SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended June 30, 2000

OR

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

For the transition period from ____________________ to ____________________

Commission File Number: 001-14649

Trex Company, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 54-1910453 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 20 South Cameron Street<br>Winchester, Virginia | 22601 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (540) 678-4070

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [_]

The number of shares of the registrant's common stock, par value $.01 per share, outstanding at August 10, 2000 was 14,133,052 shares.

TREX COMPANY, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

TREX COMPANY, INC.

Consolidated Balance Sheets

| | December 31,1999 | June 30, 2000 (unaudited) |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ -- | $ -- |
| Trade accounts receivable | 1,266,000 | 5,153,000 |
| Inventories | 8,668,000 | 5,945,000 |
| Prepaid expenses and other assets | 1,057,000 | 1,548,000 |
| Deferred income taxes | 360,000 | -- |
| Total current assets | 11,351,000 | 12,646,000 |
| Property, plant, and equipment, net | 59,489,000 | 81,039,000 |
| Intangible assets, net | 8,252,000 | 7,792,000 |
| Other | 211,000 | 667,000 |
| Total Assets | $79,303,000 | $102,144,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Trade accounts payable | $ 6,416,000 | $ 9,635,000 |
| Accrued expenses | 1,737,000 | 1,043,000 |
| Income taxes payable | 117,000 | 1,782,000 |
| Other current liabilities | 1,163,000 | 1,358,000 |
| Line of credit | 5,714,000 | 10,570,000 |
| Current portion of long-term debt | 385,000 | 399,000 |
| Total current liabilities | 15,532,000 | 24,787,000 |
| Deferred income taxes | 3,532,000 | 4,052,000 |
| Long-term debt | 10,838,000 | 10,612,000 |
| Total Liabilities | 29,902,000 | 39,451,000 |
| Stockholders' Equity: | | |
| Preferred stock, $0.01par value, 3,000,000 shares authorized; none issued and outstanding | -- | -- |
| Common stock, $0.01 par value, 40,000,000 shares authorized; 14,120,572 and 14,131,324 shares issued and outstanding | 141,000 | 141,000 |
| Additional capital | 40,992,000 | 41,146,000 |
| Retained earnings | 8,268,000 | 21,406,000 |
| Total Stockholders' Equity | 49,401,000 | 62,693,000 |
| Total Liabilities and Stockholders' Equity | $79,303,000 | $102,144,000 |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED).

TREX COMPANY, INC.

Consolidated Statements of Operations
(unaudited)

| | Three Months Ended June 30, 1999 | Three Months Ended June 30, 2000 | Six Months Ended June 30, 1999 | Six Months Ended June 30, 2000 |
|---|---|---|---|---|
| Net sales | $19,775,000 | $35,556,000 | $42,140,000 | $73,620,000 |
| Cost of sales | 8,254,000 | 17,543,000 | 18,196,000 | 37,445,000 |
| Gross profit | 11,521,000 | 18,013,000 | 23,944,000 | 36,175,000 |
| Selling, general and administrative expenses | 6,905,000 | 7,940,000 | 10,969,000 | 14,450,000 |
| Income from operations | 4,616,000 | 10,073,000 | 12,975,000 | 21,725,000 |
| Interest income | 14,000 | 2,000 | 33,000 | 2,000 |
| Interest expense | (301,000) | (265,000) | (1,120,000) | (542,000) |
| Income before taxes | 4,329,000 | 9,810,000 | 11,888,000 | 21,185,000 |
| Income taxes | 4,279,000 | 3,729,000 | 4,279,000 | 8,047,000 |
| Income before extraordinary item | 50,000 | 6,081,000 | 7,609,000 | 13,138,000 |
| Extraordinary loss on early extinguishment of debt | (1,056,000) | -- | (1,056,000) | -- |
| Net (loss) income | $(1,006,000) | $ 6,081,000 | $ 6,553,000 | $13,138,000 |
| Basic earnings per common share | | | | |
| Income before extraordinary item | $ -- | $ 0.43 | $ 0.65 | $ 0.93 |
| Extraordinary item | (0.07) | -- | (0.09) | -- |
| Net (loss) income | $ (0.07) | $ 0.43 | $ 0.56 | $ 0.93 |
| Weighted average basic shares outstanding | 13,591,336 | 14,128,437 | 11,556,970 | 14,125,502 |
| Diluted earnings per common share | | | | |
| Income before extraordinary item | $ -- | $ 0.43 | $ 0.65 | $ 0.92 |
| Extraordinary item | (0.07) | -- | (0.09) | -- |
| Net (loss) income | $ (0.07) | $ 0.43 | $ 0.56 | $ 0.92 |
| Weighted average diluted shares outstanding | 13,639,398 | 14,227,860 | 11,581,001 | 14,206,265 |
| Pro forma data (unaudited, see Note 7): | | | | |
| Historical income before taxes and extraordinary item | $ 4,329,000 | | $11,888,000 | |
| Pro forma income taxes | (1,732,000) | | (4,755,000) | |
| Pro forma net income | $ 2,597,000 | | $ 7,133,000 | |
| Pro forma basic earnings per share | $ 0.19 | | $ 0.62 | |
| Pro forma diluted earnings per share | $ 0.19 | | $ 0.62 | |
| Pro forma weighted average basic common shares outstanding | 13,591,336 | | 11,556,970 | |
| Pro forma weighted average diluted common shares outstanding | 13,639,398 | | 11,581,001 | |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED).

