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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2015

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

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**Trex Company, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

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

**22603-8605**  
(Zip Code)

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

**Not Applicable**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act): Yes  No

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding at April 21, 2015 was 32,079,980 shares.

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TREX COMPANY, INC.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**TREX COMPANY, INC.**

**Condensed Consolidated Balance Sheets**  
(In thousands)

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	<u>(Unaudited)</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,556	\$ 9,544
Accounts receivable, net	136,993	36,391
Inventories	22,920	23,747
Prepaid expenses and other current assets	2,137	6,288
Deferred income taxes	9,271	9,271
Total current assets	<u>173,877</u>	<u>85,241</u>
Property, plant and equipment, net	104,163	98,716
Goodwill and other intangibles	10,532	10,534
Other assets	1,311	1,333
Total assets	<u>\$ 289,883</u>	<u>\$ 195,824</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 12,785	\$ 20,050
Accrued expenses	20,951	20,660
Accrued warranty	8,738	8,744
Line of credit	84,000	—
Total current liabilities	<u>126,474</u>	<u>49,454</u>
Deferred income taxes	3,708	3,708
Non-current accrued warranty	24,045	25,097
Other long-term liabilities	4,117	4,180
Total liabilities	<u>158,344</u>	<u>82,439</u>
Stockholders' equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value, 80,000,000 shares authorized; 34,860,283 and 34,800,552 shares issued and 32,079,854 and 32,020,123 shares outstanding at March 31, 2015 and December 31, 2014, respectively	349	348
Additional paid-in capital	117,340	116,740
Retained earnings	88,850	71,297
Treasury stock, at cost, 2,780,429 shares at March 31, 2015 and December 31, 2014	(75,000)	(75,000)
Total stockholders' equity	<u>131,539</u>	<u>113,385</u>
Total liabilities and stockholders' equity	<u>\$ 289,883</u>	<u>\$ 195,824</u>

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

**TREX COMPANY, INC.****Condensed Consolidated Statements of Comprehensive Income**

(Unaudited)

(In thousands, except share and per share data)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net sales	\$ 120,800	\$ 100,645
Cost of sales	72,553	62,478
Gross profit	48,247	38,167
Selling, general and administrative expenses	20,593	18,222
Income from operations	27,654	19,945
Interest expense, net	137	323
Income before income taxes	27,517	19,622
Provision for income taxes	9,964	7,327
Net income	\$ 17,553	\$ 12,295
Basic earnings per common share	\$ 0.55	\$ 0.37
Basic weighted average common shares outstanding	31,683,672	33,128,676
Diluted earnings per common share	\$ 0.55	\$ 0.37
Diluted weighted average common shares outstanding	32,094,828	33,599,438
Comprehensive income	\$ 17,553	\$ 12,295

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

## TREX COMPANY, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(In thousands)

	Three Months Ended	
	March 31,	
	2015	2014
<b>Operating Activities</b>		
Net income	\$ 17,553	\$ 12,295
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,636	3,797
Deferred income taxes	—	352
Stock-based compensation	1,454	1,170
Gain on disposal of property, plant and equipment	—	(37)
Excess tax benefits from stock compensation	(1,035)	(6,507)
Changes in operating assets and liabilities:		
Accounts receivable	(100,602)	(79,152)
Inventories	827	(7,785)
Prepaid expenses and other assets	888	(82)
Accounts payable	(7,265)	(3,892)
Accrued expenses and other liabilities	(5,666)	(9,068)
Income taxes receivable/payable	9,166	6,884
Net cash used in operating activities	<u>(81,044)</u>	<u>(82,025)</u>
<b>Investing Activities</b>		
Expenditures for property, plant and equipment	(9,060)	(3,188)
Proceeds from sales of property, plant and equipment	—	37
Purchase of acquired company, net of cash acquired	(31)	(44)
Notes receivable, net	—	19
Net cash used in investing activities	<u>(9,091)</u>	<u>(3,176)</u>
<b>Financing Activities</b>		
Borrowings under line of credit	84,000	85,000
Principal payments under line of credit	—	(5,000)
Repurchases of common stock	(2,015)	(1,433)
Proceeds from employee stock purchase and option plans	127	84
Excess tax benefits from stock compensation	1,035	6,507
Net cash provided by financing activities	<u>83,147</u>	<u>85,158</u>
Net decrease in cash and cash equivalents	(6,988)	(43)
Cash and cash equivalents at beginning of period	9,544	3,772
Cash and cash equivalents at end of period	<u>\$ 2,556</u>	<u>\$ 3,729</u>
<b>Supplemental Disclosure:</b>		
Cash paid for interest, net of capitalized interest	\$ 59	\$ 99
Cash paid for income taxes, net	\$ 799	\$ 91

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

## TREX COMPANY, INC.

**Notes to Condensed Consolidated Financial Statements  
For the Three Months Ended March 31, 2015 and 2014  
(Unaudited)****1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (the "Company") is the world's largest manufacturer of wood-alternative decking and railing products, which are marketed under the brand name Trex®. The Company is incorporated in Delaware. The principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and the telephone number at that address is (540) 542-6300. The Company operates in one business segment.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments except as otherwise described herein) considered necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements. All common stock share and per share data for all historical periods presented have been retroactively adjusted to reflect a two-for-one stock split distributed on May 7, 2014. The consolidated results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 included in the annual report of Trex Company, Inc. on Form 10-K, as filed with the Securities and Exchange Commission.

The Company's critical accounting policies are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

**3. NEW ACCOUNTING STANDARDS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers." The new standard provides a single, comprehensive model for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new standard requires an entity to recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and allows for either full retrospective or modified retrospective application. No early adoption is permitted. The Company is currently assessing the impact of the adoption of this new standard on its consolidated financial statements and footnote disclosures and has not yet selected a method of adoption.

**4. INVENTORIES**

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

	March 31, 2015	December 31, 2014
Finished goods	\$ 32,537	\$ 32,756
Raw materials	15,682	16,290
Total FIFO inventories	48,219	49,046
Reserve to adjust inventories to LIFO value	(25,299)	(25,299)
Total LIFO inventories	<u>\$ 22,920</u>	<u>\$ 23,747</u>

The Company utilizes the last-in, first-out ("LIFO") method of accounting for inventory, which generally provides matching of current costs with current revenues. However, under the LIFO method, reductions in annual inventory balances cause a portion of the Company's cost of sales to be based on historical costs rather than current year costs ("LIFO liquidation"). Reductions in interim inventory balances expected to be replenished by year-end do not result in a LIFO liquidation. Accordingly, interim LIFO calculations are based, in part, on management's estimates of expected year-end inventory levels and costs which may differ from actual results. There were no LIFO inventory liquidations or related impact on cost of sales in the three months ended March 31, 2015 or 2014.

