | | |
| Cash paid for interest, net of capitalized interest | \$ 4,459 | \$ 7,366 |
| Cash paid (received) for income taxes, net | \$ 618 | \$ (45) |

See Accompanying Notes to Condensed Consolidated
Financial Statements (Unaudited).

TREX COMPANY, INC.

**Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2007 and 2008
(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, railing and fencing 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 nine months ended September 30, 2008 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, 2006 and 2007 and for each of the three years in the period ended December 31, 2007 included in the annual report of Trex Company, Inc. on Form 10-K, as filed with the Securities and Exchange Commission.

The Company’s critical accounting policies are included in the Company’s Annual Report of Form 10-K for the year ended December 31, 2007.

Certain reclassifications have been made in the presentation of the financial statements for the nine months ended September 30, 2007 to conform to the presentation of the financial statements for the nine months ended September 30, 2008.

3. NEW ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Standards (“SFAS”) No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with 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. In February 2008, the FASB issued Staff Position (FSP) No. 157-2 which delays the effective date of SFAS 157 one year for all nonfinancial assets and nonfinancial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted this standard effective January 1, 2008 with no impact on its results of operations and financial position. See Note 8 to the accompanying condensed consolidated financial statements for additional disclosure.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities*. SFAS No. 159 permits entities to choose to elect to measure eligible financial instruments at fair value, which provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without being required to apply complex hedge accounting provisions. SFAS No. 159 applies to fiscal years beginning after November 15, 2007. The Company did not elect to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards. Therefore, the adoption of this standard had no impact on the Company’s results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS No. 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS No. 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Company is evaluating the effect that the adoption of SFAS No. 161 will have on its results of operations and financial position.

[Table of Contents](#)

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 requires the proceeds from the issuance of convertible debt instruments that may be settled in cash upon conversion to be allocated between a liability component and an equity component. The resulting debt discount will be amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The FSP is effective for fiscal years beginning after December 15, 2008, and is applied retrospectively to prior periods. The Company is currently evaluating the potential impact that the adoption of FSP APB 14-1 will have on its results of operations and financial position.

4. COMPREHENSIVE INCOME

The Company's comprehensive income was \$(41.3) million and \$6.7 million for the three months ended September 30, 2007 and 2008, respectively and \$(35.1) million and \$23.5 million for the nine months ended September 30, 2007 and 2008, respectively. Comprehensive income consists of net income and net unrealized gains and losses on interest-rate swap contracts.

5. INVENTORIES

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

| | December 31, 2007 | September 30, 2008 |
|-------------------|----------------------|-----------------------|
| Finished goods | \$ 72,916 | \$ 32,704 |
| Raw materials | 19,653 | 16,348 |
| Total inventories | <u>\$ 92,569</u> | <u>\$ 49,052</u> |

Inventory is stated at the lower of standard cost or net realizable value. The Company periodically reviews its inventory for slow moving or obsolete items and writes down the related products to estimated net realizable value. During the nine months ended September 30, 2008, management decided to reclaim certain finished goods inventories that did not meet company quality specifications. As a result, the Company recorded a \$1.4 million and a \$3.2 million charge, respectively, in the three and nine months ending September 30, 2008 to write down the affected inventory, which will be used in the Company's manufacturing process in the future, to the weighted-average raw material costs.

For the three months and nine months ended September 30, 2008, due to the liquidation of certain inventories, a portion of the Company's cost of sales is based on prior year costs rather than current year costs. As a result, the Company recognized a benefit of \$1.3 million and a benefit of \$1.0 million during the three months and nine months ended September 30, 2008, respectively.

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. 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.

6. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

| | December 31, 2007 | September 30, 2008 |
|---|----------------------|-----------------------|
| Accrued compensation and benefits | \$ 5,157 | \$ 8,373 |
| Accrued interest | 4,637 | 3,346 |
| Accrued sales and marketing | 3,615 | 3,027 |
| Accrued rent obligations | 1,996 | 2,138 |
| Accrued freight | 461 | 975 |
| Accrued customer relations | 1,844 | 733 |
| Accrued manufacturing expenses | 1,088 | 650 |
| Accrued professional and legal services | 564 | 286 |
| Other | 2,221 | 1,994 |
| Total accrued expenses | <u>\$ 21,583</u> | <u>\$ 21,522</u> |

[Table of Contents](#)