TREX COMPANY, INC.

Consolidated Statements of Cash Flows
(unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1999 | 2000 |
| **Operating Activities** | | |
| Net income | $ 6,553,000 | $ 13,138,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Extraordinary loss on early prepayment of debt | 1,056,000 | -- |
| Deferred income taxes | 3,613,000 | 880,000 |
| Depreciation and amortization | 1,902,000 | 3,195,000 |
| Amortization of deferred financing charges | 13,000 | -- |
| Loss on disposal of property, plant and equipment | 156,000 | -- |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (4,347,000) | (3,887,000) |
| Inventories | 3,777,000 | 2,723,000 |
| Prepaid expenses and other assets | 333,000 | (1,011,000) |
| Trade accounts payable | 884,000 | 3,219,000 |
| Accrued expenses | 123,000 | (694,000) |
| Income taxes payable | -- | 1,665,000 |
| Other current liabilities | (778,000) | 195,000 |
| Net cash provided by operating activities | 13,285,000 | 19,423,000 |
| **Investing Activities** | | |
| Expenditures for property, plant and equipment | (15,903,000) | (24,221,000) |
| Net cash used in investing activities | (15,903,000) | (24,221,000) |
| **Financing Activities** | | |
| Borrowings under mortgages and notes | 4,570,000 | -- |
| Principal payments under mortgages and notes | (27,883,000) | (212,000) |
| Borrowings under line of credit | -- | 12,748,000 |
| Principal payments under line of credit | -- | (7,892,000) |
| Proceeds from exercise of employee stock purchase and option plan grants | -- | 154,000 |
| Proceeds from initial public offering | 41,055,000 | -- |
| Preferred distributions paid | (3,115,000) | -- |
| Common distributions paid | (12,766,000) | -- |
| Net cash provided by financing activities | 1,861,000 | 4,798,000 |
| Net increase (decrease) in cash and cash equivalents | (757,000) | -- |
| Cash and cash equivalents at beginning of period | 1,200,000 | -- |
| Cash and cash equivalents at end of period | $ 443,000 | $ -- |

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED).

TREX COMPANY, INC.

Notes to Consolidated Financial Statements
For The Three and Six Months Ended June 30, 1999 and 2000 (Unaudited)

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (the "Company"), 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, in connection with an initial public offering ("IPO") of the Company's common stock. The Company had no operations or activity from inception on September 4, 1998 through April 7, 1999, immediately prior to the Reorganization described below. The IPO was consummated on April 13, 1999. On March 22, 1999, the Company amended its certificate of incorporation to increase its authorized capital to 40,000,000 shares of common stock (the "Common Stock") and 3,000,000 shares of preferred stock. All references in the accompanying balance sheets have been restated to reflect the increase in the Company's authorized capital.

TREX Company, LLC manufactures and distributes wood/plastic composite products primarily for residential and commercial decking applications. Trex Wood-Polymer(TM) lumber ("Trex") is manufactured in a proprietary process that combines waste wood fibers and reclaimed polyethylene. TREX Company, LLC is a limited liability company formed under the laws of the State of Delaware on July 1, 1996 (inception). It initiated commercial activity on August 29, 1996. On August 29, 1996, TREX Company, LLC acquired substantially all of the assets and assumed certain liabilities of the Composite Products Division of Mobil Oil Corporation for a cash purchase price of approximately $29.5 million. The acquisition was accounted for using the purchase accounting method.

Reorganization

Trex Company, Inc., TREX Company, LLC and the holders of membership interests in TREX Company, LLC completed certain transactions (the "Reorganization") on April 7, 1999, prior to the consummation of the IPO. In the Reorganization, the junior members of TREX Company, LLC contributed their membership interests to Trex Company, Inc. in exchange for 9,500,000 shares of Common Stock of Trex Company, Inc. Concurrently with such exchange, the preferred member of TREX Company, LLC exchanged its preferred membership interest for a $3.1 million note of Trex Company, Inc. As a result of such exchanges, TREX Company, LLC became a wholly owned subsidiary of Trex Company, Inc. The Company has accounted for the Reorganization as an exchange of shares between entities under common control at historical cost in a manner similar to a pooling of interests. After the Reorganization, the ownership percentage of each Trex Company, Inc. common stockholder was the same as its ownership percentage in the junior membership interests of TREX Company, LLC.

As part of the Reorganization, the Company made a special cash distribution (the "LLC Distribution") to its junior members in the amount of $12.6 million, of which $6.7 million was paid prior to the consummation of the IPO. The Company finalized its determination of amounts due to the junior members for the LLC Distribution in July 1999 and distributed an additional $822,000 in the third quarter of 1999. A deferred income tax liability of $2.6 million was recognized as a result of the conversion of TREX Company, LLC in the Reorganization from a partnership for federal income tax purposes to a corporation taxed in accordance with Subchapter C of the Internal Revenue Code (a "C corporation").