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### 5. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Accrued compensation and benefits	\$ 6,027	\$ 9,201
Income taxes payable	4,868	—
Accrued sales and marketing	4,618	5,963
Accrued rent obligations	1,377	1,372
Accrued manufacturing expenses	1,215	1,307
Other	2,846	2,817
Total accrued expenses	<u>\$ 20,951</u>	<u>\$ 20,660</u>

### 6. DEBT

The Company's outstanding debt consists of a revolving credit facility.

#### *Revolving Credit Facility*

The Company currently has a Second Amended Credit Agreement that provides the Company with one or more revolving loans in a collective maximum principal amount of \$150 million from January 1 through June 30 of each year, reducing to a maximum principal amount of \$100 million from July 1 through December 31 of each year throughout the term, which ends November 20, 2019.

At March 31, 2015, the Company had \$84 million of outstanding borrowings under its revolving credit facility and remaining available borrowing capacity of approximately \$66 million.

#### *Compliance with Debt Covenants and Restrictions*

The Company's ability to make scheduled principal and interest payments and to borrow and repay amounts under any outstanding revolving credit facility, and continue to comply with any loan covenants depends primarily on the Company's ability to generate sufficient cash flow from operations.

As of March 31, 2015, the Company was in compliance with all of the covenants contained in its debt agreements. Failure to comply with the loan covenants might cause lenders to accelerate the repayment obligations under the credit facility, which may be declared payable immediately based on a default.

### 7. 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 current liabilities to approximate the fair value of the respective assets and liabilities at March 31, 2015 and December 31, 2014.

### 8. STOCKHOLDERS' EQUITY

#### *Earnings Per Share*

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net income available to common shareholders	<u>\$ 17,553</u>	<u>\$ 12,295</u>
Denominator:		
Basic weighted average shares outstanding	31,683,672	33,128,676
Effect of dilutive securities:		
SARs and options	240,066	302,914

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	Three Months Ended March 31,	
	2015	2014
Restricted stock	171,090	167,848
Diluted weighted average shares outstanding	32,094,828	33,599,438
Basic earnings per share	\$ 0.55	\$ 0.37
Diluted earnings per share	\$ 0.55	\$ 0.37

Diluted earnings per share is computed using the weighted average number of shares determined for the basic earnings per share computation plus the dilutive effect of common stock equivalents using the treasury stock method. The computation of diluted earnings per share excludes the following potentially dilutive securities because the effect would be anti-dilutive:

	Three Months Ended March 31,	
	2015	2014
Restricted stock and stock options	—	88
Stock appreciation rights	—	1,196

### *Stock Repurchase Programs*

On October 23, 2014, the Company's Board of Directors authorized a common stock repurchase program of up to two million shares of the Company's outstanding common stock (the "October 2014 Stock Repurchase Program"). This authorization has no expiration date. As of March 31, 2015, the Company made no repurchases under the October 2014 Stock Repurchase Program.

## **9. STOCK-BASED COMPENSATION**

The Company has one stock-based compensation plan, the 2014 Stock Incentive Plan (the "Plan"), approved by the Company's stockholders in April 2014. The Plan amended and restated in its entirety the Trex Company, Inc. 2005 Stock Incentive Plan. The Plan is administered by the Compensation Committee of the Company's Board of Directors. Stock-based compensation is granted to officers, directors and certain key employees in accordance with the provisions of the Plan. The Plan provides for grants of stock options, restricted stock, restricted stock units, stock appreciation rights ("SARs"), and unrestricted stock. As of March 31, 2015, the total aggregate number of shares of the Company's common stock that may be issued under the Plan is 6,420,000.

In 2014, the Company began granting performance-based restricted stock in addition to the time-based restricted stock it previously granted. The performance-based restricted shares have a three-year vesting period, vesting one-third each year based on target earnings before interest, taxes, depreciation and amortization, or "EBITDA", for 1 year, cumulative 2 years and cumulative 3 years, respectively. With respect to each vesting, the number of shares that will vest will be between 0% and 200% of the target number of shares.

The fair value of each SAR is estimated on the date of grant using a Black-Scholes option-pricing formula. For SARs issued in the three months ended March 31, 2015 and 2014, respectively, the assumptions shown in the following table were used:

	Three Months Ended March 31,	
	2015	2014
Weighted-average fair value of grants	\$ 17.10	\$ 18.70
Dividend yield	0%	0%
Average risk-free interest rate	1.7%	1.8%
Expected term (years)	5	5
Expected volatility	44%	54%

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The following table summarizes the Company's stock-based compensation grants for the three months ended March 31, 2015:

	<u>Stock Awards Granted</u>	<u>Weighted-Average Grant Price Per Share</u>
Time-based restricted stock	43,738	\$ 43.89
Performance-based restricted stock	34,638	\$ 43.89
Stock appreciation rights	201	\$ 42.47

The Company recognizes stock-based compensation expense ratably over the period from the grant date to the earlier of: (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For performance-based restricted stock, expense is recognized ratably over the performance and vesting period of each tranche based on management's judgment of the ultimate award that is likely to be paid out based on the achievement of the predetermined performance measures. The following table summarizes the Company's stock-based compensation expense for the three months ended March 31, 2015 and 2014 (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Time-based restricted stock	\$ 833	\$ 708
Performance-based restricted stock	399	82
Stock appreciation rights	189	370
Employee stock purchase plan	33	10
Total stock-based compensation	<u>\$ 1,454</u>	<u>\$ 1,170</u>

Total unrecognized compensation cost related to unvested awards as of March 31, 2015 was \$7.2 million. The cost of these unvested awards is being recognized over the requisite vesting period of each award.

## 10. INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2015 and 2014 was 36.2% and 37.3% respectively, which resulted in expense of \$10.0 million and \$7.3 million, respectively.

The Company analyzes its deferred tax assets in each reporting period, considering all available positive and negative evidence, in determining the expected realization of those deferred tax assets. As of March 31, 2015, the Company maintains a valuation allowance of \$4.5 million against deferred tax assets related to state tax credits it estimates will expire before they are realized.

During the three months ended March 31, 2015, the Company realized \$1.0 million of excess tax benefits from stock-based awards and, accordingly, recorded an increase to additional paid-in capital.

