
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2002

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)

(540) 542-6300

Registrant's telephone number, including area code:

Not Applicable

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

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

Title of each class:

Common Stock

Name of each exchange on which registered:

New York Stock Exchange

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

None

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

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at June 28, 2002, based on the closing price of such stock on the New York Stock Exchange on such date, was approximately \$206 million.

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding on March 3, 2003 was 14,654,032.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the proxy statement for the 2003 annual meeting of stockholders of the registrant is incorporated by reference into Part III hereof.

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SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

This report, including the information it incorporates by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “may,” “will,” “anticipate,” “estimate,” “expect” or “intend.” We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including those discussed under “Business—Risk Factors” in this report.

PART I

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

Item 1. Business

General

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

We seek to achieve sales growth in the decking market by converting demand for wood decking products into demand for Trex. The wood segment of the market represents approximately 93% of the decking market, as measured by board feet of lumber. We intend to continue to develop and promote the Trex brand name as a premium-decking product and to focus on the contractor-installed market segment. Contractors generally build larger, more elaborate residential decks than decks built by homeowners in the “do-it-yourself” market segment. As of December 31, 2002, we sold our products through approximately 90 wholesale distribution locations, which in turn sold Trex to approximately 2,900 dealer outlets across the United States.

Trex Company, Inc., which is a Delaware corporation, was incorporated on September 4, 1998 for the purpose of acquiring 100% of the membership interests and operating the business of TREX Company, LLC, a Delaware limited liability company. Trex Company, Inc. had no operations or activity until it completed a reorganization on April 7, 1999 in which TREX Company, LLC became the company’s wholly owned subsidiary. The company completed its initial public offering on April 13, 1999.

TREX Company, LLC initiated commercial activity on August 29, 1996. On that date, TREX Company, LLC acquired substantially all of the assets and assumed some of the liabilities of the Composite Products Division of Mobil Oil Corporation for a cash purchase price of approximately \$29.5 million. The buyout was led by four senior Mobil executives who subsequently have served as members of our senior management.

On December 31, 2002, TREX Company, LLC merged into Trex Company, Inc., which was the surviving corporation in the merger.

Decking Market Overview

The decking market is part of the substantial home improvement market. Expenditures for residential improvements and repairs totaled approximately \$158 billion in 2001, according to the U.S. Census Bureau, and the home improvement market grew at a compound annual growth rate of 3.9% for the five-year period ended December 31, 2001.

The primary market for Trex is residential decking and, to a lesser extent, commercial decking. We estimate that annual factory sales in 2002 of residential decking totaled approximately \$1.7 billion, or approximately 2.9 billion board feet of lumber. Our estimate includes sales of deck surface and railing

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products and excludes sales of products used for a deck's substructure, such as joists, stringers, beams and columns. For the three-year period ended December 31, 2002, we estimate factory sales of all residential decking, as measured by board feet of lumber, increased at a compound annual growth rate of approximately 3%. For the same three-year period, we estimate factory sales of non-wood alternative decking products to the residential market increased at a compound annual growth rate of over 50%.

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

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

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

<u>Product</u>	<u>Percentage of 2002 Factory Sales</u>
Wood	93%
Wood/plastic composites	6
100% plastic	1
	<hr/>
	100%

Approximately 85% of the lumber used in wooden decks is southern yellow pine or fir, which is pressure-treated with pesticides and other chemicals to create resistance to insect infestation and decay. The balance of the wood-decking segment is primarily divided between redwood and cedar products. The 100% plastic decking products utilize polyethylene, fiberglass and polyvinyl chloride, or PVC, as raw materials. Wood/plastic composites are produced from a combination of wood fiber and polyethylene or PVC. Growing consumer awareness of the product attributes of non-wood decking alternatives and the decline in lumber quality and quantity have contributed to increased sales of wood/plastic composites and 100% plastic lumber for decking. In 2002, the Environmental Protection Agency, or EPA, announced an agreement under which manufacturers will voluntarily phase out by December 2003 the residential use of chromated copper arsenate, or CCA, which is a preservative used in approximately 90% of all pressure-treated lumber. We believe that the publicity relating to this agreement will contribute to increases in sales of wood/plastic composites and 100% plastic lumber for decking by raising consumer awareness of active chemicals in pressure-treated lumber.

Distributors of wood decking materials typically sell to lumber yards and home centers, which in turn supply the materials to homebuilders, contractors and homeowners. Manufacturers of non-wood

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decking alternatives also generally use these distribution channels because many of these alternative products can be stacked, stored and installed like wood products.

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

Growth Strategies

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

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

Products

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

In 2002 we extended our offering of railing products by adding a Chamfered handrail and decorative post cap to our product line.

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

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

Sales and Marketing

We have a dedicated sales force that works with all levels of our distribution system. During 2002, we increased our sales force from 37 to 43 company employees to assist in the “pull through” sales of our products. We expect to continue to expand our sales force as needed to further these efforts.

We have invested approximately \$26.4 million during the last three years to develop Trex as a recognized brand name in the residential and commercial decking market. Our sales growth in the decking market will largely depend on our success in converting demand for wood products into demand for Trex. Accordingly, our branding strategy will continue to emphasize the advantages of Trex over wood decking, fencing and accessory products. We have implemented a two-pronged marketing program directed at consumers and contractors. We seek to develop consumer brand awareness and contractor preference to generate demand for Trex among dealers and distributors, who then recommend Trex to other contractors and consumers. We believe that our branding strategy promotes product differentiation of Trex in a market which is not generally characterized by brand identification and enables us both to command premium prices and to maintain price stability for Trex.

The following are the key elements of our marketing program:

Consumer Advertising. We advertise Trex decking in popular home and garden consumer publications, including *This Old House*, *Southern Living*, *House & Garden* and *Sunset*. Several of these publications feature “idea” homes each year that incorporate leading building materials. Trex decking was featured in five of these idea homes in 2002.

Public Relations. We employ a public relations firm to stimulate interest in Trex decking by the print and broadcast media. During 2002, print and broadcast stories featuring Trex decking generated approximately 380 million “impressions,” which represent potential viewings, compared to 360 million impressions in 2001. Major newspapers featuring articles on Trex included *The New York Times*, *New York Newsday*, *The Washington Post* and *The Seattle Times*. Trex also received television coverage on the PBS shows “Hometime” and “Ask This Old House,” on CNN “Headline News,” and on the syndicated “Today’s Homeowner” show. Trex was also featured on National Public Radio’s “All Things Considered” show.

Trade Advertising and Promotion. To build a brand name for Trex with decking contractors, we reach a professional building audience through advertisements in leading building and remodeling magazines, including *Builder*, *Remodeler*, *Fine Homebuilding*, *Architectural Record* and other well known publications. In 2002, we initiated an incentive program for deck builders, which rewards contractors for their purchases of Trex decking. There are over 1,800 members enrolled in this program.

Homebuilder Focus. Our marketing program targets major homebuilders in different regions of the country. We operate a program that is designed to provide promotional allowances and display materials to homebuilders who use Trex for their model home decks and agree to promote Trex. More than 295 Trex decks were built for model homes in 2002.

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

and contractors experienced in Trex decking provide additional support by exhibiting Trex decking at smaller, local home shows.

Showcase Projects. We also obtain brand name recognition through our association with highly publicized showcase projects. Trex decking was used in a number of new projects in 2002, including Gulf Island National Seashore Boardwalk in Ocean Springs, Mississippi, Vero Beach Marina in Vero Beach, Florida, Monterey Dunes Boardwalk in Monterey, California, and Dock and Boardwalk at Disney World in Orlando, Florida. Other showcase projects include the Presidential Trail at Mount Rushmore, the Toronto Boardwalk on Lake Ontario, the Florida Everglades walkways and the Grand Canyon Education Center.

Marketing Research. During 2002, Trex was featured in four marketing research studies related to decking commissioned by leading trade publications. *Professional Remodeler Magazine* surveyed remodeling contractors and found that Trex was the “brand most preferred” by a 2-to-1 margin over any other decking brand. *Builder Magazine* found Trex to be used twice as often as any other deck brand, while *Remodeling* found Trex to be used five times more often than any other wood/plastic composite.

Distribution

In 2002, we generated approximately 99% of our net sales through our wholesale distribution network. At December 31, 2002, we sold our Trex product line to 26 wholesale companies operating from approximately 90 distribution locations. At the same date, our distributors marketed Trex to approximately 2,900 dealer outlets across the United States. Although our dealers sell to both homeowners and contractors, they primarily direct their sales at professional contractors, remodelers and homebuilders.

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

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

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

In 2000, 2001 and 2002, we generated in excess of 10% of our net sales to each of five wholesale distribution companies: Capital Lumber Company, Boise Cascade Corporation, Oregon Pacific Corporation, Parksite Plunkett-Webster and Snavely Forest Products. Distributors that individually accounted for more than 10% of our annual net sales collectively accounted for approximately 75% of our net sales in 2000, approximately 78% of our net sales in 2001 and approximately 77% of our net sales in 2002. None of such distributors individually accounted for more than 21% of our net sales in any of these years.

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

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

Contractor/Dealer Locator Service and Web Site. We maintain a toll-free telephone service (1-800-BUY-TREX) for use by consumers and building professionals to locate the closest contractors and dealers offering Trex and to obtain product information. We use these calls to generate sales leads for contractors, dealers, distributors and Trex sales representatives. We also analyze caller information to assess the effectiveness of our promotional and advertising activities.

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

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

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

Manufacturing Process

Trex is manufactured at our two facilities in Winchester, Virginia, which total approximately 265,000 square feet and had all ten of its production lines in operation at December 31, 2002, and our 250,000 square foot facility in Fernley, Nevada, which had all seven of its production lines in operation at the same date.

In 2002, our Winchester facilities produced approximately \$93.5 million sales value of finished product and our Fernley facility produced approximately \$53.7 million sales value of finished product. Total annual capacity at December 31, 2002 was approximately \$225 million sales value of finished product. As of December 31, 2002, our construction in process totaled approximately \$29.7 million. The construction in process consisted primarily of four production lines in various stages of completion at our Winchester and Fernley facilities and a plastic processing plant at our Winchester facility. We currently expect that the production lines in process will be completed and put into service in 2003 or 2004 and that the plastic processing plant in process will be completed and put into service in early 2003. When the construction in process is completed, we estimate our Winchester and Fernley facilities will be capable of producing a total of approximately \$285 million sales value of finished product annually.

Trex is manufactured from waste wood fiber and reclaimed polyethylene, or poly. The composition of Trex Wood-Polymer lumber is approximately 50% wood fiber and 50% reclaimed poly

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material. We use wood fiber purchased from woodworking factories, mills and pallet recyclers. Poly material used in the production of Trex consists primarily of recovered plastic bags and stretch film.

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

Production of a non-wood decking alternative like Trex requires significant capital investment, special process know-how and time to develop. We and our predecessor operations have invested approximately \$160 million and 11 years in expansion of our manufacturing capacity, manufacturing process improvements, new product development and product enhancements. As a result of these investments, production line rates have increased more than 200% since 1992. We also have broadened the range of raw materials that can be used to produce Trex by developing hardware capable of utilizing different forms of poly material to produce a consistent final product. We have obtained a patent for a process of preparing the raw materials for the manufacturing phase of production and a second patent for another manufacturing process improvement. The patent protection for both processes will extend until 2015. In 1998, we centralized our research and development operations in the Trex Technical Center, a 30,000-square foot building adjacent to our Winchester manufacturing facilities.

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

Suppliers

The production of Trex requires the supply of wood fiber and polyethylene from recovered plastic bags and stretch film. We purchased \$5.4 million of wood fiber and \$26.3 million of polyethylene in 2001 and \$5.9 million of wood fiber and \$27.3 million of polyethylene in 2002.

We fulfill our requirements for raw materials under both purchase orders and supply contracts. In 2002, we purchased approximately 65% of our polyethylene requirements and approximately 40% of our wood fiber requirements under purchase orders. Purchase orders specify the prices we pay based on then-current market prices and do not involve long-term supply commitments. We are also party to supply contracts that obligate us to purchase wood fiber and polyethylene for terms that range from one to eight years. The prices under these contracts are generally fixed annually based on then-current market prices.

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

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

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

Three suppliers accounted individually for more than 10% and collectively for approximately 42% of our 2002 wood fiber purchases. Based on our discussions with wood fiber suppliers and our analysis of industry data, we believe that, if our contracts with one or more of our current suppliers were terminated, we would be able to obtain adequate supplies of wood fiber at an acceptable cost from our other current suppliers or from new suppliers.

Poly. The poly material we consumed in 2002 was primarily composed of recovered plastic bags and stretch film. Approximately two billion pounds of poly film are used in the manufacture of plastic bags and stretch film in the United States each year. We will increasingly seek to meet our future needs for poly material from expansion of our existing supply sources and the development of new sources, including post-industrial waste and plastic paper laminates.

In 2001, we developed a new source of poly material through our participation in a joint venture, Denplax S.A., that operates a plant in El Ejido, Spain. We own 35% of the joint venture. Our joint venture partners are a local Spanish company responsible for public environmental programs in southern Spain and an Italian equipment manufacturer. The plant is designed to recycle waste polyethylene generated primarily from agricultural and post-consumer sources. The plant delivered approximately \$3.9 million of plastic raw material to us during 2002. Under our joint venture agreement, we have the right to purchase up to 100% of the plant's production.

To facilitate our poly processing operations, we are constructing our own plastic processing plant on our manufacturing site in Winchester, Virginia. We currently expect that this plant will be completed and put into service in 2003.

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

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

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

Excluding our joint venture, no supplier provided 10% or more of the poly material we purchased in 2002.

Competition

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

The primary competition for Trex is wood decking, which accounted for approximately 93% of 2002 decking sales, as measured by board feet of lumber. The conventional lumber suppliers with which we compete in many cases have established ties to the building and construction industry and have well-accepted products. Many of our competitors in the decking market that sell wood products have significantly greater financial, technical and marketing resources than we do.

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

We estimate that wood/plastic composites accounted for approximately 6% of 2002 decking sales, as measured by board feet of lumber. There are more than 25 manufacturers of wood/plastic composite lumber in addition to our company. Many of these manufacturers participate in the decking market only on a limited basis.

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

We estimate that Trex currently represents more than 50% of the non-wood segment of the decking market. Our principal competitors in that market segment include Advanced Environmental Recycling Technologies, Inc., CertainTeed Corporation, Kadant Inc., Louisiana-Pacific Corporation, Timbertech Limited, Universal Forest Products, Inc. and U.S. Plastic Lumber Corporation.