Immediately prior to the Reorganization, TREX Company, LLC exercised an option to repurchase 667 units of junior membership interest from certain members at a price of $.01 per unit.

Initial Public Offering

In the IPO, the Company sold 4,615,450 shares of Common Stock at a public offering price of $10.00 per share. Of such shares, the Company sold 4,000,000 shares on April 13, 1999 and 615,450 shares on May 6, 1999 pursuant to the underwriters' exercise in full of their over-allotment option. The net proceeds from the IPO, after deducting underwriting discounts and commissions and offering expenses payable by the Company, totaled approximately $41.1 million. The net proceeds of approximately $35.5 million from the sale of shares on April 13, 1999 were used as follows: approximately $28.1 million was used to repay approximately $26.3 million of senior and subordinated notes, accrued interest thereon and a related prepayment premium of approximately $1.5 million; approximately $3.1 million was used to repay the note issued to the preferred member of TREX Company, LLC in the Reorganization; and approximately $4.3 million was used to fund a portion of the LLC Distribution. The net proceeds of approximately $5.6 million from the over-allotment exercise were used as follows: approximately $4.4 million was used to repay borrowings under the Company's revolving credit facility and approximately $1.2 million was used for working capital and general corporate purposes.

## 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the accompanying consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normally recurring accruals) considered necessary for a fair presentation have been included in the accompanying consolidated financial statements. The consolidated results of operations for the three-month and six-month periods ended June 30, 2000 are not necessarily indicative of the results that may be expected for the full fiscal year. These consolidated financial statements should be read in conjunction with the consolidated audited financial statements as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in the annual report of Trex Company, Inc. on Form 10-K (File No. 001-14649), as filed with the Securities and Exchange Commission.

## 3. INVENTORY

Inventories consist of the following:

| | December 31, 1999 | June 30, 2000 |
|---|---|---|
| | | (unaudited) |
| Finished goods.......................... | $7,599,000 | $3,233,000 |
| Raw materials........................... | 1,069,000 | 2,712,000 |
| | $8,668,000 | $5,945,000 |

## 4. DEBT

On June 30, 2000, the Company and the lender revised the terms of the Company's bank revolving credit agreement primarily to increase the maximum amount of borrowings available to the Company. The terms of the new revolving credit facility provide for borrowings of up to $50.0 million on an unsecured basis for working capital and general corporate purposes. Amounts drawn under the revolving credit facility bear interest at an annual rate equal to LIBOR plus 1.00%. The facility will mature on June 30, 2003. The new facility replaced a $10.0 million unsecured line of credit and a $7.5 million term loan facility secured by certain equipment. The facility agreement contains restrictive and financial covenants and is subject to a commitment fee on the unused balance.

On September 30, 1999, the Company refinanced two loans with which it financed the site acquisition and construction of the Company's second manufacturing facility located in Nevada with a 15-year term loan in the original principal amount of $6.7 million. Pursuant to an interest rate swap, interest on this loan is payable at an annual rate of 7.90%.

In May 2000, the Company financed its purchase of a site adjacent to its existing Winchester, Virginia manufacturing facility through borrowings under its revolving credit facility.

5. STOCKHOLDERS' EQUITY

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 2000 | 1999 | 2000 |
| Numerator: | | | | |
| Income before extraordinary item.................................... | $ 50,000 | $ 6,081,000 | $ 7,609,000 | $13,138,000 |
| Preferred dividends................................................ | (13,000) | -- | (115,000) | -- |
| | 37,000 | 6,081,000 | 7,494,000 | 13,138,000 |
| Extraordinary item................................................. | (1,056,000) | -- | (1,056,000) | -- |
| Net (loss) income available to common shareholders, basic and diluted.......................................................... | $(1,019,000) | $ 6,081,000 | $ 6,438,000 | $13,138,000 |
| Denominator: | | | | |
| Weighted average shares outstanding, basic......................... | 13,591,336 | 14,128,437 | 11,556,970 | 14,125,502 |
| Impact of potential common shares: | | | | |
| Stock options.................................................... | 48,062 | 99,423 | 24,031 | 80,763 |
| Weighted average shares outstanding, diluted....................... | 13,639,398 | 14,227,860 | 11,581,001 | 14,206,265 |
| Basic earnings per share | | | | |
| Income before extraordinary item.................................... | $ -- | $ 0.43 | $ 0.65 | $ 0.93 |
| Extraordinary loss................................................. | (0.07) | -- | (0.09) | -- |
| Net (loss) income per share........................................ | $ (0.07) | $ 0.43 | $ 0.56 | $ 0.93 |
| Diluted earnings per share | | | | |
| Income before extraordinary item.................................... | $ -- | $ 0.43 | $ 0.65 | $ 0.92 |
| Extraordinary loss................................................. | (0.07) | -- | (0.09) | -- |
| Net (loss) income per share........................................ | $ (0.07) | $ 0.43 | $ 0.56 | $ 0.92 |

The earnings per share amounts shown above have been adjusted to reflect the Reorganization and the issuance of 9,500,000 shares of Trex Company, Inc. Common Stock in exchange for the junior units in TREX Company, LLC.