The Company operates in multiple tax jurisdictions and, in the normal course of business, its tax returns are subject to examination by various taxing authorities. Such examinations may result in future assessments by these taxing authorities, and the Company accrues a liability when it believes that it is more likely than not that benefits of tax positions will not be realized. The Company believes that adequate provisions have been made for all tax returns subject to examination. As of March 31, 2015, federal tax years 2011 through 2014 remain subject to examination. Sales made to foreign distributors are not taxable in any foreign jurisdictions as the Company does not have a taxable presence in any foreign jurisdiction.

## 11. SEASONALITY

The Company's operating results have historically varied from quarter to quarter, often attributable to seasonal trends in the demand for Trex products. The Company has historically experienced lower net sales during the fourth quarter because holidays and adverse weather conditions in certain regions reduce the level of home improvement and construction activity.

## 12. COMMITMENTS AND CONTINGENCIES

### *Contract Termination Costs*

In anticipation of relocating its corporate headquarters, the Company entered into a lease agreement in 2005. The Company reconsidered and decided not to move its headquarters. The lease obligates the Company to lease 55,047 square feet of office space through June 30, 2019. As of March 31, 2015, the Company has executed subleases for 24,732 square feet of the leased space and is currently marketing the remaining portion of the space to find a suitable tenant. The Company estimates that the present value of the estimated future sublease receipts, net of transaction costs, will be less than the remaining minimum lease payment obligations under its lease and has recorded a liability for the expected shortfall. During the three months ended March 31, 2015 and March 31, 2014, the Company recorded charges of \$0.1 million and \$0.6 million, respectively, to selling, general and administrative expenses due to changes in its estimate of future sublease receipts.

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To estimate future sublease receipts, the Company has assumed that existing subleases will be renewed or new subleases will be executed at rates consistent with rental rates in the current subleases or estimated market rates and that existing vacancies will be filled within one year. However, management cannot be certain that the timing of future subleases or the rental rates contained in future subleases will not differ from current estimates. Factors such as the availability of commercial office space, market conditions and subtenant preferences will influence the terms achieved in future subleases. The inability to sublet the office space in the future or unfavorable changes to key assumptions used in the estimate of the future sublease receipts may result in material charges to selling, general and administrative expenses in future periods.

As of March 31, 2015, the minimum payments remaining under the Company's lease relating to its reconsidered corporate relocation over the years ending December 31, 2015, 2016, 2017, 2018 and 2019 are \$1.4 million, \$1.9 million, \$2.0 million, \$2.0 million and \$1.0 million, respectively. The minimum receipts remaining under the Company's existing subleases over the years ending December 31, 2015, 2016, 2017, 2018 and 2019 are \$0.5 million, \$0.6 million, \$0.6 million, \$0.6 million and \$0.4 million, respectively.

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

	<u>2015</u>	<u>2014</u>
Beginning balance, January 1	\$3,033	\$1,787
Net rental payments	(249)	(162)
Accretion of discount	59	35
Increase in net estimated contract termination costs	129	567
Ending balance, March 31	<u>\$2,972</u>	<u>\$2,227</u>

### *Product Warranty*

The Company warrants that its products will be free from material defects in workmanship and materials. This warranty generally extends for a period of 25 years for residential use and 10 years for commercial use. (With respect to TrexTrim™ and Trex Reveal® Railing, the warranty period is 25 years for both residential and commercial use.) With respect to the Company's Transcend®, Enhance®, Select® and Universal Fascia product, the Company further warrants that the product will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold (provided the stain is cleaned within seven days of appearance). This warranty extends for a period of 25 years for residential use and 10 years for commercial use. If there is a breach of such warranties, the Company has an obligation either to replace the defective product or refund the purchase price.

Historically, the Company has not had material numbers of claims submitted or settled under the provisions of its product warranties, with the exception of claims related to material produced at its Nevada facility prior to 2007 that exhibits surface flaking. The Company continues to receive and settle surface flaking claims and maintains a warranty reserve to provide for the settlement of these claims. Estimating the warranty reserve for surface flaking claims requires management to estimate (1) the number of claims to be settled with payment and (2) the average cost to settle each claim, both of which are subject to variables that are difficult to estimate.

To estimate the number of claims to be settled with payment, the Company utilizes actuarial techniques to quantify both the expected number of claims to be received and the percentage of those claims that will ultimately require payment. Estimates for both of these elements (number and percentage of claims that will ultimately require payment) are quantified using a range of assumptions derived from claim count history and the identification of factors influencing the claim counts, including the downward trend in received claims due to the passage of time since production of the suspect material. For each of the various parameters used in the analysis, the assumed values in the actuarial valuation produce results that represent the Company's best estimate for the ultimate number of claims to be settled with payment. The cost per claim varies due to a number of factors, including the size of affected decks, the type of replacement material used, the cost of production of replacement material and the method of claim settlement.

The Company monitors surface flaking claims activity each quarter for indications that its estimates require revision. Due to extensive use of decks during the summer outdoor season, variances to annual claims expectations are typically more meaningful during the latter part of the fiscal year. Through the first quarter of 2015, the average cost per claim was consistent with the Company's expectations. The number of claims received during the first quarter of 2015 was higher than the Company's expectations and higher than the claims received in the first quarter of 2014. Although the Company cannot fully measure its impact, improved weather conditions in the claims region during the first quarter of 2015, compared to the first quarter of 2014, likely accelerated some claims that otherwise would be received later in the year. The Company believes that its reserve at March 31, 2015 is sufficient to cover future surface flaking obligations.

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The Company's analysis is based on currently known facts and a number of assumptions. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause the actual warranty liabilities to be higher or lower than those projected which could materially affect the Company's financial condition, results of operations or cash flow. The Company estimates that the annual number of claims received will continue to decline over time and that the average cost per claim will remain relatively stable. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases to the warranty reserve and reduced earnings and cash flows in future periods. The Company estimates that a 10% change in the expected number of remaining claims to be settled with payment or the expected cost to settle claims may result in approximately a \$3.0 million change in the surface flaking warranty reserve.

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

	<u>2015</u>	<u>2014</u>
Beginning balance, January 1	\$31,419	\$40,312
Changes in estimates related to pre-existing warranties	—	—
Settlements made during the period	(1,359)	(2,010)
Ending balance, March 31	<u>\$30,060</u>	<u>\$38,302</u>

The remainder of the Company's warranty reserve represents amounts accrued for non-surface flaking claims.