7. DEBT

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

| | December 31, 2007 | September 30, 2008 |
|--|----------------------|-----------------------|
| Real estate loan, due June 30, 2011 | \$ 1,910 | \$ 1,704 |
| Real estate loan, due June 30, 2011 | 546 | 491 |
| Real estate loan, due June 30, 2011 | 3,917 | 3,709 |
| Real estate loan, due September 30, 2014 | 4,055 | 3,633 |
| Convertible notes | 97,500 | 97,500 |
| Promissory note | 25,000 | 25,000 |
| | <u>132,928</u> | <u>132,037</u> |
| Less current portion | (1,198) | (1,267) |
| Total long-term debt | <u>\$ 131,730</u> | <u>\$ 130,770</u> |

The Company's debt consists of real estate loans, convertible bond notes, a promissory note and a revolving credit facility. At September 30, 2008, under its revolving credit facility, the Company had no outstanding borrowings and available borrowing capacity of \$40.0 million.

As of September 30, 2008 the Company was in compliance with all of the covenants contained in its debt agreements.

8. FAIR VALUE MEASUREMENT

The Company adopted SFAS 157 on January 1, 2008, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The Company's adoption was limited to financial assets and liabilities, which primarily relate to derivative contracts.

SFAS 157 requires the categorization of financial assets and liabilities based upon the level of judgments associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs used to determine the fair value of financial assets and liabilities, are as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the assets or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life
- Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the financial assets and liabilities we measure at fair value on a recurring basis, based on the fair value hierarchy as of September 30, 2008 (in thousands):

| | Total Fair Value Measurement September 30, 2008 | Quoted Prices in Active Markets for Identical Asset (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-----------------------------------|---|---|---|---|
| Debt-related derivative liability | <u>\$ 1,054</u> | <u>\$ —</u> | <u>\$ 1,054</u> | <u>\$ —</u> |

The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its variable-rate real estate loans and variable-rate promissory note.

[Table of Contents](#)

9. 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, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2008 | 2007 | 2008 |
| Numerator: | | | | |
| Net income available to common shareholders | \$ (41,227) | \$ 6,717 | \$ (34,914) | \$ 23,509 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 14,892,507 | 14,964,110 | 14,878,951 | 14,952,210 |
| Effect of dilutive securities: Stock options | — | 106,033 | — | 28,313 |
| Restricted stock | — | 183,537 | — | 101,802 |
| Diluted weighted average shares outstanding | 14,892,507 | 15,253,680 | 14,878,951 | 15,082,325 |
| Basic earnings per share | \$ (2.77) | \$ 0.45 | \$ (2.35) | \$ 1.57 |
| Diluted earnings per share | \$ (2.77) | \$ 0.44 | \$ (2.35) | \$ 1.56 |

10. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified prospective transition method. Under that transition method, compensation cost includes (1) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

The Company has one stock-based compensation plan, the 2005 Stock Incentive Plan (the “2005 Plan”), which was amended by its shareholders on May 7, 2008. The 2005 Plan is administered by the Compensation Committee of the Company’s Board of Directors. Stock-based compensation is granted to officers, directors and certain key employees in accordance with the provisions of the 2005 Plan. The 2005 Plan provides for grants of stock options, stock appreciation rights (“SARs”), restricted stock and performance share awards. The total aggregate number of shares of the Company’s common stock that may be issued under the 2005 Plan is 3,150,000 shares.

The fair value of each stock option award and SAR is estimated on the date of grant using a Black-Scholes option-pricing formula. For stock options and SARs issued in the nine months ended September 30, 2007 and 2008, respectively, the assumptions shown in the following table were used:

| | Nine Months Ended September 30, | |
|------------------------------------|------------------------------------|---------|
| | 2007 | 2008 |
| Weighted-average fair value grants | \$ 10.63 | \$ 3.85 |
| Dividend yield | 0% | 0% |
| Average risk-free interest rate | 4.7% | 2.9% |
| Expected term (years) | 5 | 5 |
| Expected volatility | 41% | 45% |

The following table summarizes the Company’s stock-based compensation grants for the nine months ended September 30, 2008:

| | Stock Awards Granted | Weighted-Average Grant Price Per Share |
|---------------------------|-------------------------|--|
| Stock appreciation rights | 728,826 | \$ 8.97 |
| Restricted stock | 325,202 | \$ 8.59 |

The following table summarizes the Company’s stock-based compensation expense for the three months and nine months ended September 30, 2007 and 2008 (in millions):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2008 | 2007 | 2008 |
| Stock options and stock appreciation rights | \$ 1.0 | \$ 0.5 | \$ 1.9 | \$ 1.2 |
| Performance share awards and restricted stock | 0.4 | 0.2 | 1.2 | 0.4 |
| Total stock-based compensation | \$ 1.4 | \$ 0.7 | \$ 3.1 | \$ 1.6 |

[Table of Contents](#)

Total unrecognized compensation cost related to unvested stock options and stock awards as of September 30, 2007 and September 30, 2008 totaled \$8.1 million and \$9.2 million, respectively. The cost of these non-vested awards is being recognized over the requisite vesting period of 36 months from date of grant.