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

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

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

<u>Characteristics</u>	<u>Trex</u>	<u>Treated Wood</u>	<u>100%Plastic</u>
Low moisture absorption	x		x
Splinter-free	x		x
Resistant to insect damage	x	x	x
No chemical preservatives	x		x
No splitting	x		x
No rotting	x	x	x
No warping	x		x
No sealant required	x		x
Slip resistant	x	x	
Low thermal expansion/contraction	x	x	
Low thermal conductivity	x	x	
Good paint adhesion	x	x	
Resistance to ultraviolet damage	x	x	
Easy to work with	x	x	

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

Government Regulation

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

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

Intellectual Property

Our success depends, in part, upon our intellectual property rights relating to our production process and other operations. We rely upon a combination of trade secret, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws, to protect our proprietary rights. We have made substantial investments in manufacturing process improvements which have enabled us to increase manufacturing line production rates, facilitated our development of new products and produced improvements in the dimensional consistency, surface texture and color uniformity of Trex. We have obtained a patent for a process of preparing the raw materials for the manufacturing phase of production and a second patent for another manufacturing process improvement. The patent protection for both processes will extend until 2015. The U.S. Patent and Trademark Office has granted us federal registrations for our

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Trex, Trex Wood-Polymer, The Deck of a Lifetime, Easy Care Decking, and No Sealing No Splinters No Hassles trademarks. Federal registration of trademarks is effective for as long as we continue to use the trademarks. We consider our trademarks to be of material importance to our business plans. We have not registered any of our copyrights with the U.S. Copyright Office, but rely on the protection afforded to such copyrights by the U.S. Copyright Act. That law provides protection to authors of original works, whether published or unpublished, and whether registered or unregistered. We enter into confidentiality agreements with our senior employees and limit access to and distribution of our proprietary information.

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

Employees

At December 31, 2002, we had 449 full-time employees, of whom 331 were employed in our manufacturing operations. Our employees are not covered by collective bargaining agreements. We believe that our relationships with our employees are good.

Web Site

We maintain a corporate web site at www.trex.com. We make available free of charge through the web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our web site are not a part of this report.

Risk Factors

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

We will have to increase market acceptance of Trex to grow.

Our ability to grow will depend largely on our success in converting demand for wood decking products, which we estimate accounted for approximately 93% of the 2002 decking market when measured by board feet of lumber, into demand for Trex. Failure to achieve increased market acceptance of Trex will limit our prospects for growth. To increase our market share, we must overcome:

- the low consumer awareness of non-wood decking alternatives in general and Trex brand products in particular;
- the resistance of many consumers and contractors to change from well-established wood products;
- the unique appearance of Trex;
- the greater initial expense of installing a Trex deck; and
- the established relationships existing between suppliers of wood decking products and contractors and homebuilders.

All of our sales result from one material.

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

We currently depend on three manufacturing facilities to meet the demand for Trex.

We currently produce Trex in two manufacturing facilities in Winchester, Virginia and a third manufacturing facility in Fernley, Nevada. Any interruption in the operations or decrease in the production capacity of these facilities, whether because of equipment failure, natural disaster or otherwise, would limit our ability to meet existing and future customer demand for Trex.

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

The production of Trex requires substantial amounts of wood fiber and polyethylene. Our business could suffer from the termination of significant sources of raw materials, the payment of higher prices for raw materials or the failure to obtain sufficient additional raw materials to meet planned increases in production capacity. In 2002, three suppliers accounted individually for more than 10% and collectively for approximately 42% of our wood fiber purchases. Our ability to obtain adequate supplies of polyethylene depends on our success in developing new sources, entering into long-term arrangements with suppliers and managing the collection of supplies from geographically dispersed distribution centers. We obtain our raw materials under supply contracts at prices established annually based on then-current market prices or under purchase orders based on market rates in effect when the orders become effective. These supply arrangements subject us to risks associated with fluctuations in raw materials prices.

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

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

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

We plan to add production capacity to support sales growth and improve customer service. In increasing production capacity in our facilities, we will face risks:

- recruiting and training additions to our workforce;
- operating new production equipment;
- purchasing raw materials for increased production requirements;
- maintaining product quality; and
- establishing new manufacturing facilities.

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

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

Our recent growth has placed significant demands on our management, systems and other resources. Our net sales increased to \$167.1 million in 2002 from \$23.8 million in 1996. The number of dealer outlets selling Trex has increased from approximately 1,200 at December 31, 1996 to approximately 2,900 at December 31, 2002, and we expect further increases in the future. If we are unable to manage our future growth effectively, our inability to do so could have a material adverse effect on the quality of our products and on our ability to expand our net sales.

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

Our historical seasonality may not be a reliable indicator of our future seasonality. Quarterly variations in our net sales and income from operations are principally attributable to seasonal trends in the demand for Trex. We experience lower net sales levels during the fourth quarter, in which holidays and adverse weather conditions in some regions usually reduce the level of home improvement and new construction activity. Income from operations and net income tend to be lower in quarters with lower sales, which are not fully offset by a corresponding reduction in selling, general and administrative expenses. For substantially all periods through mid-2000, we allocated our product to our network of wholesale distributors and retail dealers. We believe the allocation process caused our distributors to stockpile inventories, which partially mitigated our inherent seasonality. During the third quarter of 2000, our increased production capacity enabled us to eliminate the allocation of product supply. Our lower net sales levels in the fourth quarter were further affected in 2000 and 2001 as our customers reduced their stockpiled inventories before reordering from us.

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

As of December 31, 2002, our construction in process totaled approximately \$29.7 million, with an estimated cost to complete of approximately \$15 million. The construction in process consisted primarily of four production lines in various stages of completion at our Winchester and Fernley manufacturing facilities and a plastic processing plant at our Winchester facility. Some of these assets may become impaired due to obsolescence or other factors before we can put them into service. Our operating results would be adversely affected if we fail to deploy productively our construction in process, and our net income would be reduced if our assets become impaired and we are required to write down the value of those assets in our financial statements.

We are not sure of the terms on which we will be able to obtain financing for the significant capital expenditures we plan after 2002 to increase our manufacturing capacity.

Our failure to obtain sufficient funds to meet our capital requirements could have a material adverse effect on our ability to match the production of Trex with demand for our products. We made capital expenditures aggregating \$98.3 million in 2000, 2001 and 2002, primarily to expand manufacturing capacity. Our capital expenditures in 2002 totaled \$6.2 million since increased utilization of our existing capacity was sufficient to meet the demand for Trex in 2002. We expect that our capital requirements will be significantly higher in 2003 and subsequent years as we complete our construction in process and then invest in additional production lines and facilities to meet an anticipated increase in the demand for our products. We expect that it may be necessary to obtain financing for our capital requirements through bank

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

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

As of December 31, 2002, our total indebtedness related to our real estate loans and senior secured notes was \$55.2 million. Our ability to make scheduled principal and interest payments on our real estate loans and senior secured notes, borrow under our \$20 million revolving credit facility and continue to comply with our loan covenants will depend primarily on our ability to generate substantial cash flow from operations. Our failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our credit facility and notes, which may be declared payable immediately based on a credit facility default. Our ability to borrow under our revolving credit facility is tied to a borrowing base that consists of specified receivables and inventory. To remain in compliance with our credit facility and senior secured note covenants, we must maintain specified financial ratios based on our levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of our business.

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

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

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

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

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

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

Our total net sales to our five largest wholesale distributors accounted for approximately 77% of our net sales in 2002. Our contracts with these distributors are terminable by the distributors upon notice at any time during the contract term. A contract termination or significant decrease or interruption in business from any of our five largest distributors or any other significant distributor could cause a short-term disruption of our operations and adversely affect our operating results.

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

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

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

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

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

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

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

Our four principal stockholders beneficially owned approximately 48.8% of our outstanding common stock as of February 28, 2003. If they act in concert, these stockholders are collectively able to exercise a significant influence over our business and affairs by virtue of their voting power with respect to the election of directors and other actions requiring stockholder approval. If exercised in this manner, such voting power could discourage a third party from seeking to acquire us even if an acquisition would be beneficial to our stockholders.

Item 2. Properties

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

We own approximately 74 contiguous acres of land in Winchester, Virginia and the buildings on this land. These buildings include our original manufacturing facility, which contains approximately 115,000 square feet of space, our research and development technical facility, which contains approximately 30,000 square feet of space, a mixed-use building, which contains approximately 173,000 square feet of space, and an additional manufacturing facility, which contains approximately 150,000 square feet of space. We own the site and plant of our manufacturing facility in Fernley, Nevada, which contains approximately 250,000 square feet of manufacturing space, including an addition of approximately 100,000 square feet completed in 2000. Our Fernley facility is located on a site of approximately 37 acres, which includes outside open storage.

We lease a total of approximately 484,000 square feet of storage warehouse space under leases with expiration dates ranging from 2003 to 2015.

The equipment and machinery we use in our operations consist principally of plastic and wood conveying and processing equipment. We own all of our manufacturing equipment. At December 31, 2002, we operated approximately 80 wood trailers and approximately 50 forklift trucks under operating leases.

We regularly evaluate the capacity of our various facilities and equipment and make capital investments to expand capacity where necessary. In 2002, we spent a total of \$6.2 million on capital expenditures, primarily for process improvements, equipment and machinery to increase our production capacity. We estimate that our capital expenditures in 2003 will total approximately \$18.2 million, most of which will be used to make process and productivity improvements, to add manufacturing capacity, to complete the plastic processing plant at our Winchester, Virginia facility and to complete the installation of our enterprise resource planning system.

Item 3. Legal Proceedings

Commencing on July 11, 2001, four purported class action lawsuits, which we refer to collectively as the “securities class action,” were filed in the United States District Court, Western District of Virginia, naming as defendants the company and Robert G. Matheny, the President and a director of the company, Roger A. Wittenberg, then Executive Vice President of Material Sourcing and International Operations and a director of the company, and Anthony J. Cavanna, the Executive Vice President and Chief Financial Officer and a director of the company. The plaintiffs in these lawsuits purported to represent a class of purchasers of the company’s securities between November 2, 2000 and June 18, 2001. The complaints, one of which was dismissed voluntarily, alleged that the defendants violated Sections 10(b) and 20(a) of and Rule 10b-5 under the Securities Exchange Act of 1934 by making false and misleading public statements or omissions concerning the company’s operating and financial results, expectations, and business and by filing misleading reports on Forms 10-Q and 10-K with the SEC. The public statements and disclosures in the company’s reports that the plaintiffs alleged to be false and misleading related primarily to the company’s

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operating performance and prospects and anticipated customer demand for Trex in the fourth quarter of 2000 and first and second quarters of 2001. The plaintiffs sought unspecified monetary damages together with any other relief permitted by law, equity and federal statutory provisions identified in the complaints. The cases were consolidated and an amended consolidated complaint, which added as a defendant Andrew U. Ferrari, the Company's Executive Vice President of Marketing and Business Development and a director of the company, was filed on December 17, 2001. On or about January 31, 2002, the defendants filed a motion to have the amended consolidated complaint dismissed with prejudice. By a final order entered on May 29, 2002, the district court dismissed the consolidated amended complaint. The final order was accompanied by a memorandum opinion granting the defendants' motion to dismiss the amended consolidated complaint for failure to state a claim. In the memorandum opinion, the court found that plaintiffs had not pleaded facts raising a strong inference that any disclosure challenged was made with fraudulent intent or was materially misleading or ommissive. The plaintiffs did not appeal this decision.

On or about September 21, 2001, the company was named in a complaint filed in the Circuit Court for the City of Winchester. The complaint, which we refer to as the "Bennett complaint," purported to assert a derivative suit for the benefit of the company against each of its directors. It alleged that during the same period at issue in the securities class action and in violation of applicable state and/or federal laws, the individual defendants caused the company to issue materially misleading disclosures in order to inflate the company's stock price and permit insider trading by Robert G. Matheny and Roger A. Wittenberg. The Bennett complaint further alleged that the individual defendants thereby exposed the company to potential damages in connection with the securities class action. The Bennett complaint sought a constructive trust in favor of the company over the profits received from the allegedly improper insider sales, as well as an unspecified amount of damages allegedly sustained by the company, together with attorneys' fees, costs and expenses. No damages or other relief were sought from the company. On October 19, 2001, the Bennett complaint was removed to the federal court in which the related securities class action was pending. The Bennett complaint was consolidated for pretrial purposes with the securities class action and stayed pending resolution of the motion by defendants to dismiss the securities class action. As described above, the federal district court on May 29, 2002 dismissed the securities class action with prejudice for failure to state a claim. By an order dated November 12, 2002, the federal district court lifted the stay in the Bennett complaint and directed the defendants to respond to the plaintiff's complaint. On November 22, 2002, the individual defendants filed an answer denying the substantive allegations of wrongdoing. On February 6, 2003, the court granted the parties' joint motion to dismiss the Bennett complaint with prejudice.

On December 5, 2001, Ron Nystrom commenced an action against the company in the United States District Court, Eastern District of Virginia, Norfolk Division, alleging that the company's decking products infringed his patent. The company believes that this claim is without merit. The company denied any liability and filed a counterclaim against the plaintiff for declaratory judgment and antitrust violations based upon patent misuse. The company sought a ruling that the plaintiff's patent is invalid, that the company does not infringe the patent, and that the company is entitled to monetary damages against the plaintiff. On October 17, 2002, the district court issued a final judgment finding that the company does not infringe any of the plaintiff's patent claims and holding that some of the plaintiff's patent claims are invalid. On November 8, 2002, the plaintiff appealed this decision to the United States Court of Appeals for the Federal Circuit.

In connection with the foregoing patent litigation, on April 12, 2002, the company filed suit in the United States District Court, Eastern District of Virginia, Alexandria Division, against ExxonMobil Corporation. The suit seeks to enforce a provision in the company's 1996 purchase agreement with Mobil Oil Corporation in which Mobil agreed to indemnify the company for any losses, including reasonable legal fees, incurred by the company as a result of a patent infringement claim by Mr. Nystrom. ExxonMobil has denied liability to indemnify the company for such losses. On December 10, 2002, the district court entered summary judgment in favor of the company and ordered ExxonMobil to indemnify the company for all losses, including reasonable legal fees, arising out of the patent infringement claim by Mr. Nystrom. A

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final judgment and determination of the total amount of damages due to the company to date has not yet been entered by the district court. Accordingly, ExxonMobil's time to appeal has not yet begun.

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

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

There were no matters submitted to our security holders in the fourth quarter of 2002.

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

Our common stock has been listed on the New York Stock Exchange under the symbol "TWP" since April 8, 1999. The table below shows the reported high and low quarterly sale prices of our common stock during 2001 and 2002 as reported by the New York Stock Exchange:

<u>2002</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 23.83	\$ 16.80
Second Quarter	33.40	23.58
Third Quarter	31.90	22.70
Fourth Quarter	38.99	21.60
<u>2001</u>	<u>High</u>	<u>Low</u>
First Quarter	\$ 31.20	\$ 22.08
Second Quarter	30.92	16.20
Third Quarter	25.89	14.64
Fourth Quarter	20.70	12.29

As of December 31, 2002, there were approximately 210 holders of record of our common stock.