### *Legal Matters*

The Company has lawsuits, as well as other claims, pending against it which are ordinary routine litigation and claims incidental to the business. Management has evaluated the merits of these lawsuits and claims, and believes that their ultimate resolution will not have a material effect on the Company's consolidated financial condition, results of operations, liquidity or competitive position.

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

The following management discussion should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission and the condensed consolidated financial statements and the footnotes thereto included in Part I, Item 1. “Financial Statements” of this quarterly report.

### NOTE ON FORWARD-LOOKING STATEMENTS

This management’s discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “may,” “will,” “anticipate,” “estimate,” “expect,” “intend” or similar expressions. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission. These statements are also subject to risks and uncertainties that could cause the Company’s actual operating results to differ materially. Such risks and uncertainties include, but are not limited to, the extent of market acceptance of the Company’s products; the costs associated with the development and launch of new products and the market acceptance of such new products; the sensitivity of the Company’s business to general economic conditions; the impact of seasonal and weather-related demand fluctuations on inventory levels in the distribution channel and sales of the Company’s products; the availability and cost of third-party transportation services for the Company’s products; the Company’s ability to obtain raw materials at acceptable prices; the Company’s ability to maintain product quality and product performance at an acceptable cost; the level of expenses associated with product replacement and consumer relations expenses related to product quality; and the highly competitive markets in which the Company operates.

### OVERVIEW

*General.* Trex Company, Inc. is the world’s largest manufacturer of wood-alternative decking and railing products, which are marketed under the brand name Trex<sup>®</sup>. We offer a comprehensive set of aesthetically durable, low maintenance product offerings and believe that the range and variety of our product offerings allow consumers to design much of their outdoor living space using Trex brand products.

We offer the following products:

- Three principal decking products: Trex Transcend<sup>®</sup>, Trex Enhance<sup>®</sup>, and Trex Select<sup>®</sup>;
- Three principal railing products: Trex Transcend Railing, Trex Select Railing, and Trex Reveal<sup>®</sup> aluminum railing;
- One porch product, Trex Transcend Porch Flooring and Railing System;
- One steel deck framing system, Trex Elevations<sup>®</sup>;
- One fencing product, Trex Seclusions<sup>®</sup>;
- Two outdoor lighting systems, Trex Deck Lighting<sup>™</sup> and Trex Landscape Lighting<sup>™</sup>; and,
- One cellular PVC outdoor trim product, TrexTrim<sup>™</sup>.

In addition, we offer Trex Hideaway<sup>®</sup>, which is a hidden fastening system for specially grooved boards.

*Highlights related to the first quarter of 2015 include:*

- Net sales of \$120.8 million, an increase of 20.0% compared to the first quarter of 2014, and the highest first quarter sales in our history.
- Gross margins of 39.9% compared to 37.9% in the first quarter of 2014.
- Net income of \$17.6 million, or \$0.55 per diluted share, compared to \$12.3 million, or \$0.37 per diluted share, in the first quarter of 2014.

*Net Sales.* Net sales consists of sales and freight, net of returns and discounts. The level of net sales is principally affected by sales volume and the prices paid for Trex products. Our branding and product differentiation strategy enables us to command premium prices over wood products. Our operating results have historically varied from quarter to quarter, often due to seasonal trends in the demand for Trex. We have historically experienced lower net sales during the fourth quarter because holidays and adverse weather conditions in certain regions reduce the level of home improvement and construction activity.

*Sales Incentives / Early Buy Program:* As part of our normal business practice and consistent with industry practices, we have historically provided our distributors and dealers incentives to build inventory levels before the start of the

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prime deck-building season to ensure adequate availability of product to meet anticipated seasonal consumer demand and to enable production planning. These incentives, which together we reference as our “early buy program,” include payment discounts and favorable payment terms. In addition, from time to time we may offer price discounts or volume rebates on specified products and other incentives based on increases in purchases as part of specific promotional programs.

We launched our early buy program for the 2015 decking season in December 2014. The timing and terms of the 2015 program were generally consistent with the timing and terms of the 2014 program launched in December 2013. To qualify for early buy program incentives, customers must commit to the terms of the program which specify eligible products and quantities, order deadlines and available terms, discounts and rebates. There are no product return rights granted to our distributors except those granted pursuant to the warranty provisions of our agreements with distributors. In addition, our products are not susceptible to rapid changes in technology that may cause them to become obsolete. The early buy program can have a significant impact on our sales, receivables and inventory levels. Refer to the liquidity and capital resources section for further discussion of significant impacts on our receivables and inventory levels.

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

**Product Warranty.** We continue to receive and settle claims related to material produced at our Nevada facility prior to 2007 that exhibits surface flaking and maintain a warranty reserve to provide for the settlement of these claims. We monitor surface flaking claims activity each quarter for indications that our estimates require revision. Due to extensive use of decks during the summer outdoor season, variances to annual claims expectations are typically more meaningful during the latter part of the fiscal year. Through the first quarter of 2015, the average cost per claim was consistent with our expectations. The number of claims received during the first quarter of 2015 was higher than our expectations and higher than the claims received in the first quarter of 2014. Although we cannot fully measure its impact, improved weather conditions in the claims region during the first quarter of 2015 likely accelerated some claims that otherwise would be received later in the year. We believe that our reserve at March 31, 2015 is sufficient to cover future surface flaking obligations.

The following table details surface flaking claims activity related to our warranty:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Claims unresolved, beginning of period	2,872	4,249
Claims received (1)	583	536
Claims resolved (2)	(835)	(1,260)
Claims unresolved, end of period	2,620	3,525
Average cost per claim (3)	\$ 2,501	\$ 2,334

(1) Claims received include new claims received or identified during the period.

(2) Claims resolved include all claims settled with or without payment and closed during the period.

(3) Average cost per claim represents, for claims closed during the period, the average settlement cost of claims closed with payment (excludes claims settled without payment).

**Selling, General and Administrative Expenses.** The largest component of selling, general and administrative expenses is personnel related costs, which include salaries, commissions, incentive compensation, and benefits of personnel engaged in sales and marketing, accounting, information technology, corporate operations, research and development, and other business functions. Another component of selling, general and administrative expenses is branding and other sales and marketing costs, which are used to build brand awareness of Trex. These costs consist primarily of advertising, merchandising, and other promotional costs. Other general and administrative expenses include professional fees, office occupancy costs attributable to the business functions previously referenced, and consumer relations 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 our business.