11. INCOME TAXES

The Company's effective tax rate for the nine months ended September 30, 2008 and 2007 was -0.9% and 35.4%, respectively, which resulted in a benefit for income taxes of \$0.2 million and \$19.2 million, respectively. The lower effective tax rate in the nine months ended September 30, 2008 was primarily due to the recognition of a benefit resulting from a decrease in the Company's valuation allowance previously recorded against its net deferred tax asset and, to a lesser extent, the reversal of certain liabilities for uncertain tax positions on which the related statute of limitations had expired and the recognition of a fuel tax credit that resulted from the filing of the Company's 2007 federal tax return.

At December 31, 2007, in accordance with FAS 109, *Accounting for Income Taxes*, the Company recorded a valuation allowance against its net deferred tax asset. During the nine months ended September 30, 2008, as a result of earnings generated by the operations of the Company, the Company realized a portion of its reserved net deferred tax asset. As a result, the Company recorded a corresponding decrease to its valuation allowance. The decrease in the valuation allowance resulted in the recognition of a tax benefit that offset the tax expense recorded at the statutory rate and reduced the effective tax rate.

In the nine months ended September 30, 2008 the Company reversed \$0.1 million of its liabilities for uncertain tax positions after the related statute of limitations expired. In accordance with FIN 48, *Accounting for Uncertainty in Income Taxes*, the Company recorded \$0.4 million of accrued interest related to uncertain tax positions in the nine months ended September 30, 2008. The Company recognizes accrued interest and penalties related to income tax matters in "Interest expense, net" and "Selling, general and administrative expenses," respectively, in the accompanying consolidated statement of operations.

The Company has taken tax positions in certain taxing jurisdictions for which it is reasonably possible that the total amounts of unrecognized tax benefits may decrease within the next 12 months. The possible decrease could result from the closing of the statutes for tax purposes in some taxing jurisdictions and would be approximately \$1.0 million.

12. SEASONALITY

The Company's operating results have historically varied from quarter to quarter, principally due 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 construction activity.

13. COMMITMENTS AND CONTINGENCIES

Contract Termination Costs

As of September 30, 2008, the minimum payments remaining under the Company's lease relating to its reconsidered corporate relocation over the years ending December 31, 2008, 2009, 2010, 2011 and 2012 are \$0.4 million, \$1.6 million, \$1.6 million, \$1.6 million and \$2.0 million, respectively, and \$16.7 million thereafter. The minimum receipts remaining under the Company's existing subleases over the years ending December 31, 2008, 2009, 2010, 2011 and 2012 are \$0.4 million, \$1.5 million, \$1.6 million, \$1.6 million and \$1.6 million, respectively, and \$2.3 million thereafter. During the three months ended June 30, 2008, the Company recorded a \$0.4 million charge related to a change in the estimated future sublease cash flows. The Company accounts for the costs associated with the lease as contract termination costs in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

[Table of Contents](#)

The following table provides information about the Company's liability related to the lease (in thousands):

| | <u>2007</u> | <u>2008</u> |
|--|----------------|---------------|
| Balance as of January 1, | \$1,765 | \$ 925 |
| Less: cash payments, net | (889) | (850) |
| Accretion of discount | 88 | 45 |
| Add: charge for minimum lease payments in excess of estimated sublease receipts, net | 391 | 391 |
| Balance as of September 30, | <u>\$1,355</u> | <u>\$ 511</u> |

Product Warranty

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.

During the three months ended September 30, 2007, the Company experienced a significant increase in the number of customer claims related to Trex product that exhibited surface defects and which the Company has determined was produced at the Nevada manufacturing facility beginning in 2003. Following a detailed analysis of the additional claims data, production samples, operating data and the incubation period after deck installation and other factors, the Company believes that only a small percentage of the product manufactured from 2003 to mid-2006 at the Nevada plant was affected, and that products manufactured at its other facilities are not affected. The Company believes that changes made to its manufacturing process and quality control procedures have prevented any additional product with this type of defect from reaching the market after mid-2006.