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

In November 2001, in connection with amendments to our senior credit facility, we issued to the lender in a private offering a warrant exercisable until January 31, 2005 to purchase up to 707,557 shares of our common stock at \$14.89 per share. In June 2002, we refinanced our 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. In connection with the offering of these securities to an institutional accredited investor, we relied on the exemption from registration under the Securities Act of 1933 provided by Section 4(2) of the Securities Act and Regulation D thereunder.

In June 2002, we sold in a private offering \$40 million principal amount of our 8.32% senior secured notes due June 19, 2009 to six institutional accredited investors. In connection with the offering of these securities, we relied on the exemption from registration under the Securities Act of 1933 provided by Section 4(2) of the Securities Act and Regulation D thereunder.

Item 6. Selected Financial Data

The following table presents selected financial data as of December 31, 1998, 1999, 2000, 2001 and 2002 and for each of the five years ended December 31, 2002.

- The selected financial data as of December 31, 2001 and 2002 and for each of the years in the three-year period ended December 31, 2002 are derived from our audited consolidated financial statements appearing elsewhere in this report.
- The selected financial data as of December 31, 1998, 1999 and 2000 and for the years ended December 31, 1998 and 1999 are derived from our financial statements, which have been audited.

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

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	Year Ended December 31,				
	1998	1999	2000	2001	2002
	(In thousands, except share and per share data)				
Statement of Operations Data: (1)					
Net sales	\$ 49,167	\$ 77,570	\$ 117,568	\$ 116,860	\$ 167,079
Cost of sales	25,305	37,707	61,852	67,973	90,479
Gross profit	23,862	39,863	55,716	48,887	76,600
Selling, general and administrative expenses	12,878	18,370	23,830	31,801	42,150
Income from operations	10,984	21,493	31,886	17,086	34,450
Interest expense, net	2,526	1,476	902	3,850	7,782
Income before income taxes and extraordinary item	8,458	20,017	30,984	13,236	26,668
Income taxes	—	7,281	11,682	4,186	9,891
Income before extraordinary item	8,458	12,736	19,302	9,050	16,777
Extraordinary loss on the early extinguishment of debt, net	—	(1,056)	—	—	—
Net income	\$ 8,458	\$ 11,680	\$ 19,302	\$ 9,050	\$ 16,777
Basic earnings per share	\$ 0.85	\$ 0.90	\$ 1.37	\$ 0.64	\$ 1.18
Basic weighted average shares outstanding	9,500,000	12,848,571	14,129,652	14,145,660	14,166,307
Diluted earnings per share	\$ 0.85	\$ 0.90	\$ 1.36	\$ 0.64	\$ 1.16
Diluted weighted average shares outstanding	9,500,000	12,892,784	14,179,475	14,182,457	14,481,234
Historical income before income taxes (2)	\$ 8,458	\$ 20,017			
Pro forma provision for income taxes (2) (unaudited)	3,214	7,606			
Pro forma net income (2) (unaudited)	\$ 5,244	\$ 12,411			
Pro forma basic earnings per share, (2) (unaudited)	\$ 0.55	\$ 0.97			
Historical income from operations (3)	\$ 10,984	\$ 21,493			
Supplemental pro forma interest income (expense), net (3) (unaudited)	249	(691)			
Supplemental pro forma provision for income taxes (3) (unaudited)	4,269	7,905			
Supplemental pro forma net income (3) (unaudited)	\$ 6,964	\$ 12,897			
Supplemental pro forma basic weighted average shares outstanding (3)	14,115,450	14,117,297			
Supplemental pro forma basic earnings per share (3)	\$ 0.49	\$ 0.91			
Cash Flow Data:					
Cash flow provided by operating activities	\$ 12,228	\$ 21,405	\$ 15,407	\$ 7,004	\$ 52,964
Cash flow used in investing activities	(17,140)	(29,369)	(60,114)	(31,972)	(6,192)
Cash flow provided by (used in) financing activities	4,112	6,764	44,707	24,968	(31,879)
Other Data (unaudited):					
EBITDA (4)	\$ 14,098	\$ 25,937	\$ 38,755	\$ 25,710	\$ 44,039

	As of December 31,				
	1998	1999	2000	2001	2002
	(In thousands)				
Balance Sheet Data: (1)					
Cash and cash equivalents	\$ 1,200	\$ —	\$ —	\$ —	\$ 14,893
Working capital	(3,193)	(4,181)	13,696	3,216	24,134
Total assets	51,611	79,303	156,595	184,637	183,556
Total debt	33,063	16,937	61,399	86,094	55,196
Total members'/stockholders' equity	13,291	49,401	69,041	81,985	98,775

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- (1) On August 29, 1996, TREX Company, LLC acquired substantially all of the assets and assumed some of the liabilities of its predecessor for a purchase price of approximately \$29.5 million. TREX Company, LLC had no operations before this date. On April 7, 1999, Trex Company, Inc. acquired all of the membership interests of TREX Company, LLC in a series of transactions referred to as the “reorganization.” On April 13, 1999, Trex Company, Inc. completed an initial public offering of its common stock. The “company” refers to TREX Company, LLC through April 7, 1999 and to Trex Company, Inc. thereafter. Before the reorganization, the company was taxed as a partnership and accordingly did not record a provision for income taxes. Weighted average shares outstanding assumes that the 9,500,000 shares of common stock outstanding immediately after the reorganization were outstanding for all periods through April 7, 1999, that 13,500,000 shares were outstanding through May 2, 1999, that 14,115,450 shares were outstanding through July 14, 1999, that 14,118,435 shares were outstanding through October 14, 1999 and that 14,120,572 shares were outstanding through December 31, 1999.
- (2) The pro forma provision for income taxes and net income assume the company was taxed as a corporation for all periods presented at a combined effective rate of 38% and excludes one-time charges relating to the reorganization and initial public offering, including (a) a net deferred tax liability of approximately \$2.6 million and (b) a \$1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the initial public offering. Pro forma earnings per share assume the same number of shares outstanding as indicated in note (1) above.
- (3) Supplemental pro forma interest income (expense), provision for income taxes and net income (a) exclude interest expense of \$2.8 million in 1998 and \$0.8 million 1999 related to debt that was repaid with a portion of the net proceeds of the initial public offering, (b) assume the company was taxed as a corporation for all periods presented at a combined effective rate of 38% and (c) exclude one-time charges relating to the reorganization and initial public offering, including a net deferred tax liability of approximately \$2.6 million and a \$1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the initial public offering. Supplemental pro forma shares outstanding assumes that the 14,115,450 shares outstanding after the initial public offering were outstanding for all periods through July 14, 1999, that 14,118,435 shares were outstanding through October 14, 1999 and that 14,120,572 shares were outstanding through December 31, 1999.
- (4) Consists of earnings before interest, taxes, depreciation and amortization. EBITDA is presented because it is a commonly used measure of performance by the financial community. Although management believes EBITDA is a useful measure of the company’s performance, EBITDA should not be considered an alternative to net income as a measure of operating performance or to cash provided by operating activities as a measure of liquidity. This measure of EBITDA may not be comparable to similarly titled measures reported by other companies.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

General. 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.

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 new 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 connection with the curtailment of production, the company terminated 89 employees in the second half of 2001, including 81 employees in its manufacturing operations.

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 has 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%.

Net Sales. Net sales consists of sales and freight, net of estimated returns and discounts and certain other vendor consideration. The level of net sales is principally affected by sales volume and the prices paid for Trex. The company's branding and product differentiation strategy enables the company both to

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command premium prices and to maintain price stability for Trex. The prices for Trex over the last three years have increased at a compound annual growth rate of approximately 5.8%.

Cost of Sales. Cost of sales consists of raw material costs, direct labor costs, manufacturing costs and freight. Raw material costs generally include the costs to purchase and transport waste wood fiber and polyethylene. Direct labor costs include wages and benefits of personnel engaged in the manufacturing process. Manufacturing costs consists of depreciation, utilities, maintenance supplies and repairs, indirect labor and warehouse and equipment rental costs.

Selling, General and Administrative Expenses. The principal component of selling, general and administrative expenses is branding and other sales and marketing costs, which have increased significantly as the company has sought to build brand awareness of Trex in the decking market. Sales and marketing costs consist primarily of salaries, commissions and benefits paid to sales and marketing personnel, advertising expenses and other promotional costs. General and administrative expenses include salaries and benefits of personnel engaged in research and development, procurement, accounting and other business functions, office occupancy costs attributable to these functions, and legal expenses. 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.

Amortization Expense. In connection with its acquisition of Mobil's Composite Products Division in August 1996, the company recorded \$10.6 million in goodwill. Through 2001, the company amortized its goodwill over a 15-year period in an amount of approximately \$0.7 million per year. In accordance with Financial Accounting Standards Board Statement No. 142, which the company adopted effective January 1, 2002, the company ceased the amortization of goodwill.

Critical Accounting Policies, Estimates and Risks and Uncertainties

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

Inventories. The company's inventories have decreased from \$33.2 million as of December 31, 2001 to \$22.4 million as of December 31, 2002. The company believes that its quantity and mix of finished goods inventory will be saleable in the ordinary course of business and, accordingly, has not established reserves for slow moving products or obsolescence. The company accounts for its inventories at the lower of cost (last-in, first-out, or "LIFO") or market value. The company experienced a significant reduction in LIFO inventory levels in 2002, as sales of Trex outpaced production levels. This reduction resulted in a liquidation of inventory quantities carried at lower costs prevailing in prior years compared with the cost of purchases in 2002. The effect of this liquidation was to reduce cost of sales by \$0.7 million, which represented \$0.05 per diluted share. At December 31, 2002, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately \$3.8 million. The company cannot estimate at this time the effect of future reductions, if any, in inventory levels on its future operating results.

Property, Plant and Equipment. As of December 31, 2002, the company's construction in process totaled approximately \$29.7 million. The construction in process consisted primarily of four production lines in various stages of completion at the company's Winchester and Fernley manufacturing facilities and

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a plastic processing plant. The company currently expects that the production lines in process will be put into service in 2003 or 2004 and that the plastic processing plant in process will be completed and put into service in early 2003. Pursuant to Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the company has compared the carrying values of its long-lived assets, including construction in process, against the expected undiscounted cash flows relating to those assets and has determined that no impairment exists as of December 31, 2002. The significant assumptions inherent in the company's estimate include increases in sales volumes and maintenance of gross margins that are consistent with historical levels. Actual results could differ from those estimates. In such event, the carrying value and the estimated useful lives of the company's long-lived assets could be reduced in the future.

Contingencies. The company is subject to various lawsuits and other claims related to securities matters, patent infringement, product liability and other matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. The company makes a determination of the amount of reserves required, if any, for these contingencies after an analysis of each lawsuit and claim. The required reserves may change in the future as a result of new developments in any such matter or changes in approach, such as a change in settlement strategy in dealing with a particular matter. In the opinion of management, adequate provision has been made for any potential losses as of December 31, 2002.

Results of Operations

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

	Year Ended December 31,		
	2000	2001	2002
Net sales	100.0%	100.0%	100.0%
Cost of sales	52.6	58.2	54.2
Gross profit	47.4	41.8	45.8
Selling, general and administrative expenses	20.3	27.2	25.2
Income from operations	27.1	14.6	20.6
Interest expense, net	0.8	3.3	4.7
Income before taxes and extraordinary item	26.4	11.3	15.9
Provision for income taxes	9.9	3.6	5.9
Net income	16.4%	7.7%	10.0%

2002 Compared to 2001

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

Cost of Sales. Cost of sales increased 33.1% to \$90.5 million in 2002 from \$68.0 million in 2001. The increase was primarily attributable to the higher net sales volume. Cost of sales as a percentage of net sales decreased to 54.2% in 2002 from 58.2% in 2001. The decrease was primarily attributable to the

increase in the manufacturing utilization rate and the associated improvement in absorption of fixed manufacturing expenses.

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

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

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

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

2001 Compared to 2000

Net Sales. Net sales decreased 0.6% to \$116.9 million in 2001 from \$117.6 million in 2000, due to a decrease in sales volume. The decrease in sales volume resulted primarily from a reduction in new product orders from the company's distributors and dealers following the company's termination of its product allocation practice in the third quarter of 2000. After the discontinuation of product allocation, many distributors and dealers met a significant portion of customer demand for Trex by reducing their existing inventories, which they had stockpiled in prior periods. The decrease in sales volume in 2001 was partially offset by a price increase of approximately 6.8%.

Cost of Sales. Cost of sales increased 9.9% to \$68.0 million in 2001 from \$61.9 million in 2000. The increase was primarily attributable to higher manufacturing overhead costs, including utilities, warehousing and depreciation costs. Cost of sales as a percentage of net sales increased to 58.2% in 2001 from 52.6% in 2000. The increase principally reflected a higher absolute level of manufacturing overhead costs and an associated decrease of approximately 11% from the 2000 level in the amount of product manufactured as a result of the curtailment of production capacity described above under "Overview." The effects of higher overhead costs and reduced production were partially offset by operating efficiencies from improved production line rates.

Gross Profit. Gross profit decreased 12.3% to \$48.9 million in 2001 from \$55.7 million in 2000, reflecting the lower sales volume and higher manufacturing costs in 2001. Gross profit as a percentage of net sales decreased to 41.8% in 2001 from 47.4% in 2000.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 33.4% to \$31.8 million in 2001 from \$23.8 million in 2000. The increase was partially

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attributable to higher branding costs, including expenses of promotion, advertising, public relations, sales literature, trade shows and cooperative advertising, which increased to \$10.0 million in 2001 from \$8.1 million in 2000. The higher selling, general and administrative expenses also reflected an increase in corporate personnel and the related hiring and relocation costs, costs of upgrading accounting and other systems to support growth, an increase in professional fees relating to the modification of terms of certain of the company's indebtedness as of November 2001, and an increase in office rent relating to the company's new headquarters. The effect of the foregoing increases was partially offset by the elimination of management bonuses and profit sharing. Selling, general and administrative expenses as a percentage of net sales increased to 27.2% in 2001 from 20.3% in 2000.

Interest Expense. Net interest expense increased to \$3.9 million in 2001 from \$0.9 million in 2000. The increase primarily resulted from higher average debt balances incurred since 2000 to finance the increases in the company's fixed assets and inventories and from the cessation of interest capitalization during the third quarter of 2001. As of December 31, 2001, the company's capital projects in process totaled approximately \$42.4 million. The company ceased the capitalization of interest on these projects until they were resumed. The increase in net interest expense also reflected the non-cash amortization into interest expense of approximately \$0.7 million of debt discount in connection with the modification of the company's senior credit facility as of November 2001.

Provision for Income Taxes. Income tax expense decreased 64.2% to \$4.2 million in 2001 from \$11.7 million in 2000. The decrease was primarily attributable to a decrease in pretax income, which decreased to \$13.2 million in 2001 from \$31.0 million in 2000. The effective rate also decreased to approximately 31.6% in 2001 compared to approximately 37.7% in 2000. The lower rate in 2001 resulted from revisions to prior-year estimated liabilities.

Liquidity and Capital Resources

The company has financed its operations and growth primarily with cash flow from operations, borrowings under its credit facility and other loans, operating leases and normal trade credit terms.