## RESULTS OF OPERATIONS

Below we have included a discussion of our operating results and material changes in our operating results for the three months ended March 31, 2015 compared to the three months ended March 31, 2014.

### Three Months Ended March 31, 2015 Compared With Three Months Ended March 31, 2014

#### Net Sales

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in thousands)			
Net sales	\$ 120,800	\$ 100,645	\$20,155	20.0%

The increase in net sales in the quarter ended March 31, 2015 (the “2015 quarter”) compared to the quarter ended March 31, 2014 (the “2014 quarter”) was due to a 16.0% increase in sales volumes and a 4.0% increase in the average price per unit. We attribute the increase in sales volumes to market share advancement and more favorable weather conditions throughout most of the U. S. in the 2015 quarter as compared to the 2014 quarter. The increase in average price per unit in the 2015 quarter was a result of price increases on some of our 2015 decking products and a mix shift to higher-priced products.

#### Gross Profit

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in thousands)			
Cost of sales	\$ 72,553	\$ 62,478	\$10,075	16.1%
% of net sales	60.1%	62.1%		
Gross profit	\$ 48,247	\$ 38,167	\$10,080	26.4%
Gross margin	39.9%	37.9%		

Gross profit as a percentage of net sales, gross margin, increased 200 basis points to 39.9% in the 2015 quarter from 37.9% in the 2014 quarter. The increase in gross margin was primarily the result of cost reduction initiatives, the impact of price increases and a shift to higher-priced products.

#### Selling, General and Administrative Expenses

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in thousands)			
Selling, general and administrative expenses	\$ 20,593	\$ 18,222	\$ 2,371	13.0%
% of net sales	17.0%	18.1%		

The increase in selling, general and administrative expenses in the 2015 quarter compared to the 2014 quarter was attributable to a \$1.8 million increase in personnel-related expenses primarily due to incentive compensation and \$1.6 million higher branding spend due to the launch of our new marketing campaign in the 2015 quarter. These increases were partially offset by a \$0.5 million decrease in research and development spending and \$0.4 million lower contract termination costs related to our 2005 reconsidered corporate headquarters lease. As a percentage of net sales, total selling, general and administrative expenses decreased to 17.0% in the 2015 quarter from 18.1% in the 2014 quarter.

#### Interest Expense

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in thousands)			
Interest expense	\$ 137	\$ 323	\$ (186)	(57.6%)
% of net sales	0.1%	0.3%		

The decrease in interest expense was due to lower interest rates and lower average debt levels under the revolving credit facility during the 2015 quarter compared to the 2014 quarter. As a percentage of net sales, interest expense decreased to 0.1% in the 2015 quarter from 0.3% in 2014 quarter.

**Provision for Income Taxes**

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
	(dollars in thousands)			
Provision (benefit) for income taxes	\$ 9,964	\$ 7,327	\$ 2,637	36.0%
Effective tax rate	36.2%	37.3%		

The effective tax rate declined to 36.2% from 37.3% in the 2014 quarter.

**LIQUIDITY AND CAPITAL RESOURCES**

We finance operations and growth primarily with cash flow from operations, borrowings under our revolving credit facility, operating leases and normal trade credit terms from operating activities.

At March 31, 2015, we had \$2.6 million of cash and cash equivalents.

*Sources and Uses of Cash.* The following table summarizes our cash flows from operating, investing and financing activities for the three months ended March 31, 2015 and 2014 (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Net cash used in operating activities	\$ (81,044)	\$ (82,025)
Net cash used in investing activities	\$ (9,091)	\$ (3,176)
Net cash provided by financing activities	\$ 83,147	\$ 85,158
Net decrease in cash and cash equivalents	<u>\$ (6,988)</u>	<u>\$ (43)</u>

**Operating Activities**

Net cash used in operating activities decreased \$1.0 million in the 2015 quarter compared to the 2014 quarter. The improvement was primarily due to favorable changes in cash flows related to inventories and income taxes, substantially offset by increased investment in accounts receivable balances in the 2015 quarter as compared to the 2014 quarter. The higher accounts receivable balances were driven by increased net sales during the 2015 quarter. Significant increases in our accounts receivable balances during the first quarter of each year are typical as distributors purchase product ahead of the deck-building season. We expect to collect substantially all outstanding accounts receivable balances by mid-July 2015.

**Investing Activities**

Net cash used in investing activities increased \$5.9 million in the 2015 quarter compared to the 2014 quarter due to increased capital expenditures. Capital expenditures in the 2015 quarter totaled \$9.1 million to support cost reduction initiatives, poly processing equipment and the purchase of land adjacent to our Winchester, VA facility to support potential future expansion. Capital expenditures in the 2014 quarter were \$3.2 million.

**Financing Activities**

Net cash provided by financing activities decreased \$2.0 million in the 2015 quarter compared to the 2014 quarter. The decrease was primarily due to a \$5.5 reduction in excess tax benefits related to stock-based awards, partially offset by an increase in our net borrowing from the revolving credit facility, which was \$84 million in the 2015 quarter compared to \$80 million in the 2014 quarter. The borrowings during the 2015 and 2014 quarters were used to support our seasonal working capital needs and are generally substantially repaid during the subsequent quarter as accounts receivable balances are collected.

*Stock Repurchase Programs.* On October 23, 2014, our Board of Directors authorized a common stock repurchase program of up to two million shares of our outstanding common stock (the "Stock Repurchase Program"). This authorization has no expiration date. As of March 31, 2015, no repurchases have been made under the Stock Repurchase Program.

*Capital Requirements.* Capital expenditures in the 2015 quarter totaled \$9.1 million to support cost reduction initiatives, new product launches in current and adjacent categories and general business support. We currently estimate that our capital expenditures in 2015 will be approximately \$20 million.

*Indebtedness.* Our indebtedness consists of a revolving credit facility. At March 31, 2015, our indebtedness totaled \$84 million, and the interest rate on our revolving credit facility was 1.3%.

We currently have a Second Amended Credit Agreement that provides us with one or more revolving loans in a collective maximum principal amount of \$150 million from January 1 through June 30 of each year, reducing to a maximum principal amount of \$100 million from July 1 through December 31 of each year throughout the term, which ends November 20, 2019.

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At March 31, 2015, we had \$84 million of outstanding borrowings under the revolving credit facility and remaining available borrowing capacity of approximately \$66 million.

*Debt Covenants.* To remain in compliance with covenants contained within our debt agreements, we must maintain specified financial ratios based on levels of debt, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization. At March 31, 2015, we were in compliance with these covenants. Failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our credit facility, which may be declared payable immediately based on a default.