Based on the available data, the Company revised its estimate of expected future product replacement and consumer relations expenses related to the defect and increased its warranty reserve by recording a charge to earnings of \$45.2 million in the three months ended September 30, 2007. In addition, during the three months ended December 31, 2007, the Company elected to alter its handling of future customer claims. As a result of the effect of this change on the estimated cost to settle claims, the Company recorded an additional \$1.5 million increase to its warranty reserve. Although the Company adjusted the warranty reserve accordingly by recording the best estimate of the expected costs, due to the inherent subjectivity of estimating future claims, it is possible that the ultimate settlement of the claims may exceed the amount recorded and may result in future charges against income.

The following is a reconciliation of the Company's warranty reserve (in thousands):

| | <u>2007</u> | <u>2008</u> |
|------------------------------------|------------------|------------------|
| Beginning balance, January 1, | \$ 2,467 | \$ 39,985 |
| Provision for estimated warranties | 63,950 | — |
| Settlements made during the period | (18,426) | (15,214) |
| Ending balance, September 30, | <u>\$ 47,991</u> | <u>\$ 24,771</u> |

Legal Matters

The Company is involved in certain litigation as described in Note 12 to the audited consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007. 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.

14. RELATED PARTY TRANSACTIONS

On February 1, 2008, the Company entered into a consulting agreement with Harold F. Monahan, Executive Vice President, Materials and Engineering, whose last day of employment with the Company was March 10, 2008. Under the terms of the consulting agreement, Mr. Monahan will provide consulting services to the Company between March 11, 2008 and December 31, 2008 relating to manufacturing, engineering, and raw materials. For these services, the Company is paying Mr. Monahan approximately \$10,000 per month, for five days of service each month. If Mr. Monahan works for less than five days in any calendar month, he will be obligated to make up such days in the following months, and if he works for more than five days (plus any days carried over from prior months) in any calendar month, he will be compensated at the rate of \$2,000 per day.

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

This management's discussion and analysis 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. 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," "intend" or similar expressions. 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 2007 filed with the Securities and Exchange Commission. These statements are also subject to risks and uncertainties that could cause the Company's actual operating results to differ materially. Such risks and uncertainties include the extent of market acceptance of the Company's products; the sensitivity of the Company's business to general economic conditions; the Company's ability to obtain raw materials at acceptable prices; the Company's ability to maintain product quality and product performance at an acceptable cost; the level of expenses associated with product replacement and consumer relations expenses related to product quality; and the highly competitive markets in which the Company operates.

Overview

General. The Company manufactures wood/plastic composite products primarily for residential and commercial decking, railing and fencing applications. Trex Wood Polymer[®] lumber ("Trex") is manufactured in a proprietary process that combines waste wood fibers and reclaimed polyethylene. The Company has approximately 700 employees throughout the United States with manufacturing facilities located in Olive Branch, Mississippi, Fernley, Nevada and Winchester, Virginia. In September 2007, the Company suspended operations at the Olive Branch facility for an indeterminate period and consolidated all of its manufacturing operations into the Winchester and Fernley sites.

The Company has five decking product lines: Trex Origins[®], Trex Accents[®], Trex Brasilia[®], Trex Contours[®], and Trex Escapes[®], two railing product lines: Trex Designer Series Railing[®] and Trex Artisan Series Railing[®], a fencing product, Trex Seclusions[®], and a cellular PVC outdoor trim product, TrexTrim[™], introduced in 2008. Sales of Trex Seclusions and TrexTrim were not significant in the nine months ended September 30, 2008.

Nevada Facility Product Replacement and Warranty Reserve. 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.

During the three months ended September 30, 2007, the Company experienced a significant increase in the number of customer claims related to Trex product that exhibited surface defects and which the Company has determined was produced at the Nevada manufacturing facility beginning in 2003. Following a detailed analysis of the additional claims data, production samples, operating data and the incubation period after deck installation and other factors, the Company believes that only a small percentage of the product manufactured from 2003 to mid-2006 at the Nevada plant was affected, and that products manufactured at its other facilities are not affected. The Company believes that changes made to its manufacturing process and quality control procedures have prevented any additional product with this type of defect from reaching the market after mid-2006.