6. SEASONALITY

The Company's net sales and income from operations have historically varied from quarter to quarter. Such variations are principally attributable to seasonal trends in the demand for the Trex product. The Company typically experiences lower net sales during the fourth quarter due to holidays and adverse weather conditions in certain regions, which reduce the level of home improvement and new construction activity. Net sales during the second quarter of 1999 accounted for 26.6% of sales in 1999.

7. PRO FORMA AND SUPPLEMENTAL PRO FORMA DATA (UNAUDITED)

Pro Forma Data

The pro forma consolidated statement of operations data set forth in the accompanying consolidated statements of operations give effect to the Reorganization as if the Reorganization had occurred on January 1, 1999. The pro forma income taxes and pro forma net income reflect federal and state income taxes (assuming a 38% combined effective tax rate) as if the Company had been taxed as a C corporation for the three and six months ended June 30, 1999. The pro forma consolidated statement of operations data exclude one-time charges relating to the Reorganization and IPO, including (i) a net deferred tax liability of approximately $2.6 million and (ii) a $1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the IPO. Pro forma weighted average shares outstanding reflect 9,500,000 shares of Trex Company, Inc. Common Stock outstanding through April 7, 1999, 13,500,000 from April 8, 1999 through May 2, 1999, and 14,115,450 from May 3 through June 30, 1999 (See Note 1).

Supplemental Pro Forma Data

The following table sets forth the computation of basic and diluted earnings per common share on a supplemental pro forma basis:

| | Three Months Ended June 30, 1999 | Six Months Ended June 30, 1999 |
|---|---|---|
| Numerator: | | |
| Historical income from operations | $ 4,616,000 | $12,975,000 |
| Supplemental pro forma interest expense, net | (196,000) | (302,000) |
| Supplemental pro forma income taxes | (1,680,000) | (4,816,000) |
| Supplemental pro forma net income available to common shareholders, basic and diluted | $ 2,740,000 | $ 7,857,000 |
| Denominator: | | |
| Denominator for supplemental pro forma earnings per common share-weighted average basic shares outstanding | 14,115,450 | 14,115,450 |
| Impact of potential common shares: | | |
| Stock options | 48,063 | 24,031 |
| Denominator for supplemental pro forma earnings per common share-weighted average diluted shares outstanding | 14,163,513 | 14,139,481 |
| Supplemental pro forma basic earnings per common share | $ 0.19 | $ 0.56 |
| Supplemental pro forma diluted earnings per common share | $ 0.19 | $ 0.56 |

The foregoing supplemental pro forma basic and diluted earnings per common share amounts have been adjusted to reflect the Reorganization (see Note 1) as if the Reorganization had occurred on January 1, 1999. The supplemental pro forma interest expense gives effect to the repayment of the senior and subordinated notes of the Company (see Note 1) as if such repayments had been made as of January 1, 1999. The supplemental pro forma income taxes reflect federal and state income taxes (assuming a 38% combined effective tax rate) as if the Company had been taxed as a C corporation as of January 1, 1999. Supplemental pro forma net income available to common shareholders assumes the preferred units in TREX Company, LLC were exchanged for a note of Trex Company, Inc. as of January 1, 1999 and excludes one-time charges relating to the Reorganization and IPO, including (i) a net deferred tax liability of approximately $2.6 million and (ii) a $1.1 million extraordinary charge for the extinguishment of debt repaid from the net proceeds of the IPO. Supplemental pro forma weighted average basic and diluted shares outstanding assume that the shares issued in the Reorganization and the IPO were outstanding for all of the periods presented.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements regarding the Company's expected financial position and operating results, its business strategy and its financing plans are forward-looking statements. These statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially. Such risks and uncertainties include the Company's ability to increase market acceptance of its Trex product; the Company's lack of product diversification; the Company's current dependence on its two manufacturing facilities and its ability to increase its manufacturing capacity in its existing facilities; the Company's reliance on the supply of raw materials used in its production process; the Company's sensitivity to economic conditions, which influence the level of activity in home improvements and new home construction; the Company's ability to manage its growth; the Company's significant capital requirements; and the Company's dependence on its largest distributors to market and sell its products. A discussion of these risks and uncertainties is contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2000.

References to the "Company" in the following discussion mean TREX Company, LLC until the consummation of the reorganization on April 7, 1999 (the "Reorganization") and Trex Company, Inc. and its wholly owned subsidiary, TREX Company, LLC, at all times thereafter. See Note 1 to the Consolidated Financial Statements included elsewhere in this report.

### Overview

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

Net sales consists of sales net of returns and discounts. Cost of sales consists of raw material costs, direct labor costs and manufacturing costs, including depreciation. 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 and office occupancy costs attributable to such functions, as well as amortization expense.