The company's cash flow provided by operating activities was \$15.4 million in 2000, \$7.0 million in 2001 and \$53.0 million in 2002. Higher net sales, gross profit and net income and a decrease in inventories accounted for a significant portion of the increase in operating cash flows in 2002. Inventories decreased from \$33.2 million at December 31, 2001 to \$22.4 million at December 31, 2002, as demand exceeded the company's production during 2002.

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

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

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

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for the credit facility range from 1.50% to 3.25% and the specified margins for the real estate loans range from 1.75% to 3.50%.

The company's ability to borrow under the revolving credit facility is tied to a borrowing base that consists of certain receivables and inventories. As of December 31, 2002, the borrowing base was \$12.4 million and no borrowings were outstanding under the facility.

The company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under a majority of its real estate loans. At December 31, 2002, the company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on approximately \$15.2 million principal amount of its real estate loans.

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

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

In connection with its acquisition of the site for its Fernley, Nevada facility, the company in September 1999 obtained a 15-year term loan in the original principal amount of \$6.7 million. Under an interest rate swap agreement, interest on this loan is payable at an annual effective rate of 7.90% at December 31, 2002.

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

The following table sets forth, on an aggregate basis, at December 31, 2002 the amounts of specified contractual cash obligations of the company, excluding interest, required to be paid in the periods shown (in thousands):

	Total	2003	2004	2005	2006	2007	Thereafter
Long-term debt	\$55,196	\$ 795	\$ 832	\$16,568	\$ 8,289	\$ 8,289	\$ 20,423
Operating leases	17,571	3,501	2,178	1,777	1,592	1,487	7,036
Total contractual cash obligations	\$72,767	\$4,296	\$3,010	\$18,345	\$ 9,881	\$ 9,776	\$ 27,459

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

To remain in compliance with its credit facility and senior secured note covenants, the company must maintain specified financial ratios based on its levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization. As of December 31, 2002, the company was in compliance with these covenants.

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

- fluctuations in the demand for Trex based on general economic conditions;
- changes in the availability and prices of raw materials needed to produce Trex;
- the performance of the company's most significant distributors; and
- the company's ability to compete successfully in the increasingly competitive decking market.

The company made capital expenditures in 2000, 2001 and 2002 totaling \$98.3 million, primarily to expand manufacturing capacity. The company currently estimates that its capital requirements in 2003 will total approximately \$18.2 million. The company will use its capital expenditures in 2003 primarily to make process and productivity improvements to add manufacturing capacity, to complete the plastic processing plant at its Winchester, Virginia facility and to complete the installation of its enterprise resource planning system. The company expects that it will continue to make significant capital expenditures in 2004 and subsequent years as the company completes its construction in process and then invests in additional production lines and facilities to meet an anticipated increase in the demand for Trex.

As of December 31, 2002, the company had a total of approximately \$14.9 million of cash and cash equivalents. The company believes that cash on hand, cash flow from operations and borrowings expected to be available under the company's existing revolving credit facility will provide sufficient funds to enable the company to fund its planned capital expenditures, make scheduled principal and interest payments, meet its other cash requirements and maintain compliance with the terms of its financing agreements for at least the next 12 months. Thereafter, significant capital expenditures may be required to provide increased capacity to meet the company's expected growth in demand for its products. Of its aggregate capital expenditures of \$98.3 million for the three-year period ended December 31, 2002, the company funded \$28.6 million from cash flow from operations and \$69.7 million from proceeds of financing activities, including borrowings under various loan and credit facilities. The company currently expects that it will fund its future capital expenditures primarily 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.

Inflation

Inflation did not have a material impact on the company's operating results in 2000, 2001 or 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The company's major market risk exposure is to changing interest rates. The company's policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The company uses interest rate swap contracts to manage its exposure to fluctuations in the interest rates on its

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floating-rate mortgage debt, all of which is based on LIBOR. At December 31, 2002, the company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on its \$15.2 million of floating-rate debt. For additional information about the company's management of its interest rate risk, see Note 5 to the company's consolidated financial statements appearing elsewhere in this report.

Changes in interest rates affect the fair value of the company's fixed-rate debt. The fair value of the company's long-term fixed-rate debt on December 31, 2002 was approximately \$42.9 million. Based on balances outstanding at December 31, 2002, a 1% change in interest rates would change the fair value of the company's long-term fixed-rate debt by \$1.6 million.

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

Item 8. Financial Statements and Supplementary Data

The financial statements listed in Item 15 are filed as part of this report and appear on pages F-2 through F-20.

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

None.

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

The table below sets forth information concerning our directors and executive officers as of March 1, 2003:

<u>Name</u>	<u>Age</u>	<u>Positions with Company</u>
Robert G. Matheny	57	President, Director
Anthony J. Cavanna	63	Executive Vice President and Chief Financial Officer, Director
Andrew U. Ferrari	56	Executive Vice President of Marketing and Business Development, Director
Roger A. Wittenberg	54	Executive Vice President, Recycling, Director
A. Catherine Lawler	52	Senior Vice President, Marketing
Harold F. Monahan	57	Senior Vice President and General Manager
William F. Andrews	71	Director
Paul A. Brunner	67	Director
William H. Martin, III	72	Director
Patricia B. Robinson	50	Director

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

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

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

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Roger A. Wittenberg has served as a director of the company since September 1998 and as Executive Vice President, Recycling of the company since February 2003. He served as Executive Vice President of Material Sourcing and International Operations of the company from March 2002 to February 2003 and of TREX Company, LLC from March 2002 to December 2002. Mr. Wittenberg served as Executive Vice President of Technical Operations & Sourcing of the company from February 2001 to March 2002 and as Executive Vice President of Technical Operations & Sourcing of TREX Company, LLC from October 2001 to March 2002. He served as Executive Vice President of Technical Operations of the company from September 1998 to February 2001 and Executive Vice President of Technical Operations of TREX Company, LLC from August 1996 to October 2001. Mr. Wittenberg also serves as a Director of Elite Textiles Ltd., a textile manufacturer. From May 1992 to August 1996, he was the Technical Manager of the Composite Products Division of Mobil Chemical. Mr. Wittenberg founded Rivenite Corporation in 1987 and was its Chief Executive Office until April 1992, when Mobil Chemical acquired the assets of Rivenite Corporation. Before 1987, Mr. Wittenberg founded and operated three companies in the textile, food and animal feed supplements industries. Mr. Wittenberg received a B.S. degree in Chemistry from High Point College.

A. Catherine Lawler has served as Senior Vice President, Marketing of the company since January 2003. From 1997 to 2002, Ms. Lawler served as Vice President of Marketing of Market Day Corporation, a fund-raising food company. From 1995 to 1997, she served as Vice President of Marketing of Noma International, a Christmas and gift products company. From 1988 to 1995, Ms. Lawler served as Director of Business Development and Director of Marketing for Binney & Smith, Inc., a subsidiary of Hallmark Cards and the maker of Crayola products. From 1979 to 1988, Ms. Lawler served in a variety of positions with Kraft General Foods (now Kraft Foods, Inc.), including Group Product Manager of Maxwell House Coffee, Senior Product Manager of General Foods International Coffee, Product Manager of Maxwell House Advertising, and Associate Product Manager of SANKA. Ms. Lawler received a B.S. in education from the University of Pennsylvania and an MBA in Marketing & Finance from Columbia University.

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

William F. Andrews has served as a director of the company since April 1999. Mr. Andrews has served as Chairman of the Board of Directors of Corrections Corporation of America since August 2000 and as Chairman of the Board of Directors of Katy Industries, Inc., a manufacturer of maintenance and electrical products, since October 2001. He was named Chairman of the Board of Directors of Allied Aerospace Industries, Inc., a manufacturer of defense and aerospace products, in January 2002. Mr. Andrews has been a Principal of Kohlberg & Company, a venture capital firm, since 1994. From 1995 to 2001, Mr. Andrews served as Chairman of the Board of Directors of Scovill Fasteners Inc. From 1998 to 2001, he served as Chairman of the Board of Directors of Northwestern Steel and Wire Company. From 1995 to 1998, he served as Chairman of Schrader-Bridgeport International, Inc. Prior to 1995, Mr. Andrews served in various positions, including Chairman, President and Chief Executive Officer, with Scovill Manufacturing Co., where he worked for over 28 years; Chairman and Chief Executive Officer of Amdura Corporation; Chairman of Utica Corporation; and Chairman, President and Chief Executive Officer of Singer Sewing Company. Mr. Andrews also serves as a director of Black Box Corporation. Mr. Andrews

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received a B.S. degree in business administration from the University of Maryland and an M.B.A. degree in marketing from Seton Hall University.

Paul A. Brunner has served as a director of the company since February 26, 2003. Mr. Brunner is President and Chief Executive Officer of Spring Capital Inc., a merchant bank, which he founded in 1985. From 1982 to 1985, Mr. Brunner served as President and Chief Executive Officer of U.S. Operations of Asea-Brown Boveri, a multi-national Swiss manufacturer of high technology products. In 1967, he joined Crouse Hinds Company, a manufacturer of electronics and electronic equipment, and through 1982 he held various positions with that company, including President and Chief Operating Officer, Executive Vice President of Operations, Vice President of Finance and Treasurer, and Director of Mergers and Acquisitions. From 1959 to 1967, he worked for Coopers & Lybrand as an audit supervisor. Mr. Brunner also serves as a director of Johnson Controls, Inc. and Winholt Inc. Mr. Brunner is a Certified Public Accountant. He received a B.S. degree in accounting from the University of Buenos Aires and an M.B.A. degree in management from Syracuse University.

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

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

Other information responsive to this Item 10 is incorporated herein by reference to the company's definitive proxy statement for its 2003 annual meeting of stockholders.

Item 11. Executive Compensation

Information responsive to this Item 11 is incorporated herein by reference to the company's definitive proxy statement for its 2003 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information responsive to this Item 12 is incorporated herein by reference to the company's definitive proxy statement for its 2003 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions

Information responsive to this Item 13 is incorporated herein by reference to the company's definitive proxy statement for its 2003 annual meeting of stockholders.

Item 14. Controls and Procedures

Within the 90 days before the date we filed this report, we carried out an evaluation, under the supervision and with the participation of management, including our President, who is our chief executive officer, and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. Based upon that evaluation, our President and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our company, including our consolidated subsidiaries, required to be included in our periodic filings with the Securities and Exchange Commission.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls after the date we carried out this evaluation.

PART IV

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

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

Report of Independent Auditors

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2001 and 2002

Consolidated Statements of Operations for the three years ended December 31, 2002

Consolidated Statements of Stockholders' Equity and Comprehensive Income for the three years ended December 31, 2002

Consolidated Statements of Cash Flows for the three years ended December 31, 2002

Notes to Consolidated Financial Statements

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

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

Exhibit

Number

Exhibit Description

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the "Company"). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.

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- 3.2 Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
- 4.1 Specimen certificate representing the Company's common stock. Filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference
- 10.1 Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
- 10.2 Form of Non-Incentive Stock Option Agreement for Officers and Employee Directors under Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
- 10.3 Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed herewith.
- 10.4 Form of Non-Incentive Stock Option Agreement for Directors under Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed herewith.
- 10.5 Description of Annual Bonus Plan. Filed herewith.
- 10.6 Form of Restricted Stock Agreement under Trex Company, Inc. 1999 Stock Option and Incentive Plan. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 and incorporated herein by reference.
- 10.7 Registration Rights Agreement, dated as of April 7, 1999, among the Company and each of the persons named on the schedule thereto. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
- 10.8 Form of Distributor Agreement of TREX Company, LLC. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference.
- 10.9 Deed of Lease, dated June 15, 2000, between TREX Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
- 10.10 Note Purchase Agreement, dated as of June 19, 2002, by and among Trex Company, Inc., TREX Company, LLC and the Purchasers listed therein. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 10.11 Credit Agreement, dated as of June 19, 2002, among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia. Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 10.12 Security Agreement, dated as of June 19, 2002, by and among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 10.13 Intercreditor and Collateral Agency Agreement, dated as of June 19, 2002, by and among Noteholders named in Schedule I therein, Branch Banking and Trust Company of Virginia, and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.

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- 10.14 Credit Line Deed of Trust, dated June 19, 2002, by and among TREX Company, LLC, as grantor, BB&T-VA Collateral Service Corporation, as trustee, and Branch Banking and Trust Company of Virginia and Branch Banking and Trust Company, as noteholder. Filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
- 21 Subsidiaries of the Company. Filed herewith.
- 23 Consent of Ernst & Young LLP, Independent Auditors. Filed herewith.
- 99 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). Filed herewith.

(b) Report on Form 8-K:

<u>Filing Date of Report</u>	<u>Item Reported</u>
October 10, 2002	Item 9 (press release announcing Mr. Andrew U. Ferrari's intention to retire)

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TREX COMPANY, INC.
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REPORT OF ERNST & YOUNG, LLP, INDEPENDENT AUDITORS

Board of Directors
Trex Company, Inc.

We have audited the accompanying consolidated balance sheets of Trex Company, Inc. as of December 31, 2001 and 2002, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trex Company, Inc. at December 31, 2001 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

McLean, Virginia
February 14, 2003

TREX COMPANY, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2001	2002
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ —	\$ 14,893
Trade accounts receivable	2,507	840
Inventories	33,168	22,429
Prepaid expenses and other assets	1,306	1,395
Income taxes receivable	1,137	—
Deferred income taxes	1,946	2,269
	<hr/>	<hr/>
Total current assets	40,064	41,826
	<hr/>	<hr/>
Property, plant and equipment, net	137,223	133,570
Intangible assets, net	6,837	6,837
Other	513	1,323
	<hr/>	<hr/>
Total Assets	\$ 184,637	\$ 183,556
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 9,495	\$ 10,056
Accrued compensation and benefits	630	6,089
Income taxes payable	—	114
Other current liabilities	964	638
Current portion of long-term debt	25,759	795
	<hr/>	<hr/>
Total current liabilities	36,848	17,692
Deferred income taxes	7,800	9,915
Line of credit	12,153	—
Debt-related derivative	1,381	2,773
Long-term debt	48,182	54,401
Debt discount	(3,712)	—
	<hr/>	<hr/>
Total Liabilities	\$ 102,652	\$ 84,781
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value, 40,000,000 shares authorized; 14,155,083 and 14,297,711 shares issued and outstanding at December 31, 2001 and 2002, respectively	142	143
Additional capital	46,079	49,354
Retained earnings	36,620	53,397
Deferred compensation	—	(2,400)
Accumulated other comprehensive loss	(856)	(1,719)
	<hr/>	<hr/>
Total Stockholders' Equity	81,985	98,775
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 184,637	\$ 183,556
	<hr/>	<hr/>

See accompanying notes to financial statements.