We believe that cash on hand, cash from operations and borrowings expected to be available under our revolving credit facility will provide sufficient funds to fund planned capital expenditures, make scheduled principal and interest payments, fund warranty payments and meet other cash requirements. We currently expect to fund future capital expenditures from operations and financing activities. The actual amount and timing of future capital requirements may differ materially from our estimate depending on the demand for Trex and new market developments and opportunities.

*Inventory in Distribution Channels.* We sell our products through a tiered distribution system. We have approximately 20 distributors and two mass merchandisers to which we sell our products. The distributors in turn sell the products to approximately 6,700 dealers and retail locations who in turn sell the products to end users. While we do not typically receive information regarding inventory in the distribution channel from dealers, we occasionally receive limited information from some but not all of our distributors regarding their inventory. Because few distributors provide us with any information regarding their inventory, we cannot definitively determine the level of inventory in the distribution channels at any time. We believe that distributor inventory levels as of March 31, 2015 are comparable to distributor inventory levels as of March 31, 2014. Significant increases in inventory levels in the distribution channel without a corresponding change in end-use demand could have an adverse effect on future sales.

*Product Warranty.* We continue to receive and settle claims related to material produced at our Nevada facility prior to 2007 that exhibits surface flaking, which has had a material adverse effect on cash flow from operations. Although the number of claims received rose in the 2015 quarter as compared to the 2014 quarter, we estimate that the annual number of claims received will continue to decline over time and that the average cost per claim will remain relatively stable. If the level of claims received or average cost per claim differs materially from our expectations, it could result in additional increases to the warranty reserve and reduced earnings and cash flow in future periods.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding our exposure to certain market risks, see “Quantitative and Qualitative Disclosures about Market Risk,” in Part II, Item 7A of the Company’s 10-K for the year ended December 31, 2014. There were no material changes to the Company’s market risk exposure during the three months ended March 31, 2015.

### **Item 4. Controls and Procedures**

The Company’s management, with the participation of its Chief Executive Officer, who is the Company’s principal executive officer, and its Senior Vice President and Chief Financial Officer, who is the Company’s principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2015. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective. In addition, there have been no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II****OTHER INFORMATION****Item 1. Legal Proceedings**

The Company has lawsuits, as well as other claims, pending against it which are ordinary routine litigation and claims incidental to the business. Management has evaluated the merits of these lawsuits and claims, and believes that their ultimate resolution will not have a material effect on the Company's consolidated financial condition, results of operations, liquidity or competitive position.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) The following table provides information relating to the purchases of our common stock during the quarter ended March 31, 2015 in accordance with Item 703 of Regulation S-K:

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased (1)</b>	<b>(b) Average Price Paid per Share (or Unit) (\$)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Program</b>
January 1, 2015 – January 31, 2015	—	\$ 0.00	Not applicable	Not applicable
February 1, 2015 – February 28, 2015	35,853	44.35	Not applicable	Not applicable
March 1, 2015 – March 31, 2015	—	0.00	Not applicable	Not applicable
Quarter ended March 31, 2015	<u>35,853</u>	<u>\$ 44.35</u>		

- (1) Represents shares withheld by, or delivered to, the Company pursuant to provisions in agreements with recipients of restricted stock granted under the Company's 2014 Stock Incentive Plan allowing the Company to withhold, or the recipient to deliver to the Company, the number of shares having the fair value equal to tax withholding due.

**Item 5. Other Information***Extensions of Severance Agreements for Executive Officers (other than the Chairman, President and Chief Executive Officer)*

On May 6, 2015, the Company entered into extensions of the Severance Agreements for executive officers of the Company (other than the Chairman, President and Chief Executive Officer) (the "Executive Severance Agreements") that were originally entered into on August 3, 2011. The original term of such Executive Severance Agreements (which are identical for each executive officer) was two years, unless extended by mutual agreement of the parties. The Company and the executive officers of the Company agreed to extend such Executive Severance Agreements in August 2013 for an additional two year term, and have now agreed to extend these Executive Severance Agreements for an additional two year term expiring in August 2017, unless further extended upon mutual agreement of the parties.

The form of Severance Agreement for executive officers of the Company (other than the Chairman, President and Chief Executive Officer) is filed herewith as Exhibit 10.1.

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### *Submission of Matters to a Vote of Security Holders*

The Company held its Annual Meeting of Stockholders on May 6, 2015. Only holders of the Company's common stock at the close of business on March 10, 2015 (the "Record Date") were entitled to vote at the Annual Meeting. As of the Record Date, there were 32,080,374 shares of common stock entitled to vote. A total of 29,626,183 shares of common stock (92.35%), constituting a quorum, were represented in person or by valid proxies at the Annual Meeting.

The stockholders voted on four proposals at the Annual Meeting. The proposals are described in detail in the Company's definitive proxy statement dated March 27, 2015. The final results for the votes regarding each proposal are set forth below.

**Proposal 1:** The Company's stockholders elected two directors to the Board to serve for a three year term until the 2018 annual meeting of stockholders. The votes regarding this proposal were as follows:

	For	Withhold	Broker Non-Votes
Frank H. Merlotti, Jr.	26,456,775	851,630	2,317,778
Patricia B. Robinson	26,516,628	791,777	2,317,778

**Proposal 2:** The Company's stockholders approved, on an advisory basis, the compensation of the Company's executive officers named in the Company's definitive proxy statement dated March 27, 2015. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
26,907,737	375,557	25,111	2,317,778

**Proposal 3:** The Company's stockholders approved the material terms for payment of annual cash incentive compensation to permit the compensation paid pursuant to such material terms to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
26,999,023	289,416	19,966	2,317,778

**Proposal 4:** The Company's stockholders ratified the selection of Ernst & Young LLP as the Company's independent registered accounting firm for the fiscal year ended December 31, 2015. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
29,122,292	494,089	9,802	0

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### **Item 6. Exhibits**

The Company files herewith the following exhibits:

- 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 Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014. Filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 and incorporated herein by reference.
- 3.3 Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K filed May 7, 2008 and incorporated herein by reference.
- 10.1 Form of Severance Agreement between Trex Company, Inc. and executive officers other than the Chairman, President and Chief Executive Officer. Filed herewith.
- 31.1 Certification of Chief Executive Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 31.2 Certification of Chief Financial Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
- 32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350. Filed herewith.
- 101.INS XBRL Instance Document. Filed herewith.
- 101.SCH XBRL Taxonomy Extension Schema Document. Filed herewith.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document. Filed herewith.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document. Filed herewith.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document. Filed herewith.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. Filed herewith.