The Company did not record an income tax provision for any period through April 7, 1999. Until the Reorganization, the Company elected to be treated as a partnership for federal and state income tax purposes. Accordingly, the Company's income through April 7, 1999 was taxed directly to the Company's members, rather than to the Company.

Three Months Ended June 30, 2000 Compared with Three Months Ended June 30, 1999

Net Sales

Net sales in the three months ended June 30, 2000 (the "2000 quarter") increased 79.8% to $35.6 million from $19.8 million in the three months ended June 30, 1999 (the "1999 quarter"). The increase in net sales was primarily attributable to a growth in sales volume and, to a lesser extent, a price increase of approximately 7.2% in January 2000. Production line rate increases and the opening of the Company's Fernley, Nevada manufacturing facility with two production lines during the third quarter of 1999 and one production line in each of December 1999 and January 2000 significantly increased the Company's production capacity in the 2000 quarter. The increase in the number of dealer outlets, from approximately 2,000 at June 30, 1999 to approximately 2,400 at June 30, 2000, also contributed to the growth in sales volume.

Cost of Sales

Cost of sales increased 112.5% to $17.5 million in the 2000 quarter from $8.3 million in the 1999 quarter. Cost of sales as a percentage of net sales increased to 49.3% in the 2000 quarter from 41.7% in the 1999 quarter. The increase principally reflected higher raw material landed costs. The increased cost was partially offset by operating efficiencies from improved production line rates and the economies of scale resulting from the second manufacturing facility and additional production lines.

Gross Profit

Gross profit increased 56.3% to $18.0 million in the 2000 quarter from $11.5 million in the 1999 quarter. The increase in gross profit was attributable to the higher sales volume and the price increase and was partially offset by increased manufacturing costs. Gross profit as a percentage of net sales decreased to 50.7% in the 2000 quarter from 58.3% in the 1999 quarter.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 15.0% to $7.9 million in the 2000 quarter from $ 6.9 million in the 1999 quarter. The increase was primarily attributable to higher branding costs, including expenses of promotion, advertising, public relations, sales literature, trade shows and cooperative advertising, which increased 22.9% to $5.4 million in the 2000 quarter from $4.4 million in the 1999 quarter. An increase in expense of $0.3 million related to additional corporate personnel necessary to support the Company's growth was offset primarily by costs recognized in the 1999 quarter relating to commencement of operations at the Company's Fernley, Nevada manufacturing facility. Selling, general and administrative expenses as a percentage of net sales decreased to 22.3% in the 2000 quarter from 34.9% in the 1999 quarter.

Interest Expense

Net interest expense remained unchanged at $0.3 million in the 2000 and 1999 quarters.

Provision for Income Taxes

The Company was taxed as a partnership for federal and state income tax purposes for all periods through April 7, 1999 and thus through that date recorded no provision for income taxes. During the second quarter of 1999, the Company recorded a provision of $4.3 million using a 40% combined effective tax rate for year-to-date federal and state income taxes and recognized certain deferred tax liabilities related to the Reorganization. The income tax provision of $3.7 million in the 2000 quarter represents a 38% combined effective tax rate.

Net Income

The Company's net income of $6.1 million in the 2000 quarter compared to a net loss of $1.0 million in the 1999 quarter. The net income in the 2000 quarter resulted from an increase of $5.5 million in income from operations and a reduced income tax provision of $.5 million. The 1999 quarter included a $1.1 million extraordinary loss for the early extinguishment of debt in connection with the Reorganization.

Six Months Ended June 30, 2000 Compared with Six Months Ended June 30, 1999

Net Sales

Net sales in the six months ended June 30, 2000 (the "2000 six-month period") increased 74.7% to $73.6 million from $42.1 million in the six months ended June 30, 1999 (the "1999 six-month period"). The increase in net sales was primarily attributable to a growth in sales volume and, to a lesser extent, a price increase of approximately 7.2% in January 2000. Production line rate increases and the opening of the Company's Fernley, Nevada manufacturing facility with two production lines during the third quarter of 1999 and one production line in each of December 1999 and January 2000 significantly increased the Company's production capacity in the 2000 six-month period. The increase in the number of dealer outlets, from approximately 2,000 at June 30, 1999 to approximately 2,400 at June 30, 2000, also contributed to the growth in sales volume.

Cost of Sales

Cost of sales increased 105.8% to $37.5 million in the 2000 six-month period from $18.2 million in the 1999 six-month period. Cost of sales as a percentage of net sales increased to 50.9% in the 2000 six-month period from 43.2% in the 1999 six-month period. The increase principally reflected higher raw material landed costs and scrap rates. This increased cost was partially offset by operating efficiencies from improved production line rates and the economies of scale resulting from the second manufacturing facility and additional production lines.