TREX COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2000	2001	2002
	(In thousands, except share and per share data)		
Net sales	\$ 117,568	\$ 116,860	\$ 167,079
Cost of sales	61,852	67,973	90,479
Gross profit	55,716	48,887	76,600
Selling, general, and administrative expenses	23,830	31,801	42,150
Income from operations	31,886	17,086	34,450
Interest income	5	2	243
Interest expense	(907)	(3,852)	(8,025)
Income before provision for income taxes	30,984	13,236	26,668
Provision for income taxes	11,682	4,186	9,891
Net income	\$ 19,302	\$ 9,050	\$ 16,777
Basic earnings per common share	\$ 1.37	\$ 0.64	\$ 1.18
Basic weighted average shares outstanding	14,129,652	14,145,660	14,166,307
Diluted earnings per common share	\$ 1.36	\$ 0.64	\$ 1.16
Diluted weighted average shares outstanding	14,179,475	14,182,457	14,481,234

See accompanying notes to financial statements.

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

	Common Stock Shares	Amount	Additional Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	(Dollars in thousands)						
Balance, December 31, 1999	14,135,060	\$ 141	\$40,992	\$ —	\$ —	\$ 8,268	\$49,401
Net income	—	—	—	—	—	19,302	19,302
Employee stock purchase and option plans	—	—	245	—	—	—	245
Tax benefit of stock options	—	—	93	—	—	—	93
Balance, December 31, 2000	14,135,060	141	41,330	—	—	27,570	69,041
Comprehensive income:							
Net income	—	—	—	—	—	9,050	9,050
Cumulative effect upon adoption of SFAS 133, net of tax	—	—	—	—	(508)	—	(508)
Unrealized losses on interest rate swaps, net of tax	—	—	—	—	(606)	—	(606)
Derivative loss reclassified to earnings, net of tax	—	—	—	—	—	258	258
Total comprehensive income							8,194
Warrants	—	—	4,415	—	—	—	4,415
Employee stock purchase and option plans	20,023	1	272	—	—	—	273
Tax benefit of stock options	—	—	62	—	—	—	62
Balance, December 31, 2001	14,155,083	142	46,079	—	(856)	36,620	81,985
Net income	—	—	—	—	—	16,777	16,777
Unrealized losses on interest rate swaps, net of tax	—	—	—	—	(1,344)	—	(1,344)
Derivative loss reclassified to earnings, net of tax	—	—	—	—	481	—	481
Total comprehensive income							15,914
Employee Stock Purchase and Option plan	22,628	—	329	—	—	—	329
Tax benefit of stock options	—	—	95	—	—	—	95
Restricted stock	120,000	1	2,851	(2,851)	—	—	1
Amortization of deferred compensation	—	—	—	451	—	—	451
Balance, December 31, 2002	14,297,711	\$ 143	\$49,354	\$ (2,400)	\$ (1,719)	\$53,397	\$98,775

See accompanying notes to financial statements.

TREX COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	2001	2002
	(In thousands)		
Operating Activities			
Net income	\$ 19,302	\$ 9,050	\$ 16,777
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	2,132	1,075	1,792
Tax benefit of stock options	93	62	95
Equity method losses	—	137	267
Amortization of deferred compensation and financing costs	—	—	684
Amortization of debt discount	—	703	3,712
Depreciation and amortization	6,869	9,326	9,589
Loss on disposal of property, plant and equipment	18	469	256
Changes in operating assets and liabilities:			
Trade accounts receivable	(9,316)	8,075	1,667
Inventories	(14,349)	(10,151)	10,739
Prepaid expenses and other assets	(282)	(617)	(144)
Trade accounts payable	10,666	(7,587)	561
Accrued compensation and benefits	316	(1,423)	5,459
Income taxes receivable/payable	457	(1,711)	1,306
Other	(499)	299	204
Net cash provided by operating activities	15,407	7,004	52,964
Investing Activities			
Expenditures for property, plant and equipment	(60,114)	(31,972)	(6,192)
Net cash used in investing activities	(60,114)	(31,972)	(6,192)
Financing Activities			
Financing costs	—	—	(1,310)
Borrowings under mortgages and notes	5,940	58,000	52,596
Principal payments under mortgages and notes	(512)	(710)	(71,341)
Borrowings under line of credit	57,249	82,890	489
Principal payments under line of credit	(18,215)	(115,485)	(12,642)
Proceeds from employee stock purchase and option plans	245	273	329
Net cash provided by (used in) financing activities	44,707	24,968	(31,879)
Net increase in cash and cash equivalents	—	—	14,893
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at end of year	\$ —	\$ —	\$ 14,893
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 1,800	\$ 5,010	\$ 4,594
Cash paid for income taxes	\$ 9,088	\$ 4,993	\$ 6,246

See accompanying notes to financial statements.

TREX COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Concentrations and Credit Risk

The Company’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company from time to time may have bank deposits in excess of the FDIC insurance limits. As of December 31, 2002, substantially all deposits are maintained in one financial institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

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

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

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

Approximately 75%, 78% and 77% of the Company's net sales for the years ended December 31, 2000, 2001 and 2002, respectively, were to its five largest customers, sales to each of which exceeded 10% of sales. Approximately 20%, 18% and 20% of the Company's raw materials purchases for the years ended December 31, 2000, 2001 and 2002, respectively, were purchased from its four largest suppliers.

Inventories

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

Property, Plant and Equipment

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

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

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

Intangible Assets

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

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under the nonamortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead are reviewed for impairment at least annually and written down and charged to operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. As of January 1, 2002, the Company had unamortized goodwill of approximately \$6.8 million. The Company completed its initial impairment test of goodwill, which did not indicate an impairment. The Company will perform the annual impairment testing of its goodwill as of October 31 in each year, which could have an adverse effect on the Company's future results of operations if an impairment occurs. The results of operations for prior years have not been restated to reflect the nonamortization of goodwill. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization net of the related tax effects is as follows (in thousands):

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	Year Ended December 31,	
	2000	2001
Reported net income	\$ 19,302	\$ 9,050
Goodwill amortization	707	707
Adjusted net income	\$ 20,009	\$ 9,757
Reported basic earnings per common share	\$ 1.37	\$ 0.64
Goodwill amortization	0.05	0.05
Adjusted basic earnings per common share	\$ 1.42	\$ 0.69
Reported diluted earnings per common share	\$ 1.36	\$ 0.64
Goodwill amortization	0.05	0.05
Adjusted diluted earnings per common share	\$ 1.41	\$ 0.69

Long-Lived Assets

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

The Company has significant construction in process as of December 31, 2002. The Company expects that construction in process will be completed and put into service. Accordingly, the Company has performed impairment tests on these assets held for use based on estimated future levels of cash flows and has determined that no impairment exists as of December 31, 2002. Actual results could differ from those estimates. In such event, the carrying value and the estimated useful lives of these assets could be reduced.

Revenue Recognition

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

Stock-Based Compensation

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

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under APB No. 25 to SFAS No. 123's fair value method of accounting, if a company so elects. SFAS No. 148 also requires that additional disclosures be made on an interim basis. The Company has adopted SFAS No. 148 and will begin the expanded disclosure in its quarterly reports for 2003.

No stock-based compensation cost related to stock option grants has been reflected in net income, as all options granted have had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123.

	Year Ended December 31,		
	2000	2001	2002
	(In thousands, except per share data)		
Net income, as reported	\$ 19,302	\$ 9,050	\$ 16,777
Pro forma net income	\$ 18,701	\$ 8,357	\$ 15,659
Earnings per share:			
Basic-as reported	\$ 1.37	\$ 0.64	\$ 1.18
Basic-pro forma	\$ 1.32	\$ 0.59	\$ 1.10
Diluted-as reported	\$ 1.36	\$ 0.64	\$ 1.16
Diluted-pro forma	\$ 1.32	\$ 0.59	\$ 1.08

In accordance with SFAS No. 123, the fair value was estimated at the grant date using a Black-Scholes option pricing model with the following weighted-average assumptions for 2000, 2001 and 2002: risk-free interest rates ranging from 4% to 6%; no dividends; expected life of the options of approximately five years; and volatility ranging from 72% to 81%.

Income Taxes

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

Research and Development Costs

Research and development costs are expensed as incurred. For the years ended December 31, 2000, 2001 and 2002, research and development costs were approximately \$1.4 million, \$1.7 million and \$1.3 million, respectively.

Advertising Costs

Branding costs, including advertising, are expensed as incurred. For the years ended December 31, 2000, 2001 and 2002, branding costs were approximately \$8.1 million and \$10.0 million and \$10.4 million, respectively.

Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other

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current liabilities, and mortgage loans to approximate the fair value of the respective assets and liabilities at December 31, 2001 and 2002. The fair value of the Company's senior secured notes at December 31, 2002 was estimated at \$42.9 million.

Derivative Instruments

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

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

At the time of its adoption of SFAS No. 133 on January 1, 2001, the Company recognized an after-tax reduction of \$0.5 million in other comprehensive income (loss), a component of stockholders' equity, as a cumulative effect adjustment. The effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. The Company estimates that of the amounts included in accumulated other comprehensive loss at December 31, 2002, approximately \$0.5 million, net of taxes of approximately \$0.3 million, will be reclassified to earnings over the next 12 months.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued 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 statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company will be required to implement SFAS No. 143 on January 1, 2003. The Company does not believe that adoption of this standard will have a material impact on its results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." Among other things, SFAS No. 145 rescinds both SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and the amendment to SFAS No. 4, SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking Fund Requirements." Through this rescission, SFAS No. 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. Generally, SFAS No. 145 is effective for transactions occurring after May 15, 2002. The Company does not believe that the adoption of this standard will have a material effect on its 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 EITF 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

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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. The Company does not believe that the adoption of this standard will have a material effect on its results of operations or financial position.

3. INVENTORIES

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

	2001	2002
Finished goods	\$27,236	\$17,114
Raw materials	5,932	5,315
	<u>\$33,168</u>	<u>\$22,429</u>

In 2002, the Company experienced a reduction in its LIFO inventories. This reduction resulted in a liquidation of inventory quantities carried at lower costs prevailing in prior years compared with the cost of purchases in 2002. The effect of this liquidation was to reduce cost of sales by \$0.7 million, which represented \$0.05 per diluted share.

At December 31, 2001 and 2002, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately \$3.9 million and \$3.8 million, respectively.

4. PROPERTY, PLANT AND EQUIPMENT

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

	2001	2002
Building and improvements	\$ 34,858	\$ 35,423
Machinery and equipment	71,478	87,895
Furniture and equipment	1,946	2,066
Forklifts and tractors	567	831
Data processing equipment	2,565	3,866
Construction in process	42,400	29,670
Land	5,353	5,353
	<u>159,167</u>	<u>165,104</u>
Accumulated depreciation	<u>(21,944)</u>	<u>(31,534)</u>
	<u>\$ 137,223</u>	<u>\$ 133,570</u>

Depreciation expense for the years ended December 31, 2000, 2001 and 2002 totaled \$6.0 million, \$7.9 million and \$9.6 million, respectively.

5. DEBT

2002 Credit Facility and Refinancing

On June 19, 2002, the Company refinanced total indebtedness of \$47.6 million outstanding under a senior bank credit facility and various real estate loans. The Company refinanced this indebtedness with the proceeds from its sale of \$40.0 million principal amount of senior secured notes and borrowings under new real estate loans having a principal amount of \$12.6 million. In connection with the refinancing, the Company replaced its existing \$17.0 million revolving credit facility with a \$20.0 million revolving credit facility with a new lender. The Company capitalized \$1.3 million of financing costs relating to this refinancing. The deferred financing costs are amortized over the terms of the various debt instruments, which range between three and seven years.

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

The new revolving credit facility and real estate loans accrue interest at annual rates equal to LIBOR plus specified margins and mature on the third anniversary of the closing date. The specified margins are determined based on the Company's ratio of total consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization, as computed under the loans. The specified margins for the credit facility and real estate loans range from 1.50% to 3.25% and 1.75% to 3.50%, respectively. The Company uses interest-rate swap contracts to manage its exposure to fluctuations in the interest rates under its real estate loans. At December 31, 2002, the Company had effectively capped its interest rate exposure at an annual rate of approximately 8.4% on approximately \$15.2 million principal amount of real estate loans. Amounts drawn under the new revolving credit facility are subject to a borrowing base consisting of accounts receivable and finished goods inventories. As of December 31, 2002, no borrowings were outstanding under the revolving credit facility and the borrowing base totaled approximately \$12.4 million. As of December 31, 2002, \$15.2 million was outstanding under the real estate loans.

The new revolving credit facility, real estate loans and the senior secured notes contain negative and financial covenants. As of December 31, 2002, the Company was in compliance with these covenants. Borrowings under these agreements are secured by liens on substantially all of the Company's assets.

Former Credit Facility

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

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

Mortgage Loans

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

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In September 1999, the Company refinanced two loans incurred in connection with the site acquisition and construction of the Company's third manufacturing facility with a 15-year term loan in the original principal amount of approximately \$6.7 million. The loans provided for monthly payments of principal and interest over the 15-year amortization schedule. Pursuant to an interest rate swap agreement, interest on this loan is payable at an annual effective rate of 7.90% at December 31, 2002.

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

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

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

	2001	2002
Mortgage loan, due June 30, 2005	\$ 3,235	\$ 3,052
Mortgage loan, due June 30, 2005	902	852
Mortgage loan, due September 30, 2014	6,159	5,869
Mortgage loan, due June 30, 2005	5,659	5,423
Senior secured notes	—	40,000
Term loan, due January 31, 2003	57,986	—
	73,941	55,196
Less current portion	(25,759)	(795)
Long-term debt	\$ 48,182	\$ 54,401

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

Years ending December 31,	
2003	\$ 795
2004	832
2005	16,568
2006	8,289
2007	8,289
Thereafter	20,423
	\$ 55,196

The Company made interest payments in the aggregate amounts of approximately \$1.8 million, \$5.0 million and \$4.6 million for the years ended December 31, 2000, 2001 and 2002, respectively. During the years ended December 31, 2000, 2001 and 2002, the Company capitalized approximately \$1.1 million, \$1.9 million and \$0.5 million of interest, respectively.

Interest Rate Swaps

During the years ended December 31, 2000, 2001 and 2002, the Company entered into interest-rate swap agreements to eliminate the impact of increases and decreases in interest rates on its floating-rate mortgages. At December 31, 2002, the Company had four interest-rate swap agreements outstanding. The agreements effectively entitle the Company to receive from (pay to) the bank the amount, if any, by which the Company's interest payments on its \$3.8 million, \$1.0 million, \$6.7 million and \$5.9 million LIBOR-based floating-rate mortgage loans exceed (fall below) 7.12%, 6.80%, 7.90% and 8.10%,

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respectively. The Company has not incurred a premium or other fee for these interest-rate swap agreements. Payments received (made) as a result of the agreements are recognized as a reduction of (increase to) interest expense on the LIBOR-based floating-rate debt. The notional amounts of these agreements correspond to the outstanding balances of the LIBOR-based debt. The Company has evaluated and documented these interest-rate swap agreements as cash flow hedges of LIBOR-based floating-rate debt, in which any changes in fair values of the derivatives are recorded in other comprehensive income, net of taxes, as there is no hedge ineffectiveness.