**SIGNATURE**

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

**TREX COMPANY, INC.**

Date: May 8, 2015

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

**EXHIBIT INDEX**

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101.LAB	XBRL Taxonomy Extension Label Linkbase Document. Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. Filed herewith.

## SEVERANCE AGREEMENT

This Amended and Restated Severance Agreement is entered into as of \_\_\_\_\_, by and between \_\_\_\_\_ an individual (“Executive”) and Trex Company, Inc., a Delaware corporation (the “Company”).

## Recitals

Executive is an executive officer of the Company. The Company and Executive desire to set forth their agreement pursuant to which Executive will receive certain benefits upon severance from the Company under certain circumstances.

## Agreement

**Now, therefore**, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. Term. The term of this Agreement (the “Term”) shall begin on \_\_\_\_\_, and shall end on \_\_\_\_\_, unless this Agreement is extended by mutual agreement of the parties.

2. Termination of Employment.

(a) Termination by the Company for Cause or at the Election of Executive Without Good Reason. In the event Executive’s employment is terminated for Cause, as defined in Section 3(a), or at the election of Executive for any reason other than Good Reason, as defined in Section 3(b), the Company shall pay to Executive the compensation and benefits otherwise due and payable to him in a lump sum payment in cash, payable within 10 days after termination of employment, equal to the sum of (1) Executive’s then annual base salary (“Base Salary”) and any accrued vacation pay through the date of termination of employment, and (2) Executive’s annual bonus earned for the fiscal year immediately preceding the fiscal year in which the date of termination of employment occurs if such bonus has not been paid as of the date of termination of employment.

(b) Termination for Death or Disability. If Executive’s employment is terminated by death or because of Disability, as defined in Section 3(c), the Company shall pay to the estate of Executive or to Executive, as the case may be, a lump sum payment in cash, payable within 10 days after termination of employment, equal to the sum of (1) Executive’s accrued Base Salary and any accrued vacation pay through the date of termination of employment, and (2) Executive’s annual bonus earned for the fiscal year immediately preceding the fiscal year in which the date of termination of employment occurs if such bonus has not been paid as of the date of termination of employment.

(c) Termination by the Company Without Cause or By Executive for Good Reason. If Executive’s employment is terminated by the Company without Cause, or is terminated by Executive for Good Reason, at any time during the Term (including extensions thereof), except during the Change in Control Protection Period (as defined in Executive’s Change In Control Severance Agreement) (“Change in Control Severance Agreement”), Executive will be entitled to the following payments and benefits outlined in this Section 2(c):

(1) Payment of Accrued Obligations. The Company shall pay to Executive a lump sum payment in cash, no later than 10 days after the date of termination of employment, equal to the sum of (1) Executive’s accrued Base Salary and any accrued vacation pay through the date of termination of employment, and (2) Executive’s annual bonus earned for the fiscal year immediately preceding the fiscal year in which the date of termination of employment occurs if such bonus has not been paid as of the date of termination of employment.

(2) Payment of Severance. The Company shall pay to Executive a lump sum cash payment, no later than 10 days after such termination, equal to one (1) times Executive’s Final Pay as defined in Section 3(d). In the event Executive materially breaches any non-compete or confidentiality agreement then in effect with the Company, Executive agrees to return to the Company all amounts received under this Section 2(c)(2).

(3) Equity. Outstanding equity shall vest as follows: (1) The unexercised portions of all Options and SARs (as defined in the Trex Company, Inc. 2014 Stock Incentive Plan or a successor plan (“Incentive Plan”) granted to

Executive under the Incentive Plan that have not expired or been forfeited pursuant to their terms shall automatically accelerate and become fully exercisable, (2) the restrictions and conditions on all outstanding Restricted Stock and Restricted Stock Units (as defined in the Incentive Plan) granted to the Executive that have not expired or been forfeited pursuant to their terms shall immediately lapse and such Restricted Stock and Restricted Stock Units shall vest, and (3) all outstanding Restricted Stock Units and Restricted Stock (as defined in the Incentive Plan) granted to the Executive that are based upon performance of the Company over a certain period of time shall become payable at the Executive's target payment for the relevant performance period (regardless of the amount of the relevant performance period that precedes the termination of employment).

(4) Benefit Continuation. Commencing on the date immediately following Executive's date of termination of employment and continuing for 12 months (or such lesser time as required to avoid the imposition of additional taxes under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code")) (the "Welfare Benefit Continuation Period"), the Company shall cover Executive under the same type of Company-sponsored group health plan and dental plan (e.g., individual or family coverage) in which he was covered immediately prior to termination of employment. The Executive shall receive such continued coverage under the same terms and conditions (e.g., any requirement that employees pay all or any portion of the cost of such coverage) that would apply if Executive had continued to be an employee of the Company during the Welfare Benefit Continuation Period.

(5) For each month during the Welfare Benefit Continuation Period in which Executive's continued coverage under an insured plan is not possible, the Company shall, in lieu of providing the coverage described in the preceding paragraph, make a monthly cash payment to Executive equal to the monthly premium the Company would be charged for coverage of a similarly-situated employee. The Company shall not be obligated to "gross up" or otherwise compensate Executive for any taxes due on amounts paid pursuant to the preceding sentence.

(6) Notwithstanding any other provision of this Section 2(c), the Company's obligation to provide continued coverage (or, in lieu thereof, make a cash payment) pursuant to this Section 2(c) shall expire on the date Executive becomes covered under one or more plans sponsored by a new employer (other than a successor to the Company) that, at the sole discretion of the Administrator, as defined in Section 3(e), are determined to provide coverage at least equivalent in the aggregate to the benefits continued under Section 2(c)(4). The coverage period for purposes of the group health continuation requirements of Section 4980B of the Code shall commence at the expiration of the Welfare Benefit Continuation Period.

(7) Release. The Executive shall not be eligible to receive any payments or benefits provided in Section 2(c) (other than payments under Section 2(c)(1)) unless he first executes a written release and agreement provided by the Company and does not revoke such release and agreement within the time permitted therein for such revocation.