Gross Profit

Gross profit increased 51.1% to $36.2 million in the 2000 six-month period from $23.9 million in the 1999 six-month period. The increase in gross profit was attributable to the higher sales volume and the price increase and was partially offset by increased manufacturing costs. Gross profit as a percentage of net sales decreased to 49.1% in the 2000 six-month period from 56.8% in the 1999 six-month period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 31.7% to $14.5 million in the 2000 six-month period from $11.0 million in the 1999 six-month period. The increase was primarily attributable to performance bonuses of $1.1 million recognized in the first quarter of 2000, and higher branding costs, including expenses of promotion, advertising, public relations, sales literature, trade shows and cooperative advertising, which increased 35.9% to $6.6 million in the 2000 six-month period from $5.2 million in the 1999 six-month period. The Company did not record any performance bonuses in the 1999 six-month period. An increase in corporate personnel necessary to support the Company's growth accounted for $0.8 million of the increase. Site selection costs related to locating a third manufacturing facility and expenses associated with being a publicly traded company contributed $0.2 million of the increase. Selling, general and administrative expenses as a percentage of net sales decreased to 19.6% in the 2000 six-month period from 26.0% in the 1999 six-month period.

Interest Expense

Net interest expense decreased 50.1% to $0.5 million in the 2000 six-month period from $1.1 million in the 1999 six-month period. The decrease was primarily attributable to lower average balances outstanding as a result of the repayment in April 1999 of $21.3 million of senior debt and $5.0 million of subordinated debt with the net proceeds of the Company's initial public offering.

Provision for Income Taxes

The Company was taxed as a partnership for federal and state tax purposes for all periods through April 7, 1999 and thus through that date recorded no provision for income taxes. During the second quarter of 1999, the Company recorded a provision of $4.3 million using a 40% combined effective tax rate for year-to-date federal and state income taxes and recognized certain deferred tax liabilities due to the Reorganization. The income tax provision of $8.1 million in the 2000 six-month period represents an assumed 38% combined effective tax rate.

Net Income

The Company's net income of $13.1 million in the 2000 six-month period compared to net income of $6.6 million in the 1999 six-month period. The increase in net income primarily resulted from the increase in income from operations of $8.7 million plus a decrease in interest expense of $0.6 million, less income taxes. The 1999 six-month period included a $1.1 million charge for the early extinguishment of debt in connection with the Reorganization.

Liquidity and Capital Resources

The Company's total assets increased from $79.3 million at December 31, 1999 to $102.1 million at June 30, 2000. Higher receivables balances resulting from an increase in net sales in the 2000 six-month period accounted for $3.9 million of the increase. Inventories decreased $2.7 million due to increased net sales. Property, plant and equipment, net, increased $21.6 million as the Company installed one additional production line in its Fernley, Nevada manufacturing facility, initiated procurement and installation for four additional lines in this facility, and began construction to increase the size of the facility to accommodate additional lines. In May 2000, the Company acquired a site adjacent to its existing Winchester, Virginia facility for the purpose of expanding capacity there. The Company is designing a manufacturing facility for this site and has begun procurement of three production lines for the new facility. The Company has financed the increases in assets in the 2000 six-month period from cash flows provided by operations and increases in current liabilities, including additional net draws of approximately $4.9 million under its revolving credit facility.

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

The Company's cash flow from operating activities for the 2000 six-month period was $19.4 million compared to $13.3 million for the 1999 six-month period. Higher sales volume accounted for the increase in cash flow in the 2000 six-month period.

The Company substantially reduced its overall long-term indebtedness on April 13, 1999 following its repayment of $26.3 million principal amount of senior and subordinated notes with the net proceeds of the Company's initial public offering. As of June 30, 2000, the Company's indebtedness totaled $21.6 million and had an overall weighted average interest rate of approximately 7.56% per annum.

On June 30, 2000, the Company and the lender revised the terms of the Company's bank revolving credit agreement primarily to increase the maximum amount of borrowings available to the Company. The terms of the new revolving credit facility provide for borrowings of up to $50.0 million on an unsecured basis for working capital and general corporate purposes. Amounts drawn under the revolving credit facility bear interest at an annual rate equal to LIBOR plus 1.00%. The facility will mature on June 30, 2003. The new facility replaced a $10.0 million unsecured line of credit and a $7.5 million term loan facility secured by certain equipment.

In May 2000, the Company financed its purchase of a site adjacent to its existing Winchester, Virginia manufacturing facility through borrowings under its revolving credit facility. In August 2000, the Company received a commitment from a financial institution for permanent financing of the purchase through a 15-year term loan in the original principal amount of approximately $5.9 million. An interest rate swap agreement will effectively fix the interest rate on this loan at an annual rate of 8.1%.