Warrants

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

6. STOCKHOLDERS' EQUITY

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

	Year Ended December 31,		
	2000	2001	2002
Numerator:			
Net income	\$ 19,302	\$ 9,050	\$ 16,777
Denominator:			
Basic weighted average shares outstanding	14,129,652	14,145,660	14,166,307
Effect of dilutive securities:			
Stock options	49,823	27,091	56,325
Warrants	—	9,706	226,205
Restricted stock	—	—	32,397
Diluted weighted average shares outstanding	14,179,475	14,182,457	14,481,234
Basic earnings per share	\$ 1.37	\$ 0.64	\$ 1.18
Diluted earnings per share	\$ 1.36	\$ 0.64	\$ 1.16

On March 12, 1999, the Company adopted the 1999 Stock Option and Incentive Plan (the "Plan"). The Plan authorizes, among other things, the granting of options, restricted stock and other equity-based awards to purchase up to 1,400,000 shares of Common Stock. The exercise price per share under each option granted under the Plan may not be less than 100% of the fair market value of the Common Stock on the option grant date. Vesting of the options is determined by the Compensation and Governance Committee of the Board of Directors. At December 31, 2002, 947,611 shares of Common Stock were reserved for future issuance under the Plan.

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

Stock option activity of the Plan from December 31, 1999 through December 31, 2002 is as follows:

	Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 1999	104,000	\$ 10.53
Granted	141,358	\$ 28.20
Exercised	(8,018)	\$ 10.00
Canceled	(14,309)	\$ 15.04
Outstanding at December 31, 2000	223,031	\$ 21.27
Granted	155,277	\$ 23.89
Exercised	(9,874)	\$ 10.04
Canceled	(18,477)	\$ 19.31
Outstanding at December 31, 2001	349,957	\$ 22.84
Granted	167,268	\$ 21.14
Exercised	(7,362)	\$ 12.53
Canceled	(57,474)	\$ 24.76
Outstanding at December 31, 2002	452,389	\$ 22.30
Exercisable at December 31, 2002	144,613	\$ 22.00

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At December 31, 2002, the price range of options outstanding was as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options Exercisable	Weighted Average Exercise Price
\$ 0.00-19.99	99,838	\$ 13.75	7.4	56,549	\$ 13.24
20.00-29.99	321,940	24.09	8.3	73,557	26.89
30.00-39.99	29,498	30.68	7.8	13,952	30.65
40.00 and over	1,113	50.00	7.5	555	50.00
	<u>452,389</u>	<u>22.30</u>	<u>8.1</u>	<u>144,613</u>	<u>22.00</u>

The grant date weighted average fair value of options granted in 2000, 2001 and 2002 was \$19.35, \$14.80 and \$13.78, respectively. Options generally vest with respect to 25% of the shares subject to the option on each of the first, second, third and fourth anniversaries of the grant date. The options are generally forfeitable upon termination of an option holder's service as an employee or director.

7. LEASES

The Company leases office space, storage warehouses and certain office and plant equipment under various operating leases. Minimum annual payments under these non-cancelable leases as of December 31, 2002 were as follows (in thousands):

Year ending December 31,	
2003	\$ 3,501
2004	2,178
2005	1,777
2006	1,592
2007	1,487
Thereafter	7,036
	<u>\$ 17,571</u>

For the years ended December 31, 2000, 2001 and 2002, the Company recognized rental expenses of approximately \$2.6 million, \$4.8 million and \$5.0 million, respectively.

8. BENEFIT PLANS

The Company has a 401(k) Profit Sharing Plan and a Money Purchase Pension Plan for the benefit of all employees who meet certain eligibility requirements. These plans cover substantially all of the Company's full-time employees. The plan documents provide for the Company to make defined contributions as well as matching and other discretionary contributions, as determined by the Board of Directors. The Company's contributions totaled \$0.7 million in 2000, \$0.2 million in 2001 and \$2.7 million in 2002 for the 401(k) Profit Sharing Plan and \$0.3 million, \$0.4 million and \$0.6 million for the Money Purchase Pension Plan during the years ended December 31, 2000, 2001 and 2002, respectively.

9. INCOME TAXES

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

	Year Ended December 31,		
	2000	2001	2002
Current	\$ 9,635	\$ 2,938	\$ 8,099
Deferred	2,047	1,248	1,792
Total provision	\$ 11,682	\$ 4,186	\$ 9,891

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

	Year Ended December 31,		
	2000	2001	2002
U.S. federal statutory taxes	\$ 10,854	\$ 4,633	\$ 9,334
State and local taxes, net of U.S. federal benefit	793	(600)	434
Other	35	153	123
	\$ 11,682	\$ 4,186	\$ 9,891

Deferred tax assets and liabilities as of December 31, 2001 and 2002 consist of the following (in thousands):

	As of December 31,	
	2001	2002
Deferred tax assets-current:		
Accruals not currently deductible and other	\$ 1,946	\$ 2,269
Deferred tax liabilities-non-current:		
Depreciation	\$ (7,800)	\$ (9,915)
Net deferred tax liability	\$ (5,854)	\$ (7,646)

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

Commencing on July 11, 2001, four purported class action lawsuits, referred to collectively as the "securities class action," were filed in the United States District Court, Western District of Virginia, naming as defendants the Company and Robert G. Matheny, the President and a director of the Company, Roger A. Wittenberg, then the Executive Vice President of Material Sourcing and International Operations and a director of the Company, and Anthony J. Cavanna, the Executive Vice President and Chief Financial Officer and a director of the Company. The plaintiffs in these lawsuits purported to

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represent a class of purchasers of the Company's securities between November 2, 2000 and June 18, 2001. The complaints, one of which was dismissed voluntarily, alleged that the defendants violated Sections 10(b) and 20(a) of and Rule 10b-5 under the Securities Exchange Act of 1934 by making false and misleading public statements or omissions concerning the Company's operating and financial results, expectations, and business and by filing misleading reports on Forms 10-Q and 10-K with the SEC. The public statements and disclosures in the Company's reports that the plaintiffs alleged to be false and misleading related primarily to the Company's operating performance and prospects and anticipated customer demand for Trex in the fourth quarter of 2000 and first and second quarters of 2001. The plaintiffs sought unspecified monetary damages together with any other relief permitted by law, equity and federal statutory provisions identified in the complaints. The cases were consolidated and an amended consolidated complaint, which added as a defendant Andrew U. Ferrari, the Company's Executive Vice President of Marketing and Business Development and a director of the Company, was filed on December 17, 2001. On or about January 31, 2002, the defendants filed a motion to have the amended consolidated complaint dismissed with prejudice. By a final order entered on May 29, 2002, the district court dismissed the consolidated amended complaint. The final order was accompanied by a memorandum opinion granting the defendants' motion to dismiss the amended consolidated complaint for failure to state a claim. In the memorandum opinion, the court found that plaintiffs had not pleaded facts raising a strong inference that any disclosure challenged was made with fraudulent intent or was materially misleading or omissive. The plaintiffs did not appeal this decision.

On or about September 21, 2001, the Company was named in a complaint filed in the Circuit Court for the City of Winchester. The complaint, referred to as the "Bennett complaint," purported to assert a derivative suit for the benefit of the Company against each of its directors. It alleged that during the same period at issue in the securities class action and in violation of applicable state and/or federal laws, the individual defendants caused the Company to issue materially misleading disclosures in order to inflate the Company's stock price and permit insider trading by Robert G. Matheny and Roger A. Wittenberg. The Bennett complaint further alleged that the individual defendants thereby exposed the Company to potential damages in connection with the securities class action. The Bennett complaint sought a constructive trust in favor of the Company over the profits received from the allegedly improper insider sales, as well as an unspecified amount of damages allegedly sustained by the Company, together with attorneys' fees, costs and expenses. No damages or other relief were sought from the Company. On October 19, 2001, the Bennett complaint was removed to the federal court in which the related securities class action was pending. The Bennett complaint was consolidated for pretrial purposes with the securities class action and stayed pending resolution of the motion by defendants to dismiss the securities class action. As described above, the federal district court on May 29, 2002 dismissed the securities class action with prejudice for failure to state a claim. By an order dated November 12, 2002, the federal district court lifted the stay in the Bennett complaint and directed the defendants to respond to the plaintiff's complaint. On November 22, 2002, the individual defendants filed an answer denying the substantive allegations of wrongdoing. On February 6, 2003, the court granted the parties' joint motion to dismiss the Bennett complaint with prejudice.

On December 5, 2001, Ron Nystrom commenced an action against the Company in the United States District Court, Eastern District of Virginia, Norfolk Division, alleging that the Company's decking products infringed his patent. The Company believes that this claim is without merit. The Company denied any liability and filed a counterclaim against the plaintiff for declaratory judgment and antitrust violations based upon patent misuse. The Company sought a ruling that the plaintiff's patent is invalid, that the Company does not infringe the patent, and that the Company is entitled to monetary damages against the plaintiff. On October 17, 2002, the district court issued a final judgment finding that the Company does not infringe any of the plaintiff's patent claims and holding that some of the plaintiff's patent claims are invalid. On November 8, 2002, the plaintiff appealed this decision to the United States Court of Appeals for the Federal Circuit.

Purchase Commitments

The Company fulfills requirements for raw materials under both purchase orders and supply contracts. In 2002, the Company purchased approximately 65% of its polyethylene requirements and approximately 40% of its wood fiber requirements under purchase orders, which do not involve long-term supply commitments. The Company is also party to supply contracts that require it to purchase wood fiber and polyethylene for terms that range from one to eight years. The wood fiber and polyethylene supply contracts have not had any material adverse effect on the Company's business.

If the wood fiber meets certain specifications, the wood fiber supply contracts generally require the Company to purchase at least a specified minimum and at most a specified maximum amount of wood fiber each year. Depending on its needs, the amount of wood fiber that the Company actually orders and purchases within the specified range under any supply contract may vary significantly from year to year. As a result, the amount of wood fiber that the Company purchases under these contracts is not fixed or determinable.

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

During the years ended December 31, 2000, 2001 and 2002, the amounts the Company has been obligated to purchase under polyethylene supply contracts and the minimum amounts the Company has been required to purchase under wood supply contracts have been less than the amounts of these materials needed for production. To meet all of production requirements, the Company obtained additional polyethylene and wood fiber materials under purchase orders and by purchasing wood fiber in excess of the minimum commitments under its supply contracts.

11. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2001 and 2002, the Company purchased approximately \$1.3 million and \$2.1 million of plastic raw material, excluding freight, from Denplax, and paid approximately \$0.8 million and \$0.4 million to one of the Denplax joint venture partners for freight services. The Company had no such transactions in 2000. Receivables from and payables to Denplax were not significant as of December 31, 2000, 2001 and 2002. The carrying value of the Company's investment in Denplax was approximately \$0.2 million at December 31, 2002 and its equity share of method losses from the investment was approximately \$0.3 million for the year then ended.

12. INTERIM FINANCIAL DATA (Unaudited)

	Three Months Ended							
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001	March 31, 2002	June 30 2002	September 30 2002	December 31 2002
	(In thousands, except per share data)							
Net sales	\$ 42,196	\$ 27,727	\$ 29,868	\$ 17,069	\$ 51,996	\$ 45,924	\$ 49,522	\$ 19,637
Gross profit	19,218	11,667	13,152	4,850	19,962	24,248	24,453	7,937
Net income (loss)	7,655	287	3,403	(2,295)	6,420	5,630	6,131	(1,404)
Basic net income (loss) per share	\$ 0.54	0.02	\$ 0.24	\$ (0.16)	\$ 0.45	\$ 0.40	\$ 0.43	\$ (0.10)
Diluted net income (loss) per share	\$ 0.54	0.02	\$ 0.24	\$ (0.16)	\$ 0.45	\$ 0.39	\$ 0.43	\$ (0.10)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TREX COMPANY, INC.

By: _____ /s/ ANTHONY J. CAVANNA

Anthony J. Cavanna
Executive Vice President and Chief
Financial Officer
(Duly Authorized Officer)

Date: March 18, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed as of March 18, 2002 by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
/s/ ROBERT G. MATHENY _____ Robert G. Matheny	President and Director (Principal Executive Officer)
/s/ ANTHONY J. CAVANNA _____ Anthony J. Cavanna	Executive Vice President and Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)
/s/ WILLIAM F. ANDREWS _____ William F. Andrews	Director
/s/ PAUL A. BRUNNER _____ Paul A. Brunner	Director
/s/ ANDREW U. FERRARI _____ Andrew U. Ferrari	Director
/s/ WILLIAM H. MARTIN, III _____ William H. Martin	Director
/s/ PATRICIA B. ROBINSON _____ Patricia B. Robinson	Director
/s/ ROGER A. WITTENBERG _____ Roger A. Wittenberg	Director

CERTIFICATION

I, Robert G. Matheny, certify that:

1. I have reviewed this annual report on Form 10-K of Trex Company, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

/s/ ROBERT G. MATHENY

Robert G. Matheny
President
(Principal Executive Officer)

CERTIFICATION

I, Anthony J. Cavanna, certify that:

1. I have reviewed this annual report on Form 10-K of Trex Company, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003

/s/ ANTHONY J. CAVANNA

**Anthony J. Cavanna, Executive Vice
President and Chief Financial Officer
(Principal Financial Officer)**

EXHIBIT INDEX

Exhibit Number	Exhibit Description
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 Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
4.1	Specimen certificate representing the Company's common stock. Filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
10.1	Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
10.2	Form of Non-Incentive Stock Option Agreement for Officers and Employee Directors under Trex Company, Inc. Amended and Restated 1999 Stock Option and Incentive Plan. Filed herewith.
10.3	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed herewith.
10.4	Form of Non-Incentive Stock Option Agreement for Directors under Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed herewith.
10.5	Description of Annual Bonus Plan. Filed herewith.
10.6	Form of Restricted Stock Agreement under Trex Company, Inc. 1999 Stock Option and Incentive Plan. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 and incorporated herein by reference.
10.7	Registration Rights Agreement, dated as of April 7, 1999, among the Company and each of the persons named on the schedule thereto. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999 and incorporated herein by reference.
10.8	Form of Distributor Agreement of TREX Company, LLC. Filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference.
10.9	Deed of Lease, dated June 15, 2000, between TREX Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
10.10	Note Purchase Agreement, dated as of June 19, 2002, by and among Trex Company, Inc., TREX Company, LLC and the Purchasers listed therein. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
10.11	Credit Agreement, dated as of June 19, 2002, among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia. Filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
10.12	Security Agreement, dated as of June 19, 2002, by and among TREX Company, LLC, Trex Company, Inc. and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.