Based on the available data, the Company revised its estimate of expected future product replacement and consumer relations expenses related to the defect and increased its warranty reserve by recording a charge to earnings of \$45.2 million in the three months ended September 30, 2007. In addition, during the three months ended December 31, 2007, the Company elected to alter its handling of future customer claims. As a result of the effect of this change on the estimated cost to settle claims, the Company recorded an additional \$1.5 million increase to its warranty reserve. Although the Company adjusted the warranty reserve accordingly by recording the best estimate of the expected costs, due to the inherent subjectivity of estimating future claims, it is possible that the ultimate settlement of the claims may exceed the amount recorded and may result in future charges against income.

Net Sales. Net sales consist 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 on specified products and other incentives based on increases in distributor purchases as part of specific promotional programs. There are no product return rights granted to the Company's distributors except those granted pursuant to the warranty provisions of the Company's agreement with its distributors.

The Company was advised by one of its distributors, which accounts for approximately 13% of the Company's gross sales, that it was terminating its agreement with the Company effective September 17, 2008. The company plans to retain other, existing or

[Table of Contents](#)

new distributors to distribute its products in the affected territories previously serviced by the terminated distributor. The company does not expect that the termination of this distributor will have a material adverse effect on the company's annual net sales or operating results. However, the change in distributors may have a negative short-term effect on net sales and operating results.

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, reclaimed polyethylene, or "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, railing and fencing market. Sales and marketing costs consist primarily of salaries, commissions and benefits paid to sales and marketing personnel, consumer relations, 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, costs related to the idled Olive Branch, Mississippi facility, 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.

Results of Operations

The following table shows, for the three and nine months ended September 30, 2007 and 2008, respectively, selected statement of operations data as a percentage of net sales:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2007 | 2008 | 2007 | 2008 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 115.1 | 72.4 | 85.2 | 71.8 |
| Gross profit | (15.1) | 27.6 | 14.8 | 28.2 |
| Selling, general and administrative expenses | 81.4 | 17.7 | 30.8 | 18.1 |
| Income from operations | (96.5) | 9.9 | (16.0) | 10.1 |
| Interest expense, net | 3.2 | 2.4 | 2.1 | 2.3 |
| Income before taxes and extraordinary item | (99.7) | 7.5 | (18.1) | 7.8 |
| Provision for income taxes | (35.2) | (0.4) | (6.4) | (0.1) |
| Net income | (64.4)% | 7.9% | (11.7)% | 7.8% |

Three Months Ended September 30, 2008 Compared With Three Months Ended September 30, 2007

Net Sales. Net sales in the three months ended September 30, 2008 (the "2008 quarter") increased 33.5% to \$85.4 million from \$64.0 million in the three months ended September 30, 2007 (the "2007 quarter"). Net sales in the 2007 quarter were adversely affected by charges of \$20.1 million primarily related to product replacement expenses, driven by the increase in the warranty liability recorded in the 2007 quarter. Payments for the product replacement were recognized against the existing warranty liability during the 2008 quarter and, therefore, did not affect net sales. Before giving effect to these charges, net sales in the 2007 quarter totaled \$84.1 million compared to \$85.4 million in the 2008 quarter which represents a 1.5% increase. In the 2008 quarter, sales volume decreased by 4.0%, but was more than offset by a 5.6% increase in the average price per unit. The Company believes that the decrease in sales volume is a result of lower consumer demand attributable to poor macroeconomic conditions and continued softness in the building materials industry, including the erosion of home values and the tightening of the credit market. The increase in average price per unit is primarily a result of a January 2008 price increase of approximately 7.0%.

Gross Profit. Gross profit increased to \$23.6 million in the 2008 quarter from a loss of \$9.7 million in the 2007 quarter. Gross profit in the 2007 quarter was adversely affected by the \$20.1 million of charges discussed above in "Net Sales" and a \$9.4 million inventory valuation adjustment for certain inventories reclaimed for use in the manufacturing process. Gross profit in the 2008 quarter was adversely affected by a \$1.4 million inventory valuation adjustment for certain inventories reclaimed for use in the manufacturing process and \$0.9 million of freight charges to move inventories from the idled Olive Branch facility to the Company's two other production facilities. Before giving effect to these charges, gross profit in the 2008 and 2007 quarters was \$25.8 million and \$19.9 million, respectively, an improvement of \$5.9 million, or 30.2%. The \$5.9 million increase was primarily attributable to lower manufacturing costs partially offset by the 4.0% decrease in sales volume. The lower manufacturing costs resulted principally from production efficiencies and cost containment initiatives. Before giving effect to the aforementioned charges, gross profit as a percentage of net sales, or gross margin, increased to 30.3% in the 2008 quarter from 23.6% in the 2007