Expansion of the Company's production capacity will continue to require significant capital expenditures. In the second quarter of 2000, the Company accelerated its capital expenditure program to invest in additional production capacity to meet current and expected demand for its product. Included in the program are expanding the building and installing two additional production lines in the Company's Fernley, Nevada facility by year-end, which will bring the Company's total production lines at year-end to fourteen at full capacity between its two facilities; engineering and site work for expanding capacity at its Winchester, Virginia facility; acquiring a site and commencing engineering for a third manufacturing facility in a yet-to-be-determined location; commencing procurement for six additional production lines to be operational by year-end 2001 between these three facilities; and the procurement of equipment for two plastic processing facilities that the Company believes will enable it to expand its raw material sourcing at competitive pricing, both of which are expected to be operational by year-end 2001. Capital expenditures during the 2000 six-month period totaled approximately $24.2 million and for the balance of 2000 are expected to total approximately $25.8 million. The Company believes that cash flow from operations and borrowings expected to be available under the Company's revolving credit facility and anticipated permanent financing facility will provide sufficient funds to enable the Company to expand its business as currently planned for at least the next 12 months. 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 leverage of the Company, while equity financing may dilute the ownership of the Company's stockholders. There can be no assurance as to whether, or as to the terms on which, the Company will be able to obtain such financing.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure is to changing interest rates. The Company's policy is to manage interest rates through a combination of variable-rate debt under its revolving credit facility and interest rate swap agreements with respect to its other debt. Amounts drawn under the revolving credit facility bear interest at an annual rate equal to LIBOR plus 1.00%. As of June 30, 2000, pursuant to interest-rate swap agreements, the Company had effectively fixed its interest rate exposure under its other debt at approximately 7.6% through 2014.

The Company does not use foreign currency forward contracts or commodity contracts and does not have any material foreign currency exposure.

## Part II. OTHER INFORMATION

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

(a) The Company held its 2000 annual meeting of stockholders on May 3, 2000.

(c) The following sets forth information regarding the proposal voted upon at the 2000 annual meeting. There were 14,122,566 shares of common stock outstanding as of the record date for, and entitled to vote at, the 2000 annual meeting.

At the annual meeting, the stockholders approved a proposal to elect each of the nominees to the board of directors for a three-year term which will expire at the annual meeting of stockholders in 2003. The tabulation of votes on this proposal is as follows:

| Nominees | Votes For | Votes Withheld |
|---|---|---|
| Anthony J. Cavanna | 12,754,241 | 358,375 |
| Roger A. Wittenberg | 12,754,296 | 358,320 |

### Item 6. Exhibits and Reports on Form 8-K

(a) The Company files herewith the following exhibits:

10.1 Third Amendment to Amended and Restated Credit Agreement, dated as of June 30, 2000, among Trex Company, Inc., TREX Company, LLC and First Union National Bank.

27.1 Financial Data Schedule.

(b) The Company did not file any Current Reports on Form 8-K during the period covered by this report.

SIGNATURES

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

TREX COMPANY, INC.
(Registrant)

Date: August 14, 2000

/s/ Anthony J. Cavanna

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

# THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS THIRD AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of June 30, 2000 by and among TREX COMPANY, LLC , a Delaware limited liability company ("Borrower"), TREX COMPANY, INC., a Delaware corporation ("Guarantor") and FIRST UNION NATIONAL BANK, a national banking association ("Bank").

## RECITALS

A. Borrower, Guarantor and Bank are parties to that certain Amended and Restated Credit Agreement dated as of August 3, 1999, as amended by that certain First Amendment to Amended and Restated Credit Agreement dated as of December 15, 1999 and that certain Second Amendment to Amended and Restated Credit Agreement dated as of April 27, 2000 (the "Credit Agreement").

B. Borrower, Guarantor and Bank have agreed to amend the Credit Agreement by, among other things, increasing the Revolving Commitment and terminating the commitment to make Term Loans.

## AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants herein and for Ten Dollars and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Incorporation of Recitals. The Recitals set forth above are incorporated herein by this reference as if fully set forth in the text of this Amendment.

2. Definitions. Capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

3. Amendment.

a. The definition of "Revolving Commitment" in the Definitions Appendix to the Credit Agreement is hereby deleted in its entirety and the following new definition is substituted therefor:

"Revolving Commitment" means $50,000,000.00

b. The following definitions are hereby added to the Definitions Appendix to the Credit Agreement:

"Consolidated EBITDA" means, for any period, the sum of (i) Consolidated Net Income for such period, plus (ii) an amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) interest expense, (B) total federal, state, local and foreign income, value added and similar taxes and (C) depreciation and amortization expense.

"Consolidated Net Income" means, for any period, net income after taxes for such period of the Borrower and its Consolidated Subsidiaries.

"Operating Lease" means any lease of any Property which is not a Capital Lease.

"Property" means any interest in any kind of property or asset, whether real, personal, mixed, or tangible or intangible.

c. Immediately upon the effectiveness of this Amendment, the Borrower shall use the proceeds of a Revolving Loan to pay in full the principal amount of the Term Loans and all interest and other fees and charges accrued in connection therewith. The Bank's commitment to make Term Loans is hereby terminated.

d. Section 2.06 of the Credit Agreement is hereby deleted in its entirety and the following new Section 2.06 is substituted therefor:

> Section 2.06 Unused Commitment Fee. The Borrower shall pay to the Bank an unused commitment fee (the "Commitment Fee") for each day at a rate per annum equal to the product of (i) 15 basis points multiplied by (ii) the excess of the Revolving Commitment over the aggregate amount of the Revolving Loans on such day. Such unused commitment fee shall accrue from and including the Effective Date to but excluding the Termination Date (or earlier date of termination of the Revolving Commitment in its entirety) and shall be payable quarterly in arrears on each Quarterly Date and on the Termination Date.