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10.13	Intercreditor and Collateral Agency Agreement, dated as of June 19, 2002, by and among Noteholders named in Schedule I therein, Branch Banking and Trust Company of Virginia, and Branch Banking and Trust Company of Virginia, as collateral agent. Filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
10.14	Credit Line Deed of Trust, dated June 19, 2002, by and among TREX Company, LLC, as grantor, BB&T-VA Collateral Service Corporation, as trustee, and Branch Banking and Trust Company of Virginia and Branch Banking and Trust Company, as noteholder. Filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on June 25, 2002 (as amended by the Company's Current Report on Form 8-K/A filed on June 28, 2002) and incorporated herein by reference.
21	Subsidiaries of the Company. Filed herewith.
23	Consent of Ernst & Young LLP, Independent Auditors. Filed herewith
99	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). Filed herewith.

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

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

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

1. PURPOSE

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

2. DEFINITIONS

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

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

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

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

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

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

3. ADMINISTRATION OF THE PLAN

3.1. Board

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

3.2. Committee.

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

3.3. Grants.

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

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

3.4. No Liability.

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

3.5. Applicability of Rule 16b-3.

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

4. STOCK SUBJECT TO THE PLAN

4.1. Aggregate Limitation.

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

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

4.2. Other Plan Limits.

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

4.3. Payment Shares.

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

4.4. Application of Aggregate Limitation.

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

4.5. Per-Grantee Limitation.

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

(i) no person eligible for a Grant under Section 6 hereof may be awarded Options for purposes of the Plan exercisable for greater than five hundred

thousand (500,000) shares of Stock (subject to adjustment as provided in Section 18 hereof);

(ii) the maximum number of shares of Unrestricted Stock and Restricted Stock that may be awarded under the Plan (including for this purpose any shares of Stock represented by Restricted Stock Units) to any person eligible for a Grant under Section 12 and 14 hereof is two hundred fifty thousand (250,000) for purposes of the Plan (subject to adjustment as provided in Section 18 hereof);

(iii) the maximum number of shares of Stock that may be the subject of SARs awarded to any Grantee under Section 13 hereof is two hundred fifty thousand (250,000) for purposes of the Plan (subject to adjustment as provided in Section 18 hereof).

5. EFFECTIVE DATE AND TERM OF THE PLAN

5.1. Effective Date.

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

5.2. Term.

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

6. PERMISSIBLE GRANTEES

6.1. Employees and Service Providers.

Subject to the provisions of Section 7 hereof, Grants may be made under the Plan to any employee of the Company or any Subsidiary, including any such employee who is an officer or director of the Company, to an Outside Director, to a Service Provider or employee of a Service Provider providing, or who has provided, services to the Company or any Subsidiary, and to any other individual whose

participation in the Plan is determined by the Board to be in the best interests of the Company, as the Board shall determine and designate from time to time.

6.2. Multiple Grants.

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

7. LIMITATIONS ON GRANTS OF INCENTIVE STOCK OPTIONS

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

8. AWARD AGREEMENT

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

9. OPTION PRICE

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

10. VESTING, TERM AND EXERCISE OF OPTIONS

10.1. Vesting and Option Period.

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

10.2. Term.

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

10.3. Acceleration.

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

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

Unless otherwise provided by the Board or in the Option Agreement, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries other than by reason of death, "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code) or retirement, any Option or portion thereof held by such Grantee that has not vested in accordance with the provisions of Section 10.1 hereof shall terminate immediately, and any Option or portion thereof that has vested in accordance with the provisions of Section 10.1 hereof but has not been exercised shall terminate at the close of business on the 90th day following the Grantee's termination of employment or other relationship (or, if such

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

10.5. Rights in the Event of Death.

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

10.6. Rights in the Event of Disability.

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

10.7. Rights in the Event of Retirement.

Unless otherwise provided by the Board, if a Grantee retires under the terms of any Company retirement plan applicable to the Grantee or as determined by the Board, the Grantee shall be considered retired and all Options granted to such Grantee that have not previously terminated shall fully vest on the date of retirement, and the Grantee shall have the right, at any time within five years after

the date of such Grantee's retirement and prior to termination of the Option pursuant to Section 10.2 hereof, to exercise any Option held by such Grantee at the date of such Grantee's retirement.

10.8 Limitations on Exercise of Option.

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

10.9 Method of Exercise.

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

Option plus the amount (if any) of federal or other taxes which the Company may in its judgment be required to withhold with respect to the exercise of the Option. An attempt to exercise any Option granted hereunder other than as set forth above shall be invalid and of no force and effect.

10.10. Rights as a Stockholder; Dividend Equivalent.

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

10.11. Delivery of Stock Certificates.

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

11. TRANSFERABILITY OF OPTIONS

11.1. General Rule

Except as provided in Section 11.2 hereof, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's guardian or legal representative) may exercise an Option. Except as provided in Section 11.2 hereof, no Option shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

11.2. Family Transfers.

To the extent permitted by the Board and under such rules and conditions as imposed by the Board, a Grantee may transfer all or part of an Option that is not an Incentive Stock Option to (i) any Immediate Family Member, (ii) a trust or trusts

for the exclusive benefit of any Immediate Family Member or (iii) a partnership or limited liability company in which Immediate Family Members are the only partners or members, provided that (x) there may be no consideration for any such transfer, and (y) subsequent transfers of transferred Options or transfers of an interest in a trust, partnership, or limited liability company to which an Option has been transferred are prohibited except those in accordance with this Section 11.2 or by will or the laws of descent and distribution. Following such transfer, any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer, provided that, for purposes of this Section 11.2, the term "Grantee" shall be deemed to refer to the transferee. The events of termination of employment or other relationship referred to in Section 10.4 hereof shall continue to be applied with respect to the original Grantee, following which the Option shall be exercisable by the transferee only to the extent and for the periods specified in Section 10.4, 10.5, 10.6 or 10.7 hereof.

12. RESTRICTED STOCK

12.1. Grant of Restricted Stock or Restricted Stock Units.

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

12.2. Restrictions.

At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Board shall establish a period of time (the "Restricted Period") applicable to such Restricted Stock or Restricted Stock Units. Unless otherwise determined by the Board, unless the Grant is being made in consideration of compensation due under another plan, or unless vesting is subject to performance, the Restricted Period will be a minimum of three years. Each Grant of Restricted Stock or Restricted Stock Units may be subject to a different Restricted Period. At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Board may, in its sole discretion, prescribe restrictions in addition to or other than the expiration of the Restricted Period, including the satisfaction of corporate or individual performance objectives, which may be applicable to all or any portion of the Restricted Stock or Restricted Stock Units. Such performance objectives shall be established in writing by the Board by not later than the 90th day of the period of service to which such performance objectives relate and while the outcome is substantially uncertain. Performance objectives may be stated either on an absolute or relative basis and may be based on any of the following criteria: earnings per share, total stockholder return, operating earnings, growth in assets, return on equity, return on capital, market share, stock price, net income, cash flow, sales growth (in general, by type of product and by type of customer), retained earnings, completion of acquisitions, completion of divestitures and asset sales, cost or expense reductions, introduction

or conversion of product brands and achievement of specified management information systems objectives. Performance objectives may include positive results, maintaining the status quo or limiting economic losses. Subject to the fifth sentence of this Section 12.2, the Board also may, in its sole discretion, shorten or terminate the Restricted Period or waive any other restrictions applicable to all or a portion of the Restricted Stock or Restricted Stock Units. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Board with respect to such Restricted Stock or Restricted Stock Units.

12.3. Restricted Stock Certificates.

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

12.4. Rights of Holders of Restricted Stock.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock shall have the right to vote such shares of Stock and the right to receive any dividends declared or paid with respect to such shares of Stock. The Board may provide that any dividends paid on Restricted Stock must be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares or other similar transaction shall be subject to the restrictions applicable to the original Grant.

12.5. Rights of Holders of Restricted Stock Units.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Stock Units shall have no rights as stockholders of the Company. The Board may provide in an Award Agreement evidencing a Grant of Restricted Stock Units that the holder of such Restricted Stock Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Restricted Stock Unit held equal to the per-share dividend

paid on the shares of Stock. Such Award Agreement may also provide that such cash payment will be deemed reinvested in additional Restricted Stock Units at a price per unit equal to the Fair Market Value of a share on the date that such dividend is paid.

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

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

12.7. Rights in the Event of Death.

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

12.8. Rights in the Event of Disability.

Unless otherwise provided by the Board, if a Grantee's employment or other relationship with the Company or a Service Provider, or service as a Service

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

12.9. Delivery of Shares and Payment Therefor.

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

13. STOCK APPRECIATION RIGHTS

13.1. Grant of Stock Appreciation Rights.

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

13.2. Nature of a Stock Appreciation Right.

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

13.3. Terms and Conditions Governing SARs.

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

shall be in tandem or in combination with any other Grant, and any other terms and conditions of any SAR.

14. UNRESTRICTED STOCK

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

15. PARACHUTE LIMITATIONS

If the Grantee is a "disqualified individual" (as defined in Section 280G(c) of the Code), any Option, Restricted Stock, Restricted Stock Unit or SAR and any other right to receive any payment or benefit under the Plan shall not vest or become exercisable (i) to the extent that the right to vest or any other right to any payment or benefit, taking into account all other rights, payments or benefits to or for the Grantee, would cause any payment or benefit to the Grantee under the Plan to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under any Award Agreements, the Plan, and all other rights, payments or benefits to or for the Grantee would be less than the maximum after-tax amount that could be received by the Grantee without causing the payment or benefit to be considered a Parachute Payment. In the event that, but for the provisions of this Section 15, the Grantee would be considered to have received a Parachute Payment under any Award Agreements that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then the Grantee shall have the right, in the Grantee's sole discretion, to designate any rights, payments or benefits under any Award Agreements, the Plan, any other agreements and any benefit arrangements to be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under any Award Agreements be deemed to be a Parachute Payment.

16. REQUIREMENTS OF LAW

16.1. General.

The Company shall not be required to sell or issue any shares of Stock under any Grant if the sale or issuance of such shares of Stock would constitute a violation by the Grantee, any other person exercising a right emanating from such Grant, or the Company of any provision of any law or regulation of any governmental authority, including, without limitation, any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the

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

16.2. Rule 16b-3.

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

17. AMENDMENT AND TERMINATION OF THE PLAN

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

18. EFFECT OF CHANGES IN CAPITALIZATION

18.1. Changes in Stock.

Subject to Section 18.2 hereof, in the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, spin-off, split-up, share combination or other change in the corporate structure of the Company affecting the shares of Stock, (a) such adjustment may be made in the number and class of shares which may be delivered under Section 4 hereof and the Grant limits under Section 4 hereof, and in the number and class of or price of shares subject to outstanding Grants as may be determined to be appropriate and equitable by the Board, in its sole discretion, to prevent dilution or enlargement of existing rights; and (b) the Board or, if another legal entity assumes the obligations of the Company hereunder, the board of directors, compensation committee or similar body of such other legal entity shall either (i) make appropriate provision for the protection of outstanding Grants by the substitution on an equitable basis of appropriate equity interests or awards similar to the Grants, provided that the substitution neither enlarges nor diminishes the value and rights under the Grants, or (ii) upon written notice to the Grantees, provide that Grants shall be exercised distributed, canceled or exchanged for value pursuant to such terms and conditions (including the waiver of any existing terms or conditions) as shall be specified in the notice. Any adjustment of an Incentive Stock Option under this Section 18.1 shall be made in such a manner so as not to constitute a "modification" within the meaning of Section 424(h)(3) of the Code. The conversion of any convertible securities of the Company shall not be treated as a change in the corporate structure of the Company affecting the shares of Stock. Subject to any contrary language in an Award Agreement evidencing a Grant of Restricted Stock, any restrictions applicable to such Restricted Stock shall apply as well to any replacement shares received by the Grantee as a result of the merger, reorganization or other transaction referred to in this Section 18.1.

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

Upon the dissolution or liquidation of the Company or upon a merger, consolidation or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, or upon a sale of substantially all of

the assets of the Company to another entity, or upon any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving entity) approved by the Board that results in any person or entity (or person or entities acting as a group or otherwise in concert) owning eighty percent (80%) or more of the combined voting power of all classes of securities of the Company, (i) all outstanding Restricted Stock and Restricted Stock Units shall be deemed to have vested, and all restrictions and conditions applicable to such Restricted Stock and Restricted Stock Units shall be deemed to have lapsed, immediately prior to the occurrence of such transaction, and (ii) all Options and SARs outstanding hereunder shall become immediately exercisable for a period of fifteen days immediately prior to the scheduled consummation of such transaction. Any exercise of an Option or SAR during such fifteen-day period shall be conditioned upon the consummation of the transaction and shall be effective only immediately before the consummation of the transaction.

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

18.3. Adjustments.

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

18.4. No Limitations on Company.

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

19. DISCLAIMER OF RIGHTS

No provision in the Plan or in any Grant or Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any affiliate thereof, or to interfere in any way with any contractual or other right or authority of the Company or Service Provider either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any affiliate thereof. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement or employment agreement, no Grant awarded under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a director, officer, consultant or employee of the Company. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any participant or beneficiary under the terms of the Plan. No Grantee shall have any of the rights of a stockholder with respect to the shares of Stock subject to an Option or SAR except to the extent such shares of Stock shall have been issued upon the exercise of the Option or SAR.

20. NONEXCLUSIVITY OF THE PLAN

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive

compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable, including, without limitation, the granting of Stock options otherwise than under the Plan.

21. WITHHOLDING TAXES

The Company or a Subsidiary, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to Restricted Stock or Restricted Stock Units or upon the exercise of an Option or SAR or the grant of Unrestricted Stock. At the time of such vesting, lapse or exercise, the Grantee shall pay to the Company or the Subsidiary, as the case may be, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, which may be withheld by the Company or the Subsidiary, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold shares of Stock otherwise issuable to the Grantee or (ii) by delivering to the Company or the Subsidiary shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 21 may satisfy such Grantee's withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirement.

22. CAPTIONS

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

23. OTHER PROVISIONS

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

24. NUMBER AND GENDER

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

25. SEVERABILITY

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

26. GOVERNING LAW

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

* * * *

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

Grant Date: _____ Stock Option Exercise Price:
Last Date to Exercise: _____ /1/

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

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

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

Name:
Title:

ACCEPTED AND AGREED TO:

Employee Name

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

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

1. Vesting:

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

2. Exercise:

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

3. Service Requirements and Termination of Option:

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

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

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

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

4. Taxes and Withholding:

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

5. Transferability:

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

6. Non-Competition With the Company:

Covenants of the Optionee. By accepting the benefits of this Agreement, the Optionee acknowledges that (i) the principal business of the Company is the manufacturing and sale of wood-plastic composite lumber (the "Present Business"); (ii) the Optionee constitutes one of a limited number of persons who have developed the Present Business; (iii) the Optionee's work for the Company has given and will continue to give the Optionee access to the confidential affairs and proprietary information of the Company not readily available to the public; and (iv) the agreements and covenants of the Optionee contained in this Section 6 are essential to the business and goodwill of the Company. Accordingly, in consideration of the benefits being provided by this Agreement, the Optionee is subject to the agreements and covenants set forth in this Section 6.