[Table of Contents](#)

quarter. Gross margin was positively affected by improved production rates and yields and process control and cost reduction initiatives, which accounted for a 6.0% increase in gross margin, and the effects of the 2008 price increase and product mix, which accounted for a 4.0% increase in gross margin in the 2008 quarter as compared to the 2007 quarter. The positive effect of the foregoing factors on gross margin in the 2008 quarter was offset, in part, by the negative effect on gross margin of 3.4% from reduced capacity utilization.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 71.0% to \$15.1 million in the 2008 quarter from \$52.1 million in the 2007 quarter. As a percentage of net sales, selling, general and administrative expenses decreased to 17.7% in the 2008 quarter from 81.4% in the 2007 quarter. Selling, general and administrative expenses in the 2007 quarter were adversely affected by \$34.6 million of expenses related to replacement of product that exhibited surface defects, primarily driven by the increase in the warranty liability. Payments for claims related to the aforementioned surface defects were recognized against the existing warranty liability during the 2008 quarter and, therefore, did not affect selling, general and administrative expenses. Before giving effect to these charges in the 2007 quarter, selling, general and administrative expenses totaled \$17.5 million compared to \$15.1 million in the 2008 quarter. Selling, general and administrative expenses decreased \$2.4 million in the 2008 quarter, as compared to the adjusted 2007 quarter. The primary reasons for the lower selling, general and administrative expenses were a decrease in salaries and personnel-related expenses of \$1.5 million, a \$0.5 million reduction in branding expenses and a \$0.4 million decrease in contract termination costs.

Interest Expense. Net interest expense remained flat at \$2.0 million in both the 2008 quarter and the 2007 quarter.

Provision for Income Taxes. The Company recorded a benefit for income taxes of \$0.3 million in the 2008 quarter compared to a benefit of \$22.5 million in the 2007 quarter. The provisions reflect an effective tax rate of approximately -5.0% in the 2008 quarter and 35.3% in the 2007 quarter. The lower effective tax rate in the 2008 quarter was primarily due to the recognition of a benefit resulting from a decrease in the Company's valuation allowance previously recorded against its net deferred tax asset, and, to a lesser extent, the reversal of certain liabilities for uncertain tax positions on which the related statute of limitations had expired and the recognition of a fuel tax credit that resulted from the filing of the Company's 2007 federal tax return.

Nine Months Ended September 30, 2008 Compared With Nine Months Ended September 30, 2007

Net Sales. Net sales in the nine months ended September 30, 2008 (the "2008 nine-month period") increased 0.4% to \$299.9 million from \$298.7 million in the three months ended September 30, 2007 (the "2007 nine-month period"). Net sales in the 2007 nine-month period were adversely affected by charges of \$25.3 million primarily related to product replacement expenses, driven by the increase in the warranty liability recorded in the 2007 nine-month period. Payments for the product replacement were recognized against the existing warranty liability during the 2008 nine-month period and, therefore, did not affect net sales. Before giving effect to these charges, net sales in the 2007 nine-month period totaled \$324.0 million compared to \$299.9 million in the 2008 nine-month period which represents a 7.4% decrease. In the 2008 nine-month period, sales volume decreased by 11.9% and was partially offset by a 5.5% increase in the average price per unit. The Company believes that the decrease in sales volume is a result of lower consumer demand attributable to poor macroeconomic conditions and continued softness in the building materials industry, including the erosion of home values and the tightening of the credit market. The increase in average price per unit is primarily a result of a January 2008 price increase of approximately 7.0%.