(8) Restriction on Timing of Distribution. Anything in this Agreement to the contrary notwithstanding, if (1) on Executive's date of termination of employment, any of the Company's stock is publicly traded on an established securities market or otherwise (within the meaning of Section 409A(a)(2)(B)(i) of the Code) and (2) as a result of such termination, Executive would receive any payment that, absent the application of this Section 2(c)(8), would be subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(1)(B) of the Code, then no such payment shall be payable prior to the date that is the earliest of (x) six months after Executive's date of termination of employment, (y) Executive's death or (z) such other date as will cause such payment not to be subject to such interest and additional tax. For the avoidance of doubt, upon the Executive's involuntary separation from service (as defined in Treas. Regs. §1.409A-1(n)), the preceding sentence shall not prevent payment to the Executive during such six-month period of an aggregate amount not exceeding the lesser of (a) two (2) times the sum of the Executive's annualized compensation based upon the annual rate of pay for his taxable year preceding the taxable year of the separation from service, or (b) two (2) times the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the Executive has a separation from service, as permitted pursuant to Treas. Regs. §1.409A-1(b)(9)(iii).

(d) Termination During a Change in Control Protection Period. If Executive's employment is terminated during a Change in Control Protection Period (as that term is defined in Executive's Change in Control Severance Agreement), Executive shall be entitled to receive such severance payments and benefits as are set forth in Executive's Change in Control Severance Agreement, and shall not be entitled to any benefits under this Section 2.

### 3. Definitions.

(a) “Cause” means one of the following reasons for which the Executive’s employment with the Company is terminated: (1) Executive’s willful or grossly negligent misconduct that is materially injurious to the Company; (2) Executive’s embezzlement or misappropriation of funds or property of the Company; (3) Executive’s conviction of a felony or the entrance of a plea of guilty or nolo contendere to a felony; (4) Executive’s conviction of any crime involving fraud, dishonesty, moral turpitude or breach of trust or the entrance of a plea of guilty or nolo contendere to such a crime; or (5) Executive’s willful failure or refusal by Executive to devote his full business time (other than on account of disability or approved leave) and attention to the performance of his duties and responsibilities if such breach has not been cured within 15 days after written notice thereof is given to the Executive by the Board.

(b) For the purposes of this Agreement, “Good Reason” shall exist upon: (1) a material and adverse change in Executive’s status or position(s) as an officer or management employee of the Company, including, without limitation, any adverse change in his status or position as an employee of the Company as a result of a material diminution in his duties or responsibilities (other than, if applicable, any such change directly attributable to the fact that the Company is no longer publicly owned) or the assignment to him of any duties or responsibilities which are materially inconsistent with such status or position(s) (other than any isolated and inadvertent failure by the Company that is cured promptly upon his giving notice), or any removal of Executive from or any failure to reappoint or reelect him to such position(s) (except in connection with Executive’s termination other than for Good Reason); (2) a 10% or greater reduction in Executive’s aggregate Base Salary and targeted bonus, other than any such reduction proportionately consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company; (3) Company’s requiring Executive to be based at an office that is both more than 50 miles from where his office is located and further from his then current residence; or (4) a material breach by the Company of this Agreement; provided, however, that if any of the conditions in this Section 3(b) exists, Executive must provide notice to the Company no more than ninety (90) calendar days following the initial existence of the condition and his intention to terminate his employment for Good Reason. Upon such notice, the Company shall have a period of thirty (30) calendar days during which it may remedy the condition.

(c) For the purposes of this Agreement, the term “Disability” shall have the meaning given that term under the Trex Company, Inc. disability plan carrier, as in effect at the time a determination of Disability is to be made.

(d) For the purposes of this Agreement, the term “Final Pay” shall be defined as the sum of (1) Executive’s Base Salary in effect at the time employment terminates (without taking into consideration a reduction in Base Salary which constitutes “Good Reason” as provided in Section 3(b)(2) above), and (2) the greater of (A) Executive’s targeted cash bonus for the year immediately prior to the year in which employment terminates or (B) the actual cash bonus earned by the Executive for the year immediately prior to the year in which employment terminates.

(e) For the purposes of this Agreement, the term “Administrator” means the Compensation Committee of the Board of Directors or such other person or persons appointed from time to time by the Committee.

4. Notices. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered, sent by overnight courier, or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by telegram, telecopy, or telex, addressed, in the case of Executive, to Executive’s address as shown on the Company’s records and, in the case of the Company, to the Company’s principal office, to the attention of the General Counsel, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

5. Entire Agreement. This Agreement, together with the Executive’s Change In Control Severance Agreement, any stock appreciation rights agreement, restricted stock agreement and/or any other equity agreement issued pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan (or a predecessor or successor plan), any Director/Officer Indemnification Agreement, and any restrictive covenant agreement, constitute the entire agreement between the parties and supersede all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

6. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and Executive.

7. Governing Law. This Agreement shall be construed, interpreted and enforced as a sealed instrument under and in accordance with the laws of the Commonwealth of Virginia, without reference to the conflicts of laws provisions thereof. Any action, suit or other legal proceeding which is commenced to resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the Commonwealth of Virginia (or, if appropriate, a federal court located within Virginia), and the Company and Executive each consents to the jurisdiction of such a court.

8. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business, provided, however, that the obligations of Executive are personal and shall not be assigned by him. Notwithstanding the foregoing, in the event of Executive's death, any payments that Executive was otherwise entitled to under this Agreement shall be made to his estate.

9. Acknowledgment. Executive states and represents that he has had an opportunity to fully discuss and review the terms of this Agreement with an attorney. The Executive further states and represents that he has carefully read this Agreement, understands the contents herein, freely and voluntarily assents to all of the terms and conditions hereof, and signs his name of his own free act. The Company represents that it has obtained all necessary consents and approvals to execute this Agreement.

10. Miscellaneous.

(a) No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(b) The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

(c) Termination of employment under this Agreement shall mean a separation from service under Section 409A of the Code.

(d) In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

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

Trex Company, Inc.

\_\_\_\_\_

Executive:

\_\_\_\_\_

Name: \_\_\_\_\_

## CERTIFICATION

I, Ronald W. Kaplan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2015

/s/ Ronald W. Kaplan

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Ronald W. Kaplan

Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, James E. Cline, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function(s)):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2015

/s/ James E. Cline

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James E. Cline

Senior Vice President and Chief Financial Officer (Principal  
Financial Officer)

**Written Statement of Chief Executive Officer and Chief Financial Officer**  
**Pursuant to Section 906**  
**of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)**

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

- (a) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2015 filed on the date hereof with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2015

/s/ Ronald W. Kaplan

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Ronald W. Kaplan  
Chairman, President and Chief Executive Officer

Date: May 8, 2015

/s/ James E. Cline

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James E. Cline  
Senior Vice President and Chief Financial Officer