Covenant Against Competition. While the Optionee is employed by the Company and for a period of one (1) year after the termination of the Optionee's employment with the Company for any reason (such period commencing on the date hereof is hereinafter referred to as the "Restricted Period"), the Optionee shall not, directly or indirectly, own, manage, operate, join or control, or participate in the ownership, management, operation or control of, or be a proprietor, director, officer, stockholder, member, partner or an employee or agent of, or a consultant to any business, firm, corporation, partnership or other entity which engages in (A) the Present Business, or (B) any other principal line of business developed by the Company after the date hereof but prior to the date of termination of Optionee's employment with the Company (a "New Business") in any state of the United States and Canada; provided, however, that the Optionee may own, directly or indirectly, solely as an investment, securities of any business, firm, corporation, partnership or other entity which are traded on any national securities exchange or the Nasdaq National Market if the Optionee (A) is not a controlling person of, or a member of a group which controls, such entity and (B) does not, directly or indirectly, own 1% or more of any class of securities of such entity.

Confidential Information. From and after the date of this Agreement, the Optionee shall not at any time, directly or indirectly, disclose to any person, business, firm, corporation, partnership or other entity any confidential or proprietary information concerning the Company, its business, its suppliers or its customers. All information, whether written or otherwise, regarding the Company's business, including, but not limited to, information regarding customers, customer lists, costs, prices, earnings, systems, operating procedures, prospective and executed contracts and other business arrangements, and sources of supply are presumed to be confidential information of the Company for purposes of this Agreement. The Optionee shall return to the Company all books, records, lists and other written, typed or printed materials, whether furnished by the Company or prepared by the Optionee, which contain any information relating to the Company, its business, its suppliers or its customers, promptly upon termination of the Optionee's service with the Company, and the Optionee shall neither make nor retain any copies of such material without the prior written consent of the Company.

Cumulative Provisions. The covenants and agreements contained in this Section 6 are independent of each other and are cumulative.

Acknowledgments. By accepting the benefits of this Agreement, the Optionee acknowledges the broad scope of the covenants contained in this Section 6, but agrees that such covenants are reasonable in light of the scope of the Optionee's duties and knowledge of the Company. The Optionee further acknowledges and agrees that the covenants contained in this Section 6 do not unreasonably restrict his employment opportunities or unduly burden or deprive the Optionee of a means of earning a livelihood.

Remedies for Breach. By accepting the benefits of this Agreement, the Optionee acknowledges and agrees that his obligations to the Company are unique and that any breach or threatened breach of such obligations may result in irreparable harm and substantial damages to the Company. Accordingly, in the event of a breach or threatened breach by the Optionee of any of the provisions of this Section 6, the Company shall have the right, in addition to exercising any other remedies at law or equity which may be available to it under this Agreement or otherwise, to obtain ex parte, preliminary, interlocutory, temporary or permanent injunctive relief, specific performance and other equitable remedies in any court of competent jurisdiction, to prevent the Optionee from violating such provision or provisions or to prevent the continuance of any violation thereof, together with an award or judgment for any and all damages, losses, liabilities, expenses and costs incurred by the Company as a result of such breach or threatened breach including, but not limited to, attorneys' fees incurred by the Company in connection with, or as a result of, the enforcement of these covenants. The Optionee expressly waives any

requirement based on any statute, rule or procedure or other source that the Company post a bond as a condition of obtaining any of the above-described remedies. In addition to the foregoing remedies, if the Optionee should take actions in competition with the Company, as specified in this Section 6, the Company shall have the right to cause a forfeiture of the rights of the Optionee, including, but not limited to, the right to cause the Optionee to forfeit: (i) any outstanding

Option, and (ii) any gain recognized by the Optionee upon the exercise of an Option during the period commencing twelve (12) months prior to the Optionee's termination of employment or other relationship with the Company due to taking actions in competition with the Company and ending twelve (12) months following such termination of employment or other relationship.

Divisibility. By accepting the benefits of this Agreement, the Optionee agrees that the provisions of this Section 6 are divisible and separable so that if any provision or provisions hereof shall be held to be unreasonable, unlawful or unenforceable, such holding shall not impair the remaining provisions hereof. If any provision hereof is held to be unreasonable, unlawful or unenforceable in duration, geographical scope or character of restriction by any court of competent jurisdiction, such provision shall be modified to the extent necessary in order that any such provision or portion thereof shall be legally enforceable to the fullest extent permitted by law, and the parties hereto do hereby expressly authorize any court of competent jurisdiction to enforce any such provision or portion thereof or to modify any such provision or portion thereof in order that any such provision or portion thereof shall be enforced by such court to the fullest extent permitted by applicable law.

Definition of the Company. For the purposes of this Section 6 only, any reference to the "Company" shall be deemed to include the Company, any division, affiliate or subsidiary of the Company and any and all subsidiaries, divisions or affiliates acquired or formed by any of such entities after the date hereof.

Non-Integration. The provisions of this Section 6 shall be independent of any similar provisions contained in any employment agreement, stock option agreement or other agreement between an Optionee and the Company.

* * * * *

TREX COMPANY, INC.

AMENDED AND RESTATED
1999 INCENTIVE PLAN FOR OUTSIDE DIRECTORS

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DEFINITIONS

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

- 1.1 "Annual Director Fee" means an annual fee earned by an Eligible Director for service on the Board of Directors.
- 1.2 "Board of Directors" or "Board" means the Board of Directors of the Company.
- 1.3 "Committee" means the Administrative Committee which administers the Plan.
- 1.4 "Common Stock" means the common stock, par value \$0.01 per share, of the Company.
- 1.5 "Company" means Trex Company, Inc., a Delaware corporation, or any successor thereto.
- 1.6 "Election Form" means the form used by an Eligible Director to elect to receive all or a portion of his Annual Director Fee for a Plan Year in the form of Options.
- 1.7 "Eligible Director" for each Plan Year means a member of the Board of Directors who is not an employee of the Company or any Subsidiary.
- 1.8 "Fair Market Value" means the closing price of a share of Common Stock reported on the New York Stock Exchange (the "NYSE") on the date Fair Market Value is being determined, provided that if there is no closing price reported on such date, the Fair Market Value of a share of Common Stock on such date shall be deemed equal to the closing price as reported by the NYSE for the last preceding date on which sales of shares of Common Stock were reported. Notwithstanding the foregoing, in the event that the shares of Common Stock are listed upon more than one established stock exchange, "Fair Market Value" means the closing price of the shares of Common Stock reported on the exchange that trades the largest volume of shares of Common Stock on the date Fair Market Value is being determined. If the Common Stock is not at the time listed or admitted to trading on a stock exchange, Fair Market Value means the mean between the lowest reported bid price and highest reported asked price of the Common Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Board and regularly reporting the market price of Common Stock in such market. If the Common Stock is not listed or admitted to trading on any stock exchange or traded in

the over-the-counter market, Fair Market Value shall be as determined in good faith by the Board.

- 1.9 "Grant Date" has the meaning set forth in Section 0 hereof.
- 1.10 "Option" means a non-qualified Option granted pursuant to the Trex Company, Inc. 1999 Stock Option and Incentive Plan.
- 1.11 "Option Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the Option.
- 1.12 "Option Price" has the meaning set forth in Section 0 hereof.
- 1.13 "Participant" for any Plan Year means an Eligible Director who participates in the Plan for that Plan Year in accordance with Section 0 hereof.
- 1.14 "Plan" means the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors as set forth herein and as amended from time to time.
- 1.15 "Plan Year" means each fiscal year of the Company.
- 1.16 "Subsidiary" means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended.

PURPOSE

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

SHARES SUBJECT TO THE PLAN

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

ANNUAL DIRECTOR FEES

General

Each Eligible Director shall be entitled to an Annual Director Fee which is equal in value to twenty-five thousand dollars (\$25,000); provided, however, that such Annual Director Fee may be adjusted by the Board. The Cash Portion of the Annual Director Fee as defined in Section 0 hereof (after reduction pursuant to

Section 0 hereof) shall be paid to an Eligible Director in four equal quarterly installments in arrears on the first business day of each quarter of the Plan Year in which the Eligible Director is providing services to the Company.

Form of Annual Fee

The Annual Director Fee shall be paid in the form of: (i) an Option representing fifty percent (50%) of the value of the Annual Director Fee and (ii) cash representing fifty percent (50%) of the value of the Annual Director Fee (the "Cash Portion of the Annual Director's Fee"); provided, however, that pursuant to Section 0 hereof, the Eligible Director may elect to receive all or a portion of the Cash Portion of the Annual Director's Fee in the form of an Option of equal value.

Valuation of Options

The value of all Options to be issued under the Plan shall be determined pursuant to the Black-Scholes stock option valuation model.

GRANT DATE

The date of grant for Options granted under the Plan (the "Grant Date") shall be the first day of the Plan Year.

OPTION PRICE

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

TERM OF OPTIONS

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

VESTING OF OPTIONS

On the first anniversary of the Grant Date, the Option shall be exercisable in respect of 100 percent (100%) of the number of shares covered by the grant. Any limitation on the exercise of an Option contained in any Option Agreement may be rescinded, modified or waived by the Committee, in its sole discretion, at any time and from time to time after the date of grant of such Option. The Option shall be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option.

SERVICE TERMINATION

Except as otherwise provided in the Option Agreement, upon the termination of service (a "Service Termination") of the Participant as a director of the Company for any reason, any Option granted to a Participant pursuant to the Plan shall become vested, and the Participant shall have the right, at any time within five years after the date of such Participant's Service Termination and prior to termination of the Option pursuant to Section 0 hereof, to exercise any Option held by such Participant at the date of such Participant's Service Termination. After the termination of the Option, the Participant shall have no further right to purchase shares of Common Stock pursuant to such Option.

ELECTION TO RECEIVE ADDITIONAL OPTIONS

Election Form

A Participant who wishes to be receive all or part of the Cash Portion of the Annual Director Fee in the form of Options shall file an Election Form with the Company, in the form and manner prescribed by the Committee. Filing of a completed Election Form will authorize the Company to issue Options to the Participant in lieu of all or part of the Cash Portion of the Annual Director Fee, in accordance with the Participant's instructions on the Election Form. Options issued pursuant to an election made under this Section 0 shall vest in accordance with the schedule set forth in Section 0 hereof.

Time for Filing Election Form

An Election Form shall be completed and filed by each newly elected Eligible Director within thirty (30) days after the Participant's election to the Board, and elections under the Plan made by newly elected Eligible Directors shall apply to the Participant's Annual Director Fee for the remainder of the Plan Year. Continuing Directors shall complete an Election Form prior to the last day of the Plan Year for an Annual Director Fee earned in the next succeeding Plan Year.

Modification of the Election Form

An election made by an Eligible Director pursuant to Section 0 hereof shall be irrevocable for the Plan Year for which such election is made.

ADMINISTRATION

Committee

The general administration of the Plan and the responsibility for carrying out its provisions shall be placed in an Administrative Committee. The Committee shall consist of at least two members appointed from time to time by the

Board of Directors to serve at the pleasure thereof. The initial Administrative Committee shall consist of the President and the Chief Financial Officer of the Company. Any member of the Committee may resign by delivering a written resignation to the Company, and may be removed at any time by action of the Board of Directors.

Rules for Administration

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

Committee Action

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

Delegation

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

Services

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

Indemnification

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

AMENDMENT AND TERMINATION

The Company, by action of the Board of Directors or the Administrative Committee, may at any time or from time to time modify or amend any or all of the provisions of the Plan, or may at any time terminate the Plan.
No

such action shall adversely affect the accrued rights of any Participant hereunder without the Participant's consent thereto.

GENERAL PROVISIONS

Limitation of Rights

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

No Rights as Stockholders

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

Rights as a Non-Employee Director

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

Assignment, Pledge or Encumbrance

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

Binding Provisions

The provisions of this Plan shall be binding upon each Participant as a consequence of the Participant's election to participate in the Plan, upon the Company, upon the Participant's heirs, executors and administrators and upon the successors and assigns of the Participant and the Company.

Notices

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

Governing Law

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

Withholding

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

Effective Date

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

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

Grant Date: _____ Stock Option Exercise Price: \$_____ Last Date to Exercise: _____ /1/

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

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

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

Name:
Title:

ACCEPTED AND AGREED TO:

Name of Optionee:

This is not a stock certificate or a negotiable instrument. Transferable only pursuant to Section 11.2 of the Company's Amended and Restated 1999 Stock Option and Incentive Plan.

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

1. Vesting:

Subject to the terms of the Plan, the Option becomes vested as to 100% of the shares of Stock purchasable pursuant to the Option on the first anniversary of the date of grant of the Option, if Optionee has been providing services to the Company or a Subsidiary continuously from the Option's date of grant to the first anniversary of the date of grant. Notwithstanding the foregoing, if you terminate service as a Director with the Company and such termination is not for Cause, the Option shall become 100% vested upon your termination.

2. Exercise:

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

3. Option Termination:

Your Option will terminate immediately upon termination of your service for "Cause." If your service terminates for a reason other than for Cause, the Option will expire five (5) years after your termination, or, if earlier, immediately after the Last Date to Exercise. "Cause" means, as determined by the Board, (i) gross negligence or willful misconduct in connection with the performance of duties; (ii) conviction of a felony or of a crime involving moral turpitude; or (iii) material breach of any term of any employment, consulting or other services, confidentiality, intellectual property or non-competition agreements.

4. Taxes and Withholding:

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

5. Transferability:

The Option may be transferred in a manner consistent with Section 11.2 of the Company's Amended and Restated 1999 Stock Option and Incentive Plan.

* * * * *

TREX COMPANY, INC.

DESCRIPTION OF ANNUAL BONUS PLAN

Trex Company, Inc. (the "Company") maintains an annual discretionary incentive bonus plan for the benefit of its executive officers, other officers, managers and certain other key employees of the Company. Potential bonuses are specified as a percentage of the employees' annual base salary or salary range midpoint, depending on grade level. Such percentage levels are approved by the Compensation Committee of the Board of Directors annually. Bonuses are paid in the form of cash awards and stock options (valued based upon the Black-Scholes valuation model). At the beginning of each fiscal year, the Compensation Committee sets the financial objectives that the Company must achieve for individuals to qualify for bonus payments.

Subsidiaries of the Company

Name of Subsidiary -----	Jurisdiction of Formation -----
Winchester Capital, Inc.	Virginia
Trex Wood-Polymer Espana, S.L.	Spain

Consent of Ernst & Young LLP, Independent Auditors

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

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

of our report dated February 14, 2003, with respect to the consolidated financial statements of Trex Company, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

McLean, Virginia
March 17, 2003

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

- (a) the Annual Report on Form 10-K of the Company for the Year Ended December 31, 2002 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
(Chief Executive Officer)
March 18, 2003

/s/ Anthony J. Cavanna

Anthony J. Cavanna
Executive Vice President and Chief Financial
Officer
March 18, 2003