Gross Profit. Gross profit increased to \$84.5 million in the 2008 nine-month period from \$44.1 million in the 2007 nine-month period. Gross profit in the 2007 nine-month period was adversely affected by \$25.3 million of charges discussed above in "Net Sales" and a \$11.3 million inventory valuation adjustment for certain inventories reclaimed for use in the manufacturing process. Gross profit in the 2008 nine-month period was adversely affected by aggregate charges of \$4.7 million comprised of \$3.2 million of inventory valuation adjustments for certain inventories reclaimed for use in the manufacturing process, \$0.9 million of freight charges to move inventories from the idled Olive Branch facility to the Company's two other production facilities and \$0.6 million of depreciation charges recognized upon a change in the useful lives of certain assets. Before giving effect to these charges, gross profit in the 2008 and 2007 nine-month periods was \$89.3 million and \$80.8 million, respectively, an improvement of \$8.5 million, or 10.6%. The \$8.5 million increase was primarily attributable to lower manufacturing costs partially offset by the 11.9% decrease in sales volume. The lower manufacturing costs resulted principally from production efficiencies and cost containment initiatives. Before giving effect to the aforementioned charges, gross profit as a percentage of net sales, or gross margin, increased to 29.8% in the 2008 nine-month period from 24.9% in the 2007 nine-month period. Gross margin was positively affected by improved production rates and yields and process control and cost reduction initiatives, which accounted for a 6.3% increase in gross margin, and the effects of the 2008 price increase and product mix, which accounted for a 3.9% increase in gross margin in the 2008 nine-month period as compared to the 2007 nine-month period. The positive effect of the foregoing factors on gross margin in the 2008 nine-month period was offset, in part, by the negative effect on gross margin of 5.3% from reduced capacity utilization.

[Table of Contents](#)

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 40.9% to \$54.3 million in the 2008 nine-month period from \$92.0 million in the 2007 nine-month period. As a percentage of net sales, total selling, general and administrative expenses decreased to 18.1% in the 2008 nine-month period from 30.8% in the 2007 nine-month period. Selling, general and administrative expenses in the 2007 nine-month period reflected \$39.4 million of expenses related to replacement of product that exhibited surface defects, primarily driven by the increase in the warranty liability, partially offset by a \$3.25 million recovery pursuant to a settlement with ExxonMobil for the reimbursement of legal fees. Payments for claims related to the aforementioned surface defects were recognized against the existing warranty liability during the 2008 nine-month period and, therefore, did not affect selling, general and administrative expenses. In the 2008 nine-month period, selling, general and administrative expenses were adversely affected by incremental incentive compensation of \$5.7 million and \$1.0 million of severance expense primarily related to the Company's reduction in force and \$0.8 million related to a patent infringement legal proceeding. Before giving effect to these charges, selling, general and administrative expenses in the 2008 and 2007 nine-month periods were \$46.9 million and \$55.9 million, respectively, a decrease of \$9.0 million or 16.1%. The lower selling, general and administrative expenses in the 2008 nine-month period were comprised of a decrease in salaries and personnel-related expenses of \$5.7 million, a \$3.6 million reduction in branding expense, \$1.1 million decrease in professional fees, \$0.3 million decrease in consumer relations expense and \$0.3 million decrease in research and development. The aforementioned positive variances to selling, general and administrative expenses were partially offset by a \$2.5 million increase in the 2008 nine-month period compared to the 2007 nine-month period of the on-going costs related to the idled Olive Branch, Mississippi facility.

Interest Expense. Net interest expense increased to \$6.9 million in the 2008 nine-month period from \$6.2 million in the 2007 nine-month period. The increase in net interest expense was primarily related to a \$0.7 million reduction of interest capitalized in the 2008 nine-month period as compared to the 2007 nine-month period due to less capital spending in 2008.

Provision for Income Taxes. The Company recorded a benefit for income taxes of \$0.2 million in the 2008 nine-month period compared to a benefit of \$19.2 million in the 2007 nine-month period. The provisions reflect an effective tax rate of approximately -0.9% in the 2008 nine-month period and 35.4% in the 2007 nine-month period. The lower effective rate in the 2008 nine-month period was primarily due to the recognition of a benefit resulting from a decrease in the Company's valuation allowance previously recorded against its net deferred tax asset.

Liquidity and Capital Resources

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

At September 30, 2008, the Company had \$42.8 million of cash and cash equivalents.

The Company believes that cash on hand, cash from operations and borrowing capacity 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, fund the warranty reserve, meet its other cash requirements and maintain compliance with the terms of its borrowing agreements for at least the next 12 months. 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.

Sources and Uses of Cash. The Company's cash provided by operating activities for the 2008 nine-month period was \$50.6 million compared to \$15.5 million for the 2007 nine-month period. The Company generated operating cash flow before the change in working capital of \$44.7 million in the 2008 nine-month period compared to a use of \$34.8 million before the change in working capital in the 2007 nine-month period. The increase is attributable to a net increase of \$58.4 million in net income combined with an increase of \$18.4 million in deferred income taxes and \$3.0 million in depreciation and amortization.