e. Section 2.07 (a) of the Credit Agreement is hereby deleted in its entirety and the following new Section 2.07(a) is substituted therefor:

> Section 2.07 Adjustments of Commitment
>
> (a) Optional Termination or Reductions of Revolving Commitment. The Borrower may, upon at least three Business Days' notice to the Bank, (i) terminate the Revolving Commitment at any time, if no Revolving Loans are outstanding at such time or (ii) reduce from time to time the amount of the Revolving Commitment in excess of the aggregate outstanding principal amount of the Revolving Loans, provided, however, that such reductions shall be in increments of $5,000,000 and shall be made no more frequently than twice during any calendar year. If the Revolving Commitment is terminated in its entirety, all accrued fees shall be payable on the effective date of such termination.

f. Section 6.09 of the Credit Agreement is hereby deleted in its entirety and the following new Section 6.09 is substituted therefor:

> Section 6.09 Restriction of Liens. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien upon or with respect to any Property or proceeds thereof, or sell any Property or proceeds thereof subject to an understanding or agreement, contingent or otherwise, to repurchase such Property or proceeds thereof (including sales of accounts receivable or notes with recourse to the Borrower or any of its Subsidiaries) or assign any right to receive income, or file or permit the filing of any financial statement under the Uniform Commercial Code as in effect in any applicable jurisdiction or any other similar notice of Lien under any similar recording or notice statute; provided that the provisions of this Section 6.09 shall not prevent the creation, incurrence, assumption or existence of the following (with such Liens described below being herein referred to as "Permitted Liens").
>
> (i) Liens created by existing Loan Documents;
>
> (ii) Liens existing as of June 30, 2000 and set forth in Schedule 6.09;
>
> (iii) Liens on real property securing debt incurred to finance the acquisition of such real property or the construction of improvements to such real property;
>
> (iv) Operating Leases;

(v) Purchase money security interest created in the ordinary course of business;

(vi) Liens for taxes not yet due or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves (in good faith judgment of the management of the Borrower) have been established; and

(vii) Liens imposed by law securing the charges, claims, demands or levies of carriers, warehouseman, mechanics and other like persons which were incurred in the ordinary course of business which (A) do not in the aggregate materially detract from the value of the property orassets subject to such Lien or materially impair the use thereof in the operation of the business of the Borrower or any Subsidiary or (B) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to such lien.

Section 6.18 of the Credit Agreement is hereby deleted in its entirety and the following new Section 6.18 is substituted therefor:

Section 6.18 Funded Debt Coverage Ratio. The Borrower will not, as of the end of any fiscal quarter ending on or after June 30, 2000, permit the ratio of (i) the Debt of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal quarter, to (ii) Consolidated EBITDA for the four quarter period ended as of the end of such fiscal quarter, to be more than 2.0:1.0.

4. Representations and Warranties. Each of Borrower and Guarantor hereby confirms to Bank that all representations and warranties of Borrower and Guarantor contained in the Credit Agreement are true and correct as if made on the date hereof.

5. Effectiveness. This Amendment shall be and become effective as of the date hereof when all of the conditions set forth below in this paragraph 5 shall have been satisfied:

The Bank shall have received this Amendment, duly executed by the Borrower and the Guarantor.

All fees and expenses of the Bank in connection with this Amendment, including legal fees and expenses incurred on or prior to the date of this Amendment, shall have been paid by the Borrower.

The Bank shall have received an opinion of counsel for the Borrower and the Guarantor in form satisfactory to the Bank.

6. Full Force and Effect. Except as specifically set forth herein, all terms and conditions of the Credit Agreement and the other Loan Documents shall remain unchanged and in full force and effect.

7. Binding Effect. Each of the Borrower and Guarantor hereby reaffirms its covenant and agreement to perform, comply with and be bound by each and every one of the terms and provisions of the Credit Agreement, as modified by this Amendment.

8. Acknowledgment; No Novation. Borrower, Guarantor and Bank agree that this Amendment shall not constitute a novation of the indebtedness evidence by the Term Note or any of the other Obligations.

9. Successor and Assigns. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, personal representatives, successors and assigns.

10. Severability. In any case any one or more of the provisions contained in this Amendment shall be invalid, illegal or unenforceable, the validity and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

11. Counterparts. This Amendment may be executed by the parties hereto in two counterparts, each of which shall be deemed an original and both of which shall constitute together but one and the same agreement.

The undersigned have caused this Amendment to be executed in the names and under the seals of the undersigned, with the intent that this be a sealed instrument.

BORROWER:

TREX COMPANY, LLC, a Delaware limited liability company

By: /s/ Robert G. Matheny (SEAL)
Robert G. Matheny
President

GUARANTOR:

TREX COMPANY, INC., a Delaware corporation

By: /s/ Robert G. Matheny (SEAL)
President

BANK:

FIRST UNION NATIONAL BANK, a national banking association

By: /s/ B. Scott Arthur (SEAL)
B. Scott Arthur
Vice President

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