The Company's cash used in investing activities totaled \$6.9 million in the 2008 nine-month period compared to cash used in investing activities of \$21.2 million in the 2007 nine-month period as a result of reduced capital investment spending. In the 2008 nine-month period, the Company applied its expenditures primarily to normal capital expenditures consisting of raw material reprocessing and extrusion equipment.

The Company's cash used in financing activities was \$1.1 million in the 2008 nine-month period compared to cash provided by financing activities of \$24.8 million in the 2007 nine-month period. The Company reduced net debt by \$0.9 million in the 2008 nine-month period and repaid borrowings under the revolving credit facility. In the 2007 nine-month period, the Company received net proceeds of \$94.2 million through an underwritten public offering which was offset in part by net debt reductions of the revolving credit facility and its Senior Secured Note balance.

Indebtedness. At September 30, 2008, the Company's indebtedness totaled \$133.1 million and the annualized overall weighted average interest rate of such indebtedness, including the effect of the Company's interest rate swaps, was approximately 5.75%.

[Table of Contents](#)

The Company's ability to borrow under its revolving credit facility is tied to a borrowing base that consists of certain receivables and inventories. At September 30, 2008, under its revolving credit facility, the Company had no outstanding borrowings and \$40.0 million of available borrowing capacity.

Debt Covenants. To remain in compliance with covenants contained within its debt agreements, the Company must maintain specified financial ratios based on its levels of debt, capital, net worth, fixed charges, and earnings before interest, taxes, depreciation and amortization. At September 30, 2008, the Company was in compliance with these covenants.

Capital Requirements. The Company made capital expenditures in the 2008 nine-month period totaling \$6.2 million and estimates that its capital expenditures for fiscal 2008 will be approximately \$10 million, primarily for raw material reprocessing and extrusion equipment. Working capital is expected to be sufficient to meet forecasted capital expenditures for the remainder of fiscal 2008.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding our exposure to certain market risks, see "Quantitative and Qualitative Disclosures about Market Risk," in Part II, Item 7A of the Company's 10-K for the year ended December 31, 2007. There were no material changes to the Company's market risk exposure during the three months ended September 30, 2008.

Item 4. 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 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, 2008. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. In addition, there have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

As reported in the Company's 10-K for the year ended December 31, 2007, on October 16, 2006, Ron Nystrom commenced a lawsuit against the Company in the United States District Court for the Eastern District of Virginia, Norfolk Division, which also named Home Depot, Inc. and Snavely Forest Products, Inc. as defendants. Mr. Nystrom alleges that the Company's Accents® product and other new products introduced after the commencement of a prior patent infringement action infringe his patent. Mr. Nystrom also alleges that the Company's Contours® product infringes a second patent owned by him and that the Company is engaged in contributory infringement by recommending third party hidden fastening systems that infringe such patent. In January 2008, Mr. Nystrom added an additional allegation that the Company's Trex Hideaway™ hidden fastening system also infringes such patent. On May 16, 2008, the District Court granted summary judgment to the Company with respect to Mr. Nystrom's claims on the first patent. On April 29, 2008, the District Court issued an order severing all claims associated with the second patent and consolidating them into a separate case. On September 26, 2008, Mr. Nystrom filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit appealing the District Court's grant of summary judgment to the Company with respect to Mr. Nystrom's claims on the first patent. The Company believes that all of Mr. Nystrom's claims are without merit, and, in addition, are barred by a prior judgment and patent claim construction.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's 10-K for the year ended December 31, 2007.

Item 6. Exhibits

The Company files herewith the following exhibits:

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 3.1 | Restated Certificate of Incorporation of Trex Company, Inc. (the "Company"). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference. |
| 3.2 | Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed May 7, 2008 and incorporated herein by reference. |
| 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 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 4, 2008

By: /s/ James E. Cline
James E. Cline
Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

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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. |

CERTIFICATION

I, Ronald W. Kaplan, 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 4, 2008

/s/ Ronald W. Kaplan

Ronald W. Kaplan
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, James E. Cline, 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 4, 2008

/s/ James E. Cline

James E. Cline
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 Quarterly Period Ended September 30, 2008 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 4, 2008

/s/ Ronald W. Kaplan

Ronald W. Kaplan
President and Chief Executive Officer

Date: November 4, 2008

/s/ James E. Cline

James E. Cline
Vice President and Chief Financial Officer