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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2021
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 001-14649

Trex Company, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	**TREX**	**New York Stock Exchange**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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 $0.01 per share, outstanding at April 23, 2021 was 115,361,970 shares.

TREX COMPANY, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended March 31,	
	2021	2020
Net sales	$ 245,524	$ 200,395
Cost of sales	149,723	110,699
Gross profit	95,801	89,696
Selling, general and administrative expenses	31,312	34,561
Income from operations	64,489	55,135
Interest income, net	(3)	(522)
Income before income taxes	64,492	55,657
Provision for income taxes	15,947	13,255
Net income	$ 48,545	$ 42,402
Basic earnings per common share	$ 0.42	$ 0.37
Basic weighted average common shares outstanding	115,663,366	116,259,058
Diluted earnings per common share	$ 0.42	$ 0.36
Diluted weighted average common shares outstanding	116,017,400	116,647,442
Comprehensive income	$ 48,545	$ 42,402

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands)

	March 31, 2021	December 31, 2020
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 8,221	$ 121,701
Accounts receivable, net	309,527	106,748
Inventories	75,012	68,238
Prepaid expenses and other assets	17,322	25,310
Total current assets	410,082	321,997
Property, plant and equipment, net	378,167	336,537
Goodwill and other intangible assets, net	73,560	73,665
Operating lease assets	33,672	34,382
Other assets	4,809	3,911
Total assets	$ 900,290	$ 770,492
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 39,167	$ 38,622
Accrued expenses and other liabilities	55,058	62,331
Accrued warranty	5,400	5,400
Line of credit	136,000	—
Total current liabilities	235,625	106,353
Operating lease liabilities	27,420	28,579
Non-current accrued warranty	24,145	24,073
Deferred income taxes	22,956	22,956
Total liabilities	310,146	181,961
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value, 180,000,000 shares authorized; 140,643,173 and140,577,005 shares issued and 115,361,396 and 115,799,503 shares outstanding at March 31, 2021 and December 31, 2020, respectively	1,406	1,406
Additional paid-in capital	124,678	126,087
Retained earnings	785,856	737,311
Treasury stock, at cost, 25,281,777 and 24,777,502 shares at March 31, 2021 and December 31, 2020, respectively	(321,796)	(276,273)
Total stockholders' equity	590,144	588,531
Total liabilities and stockholders' equity	$ 900,290	$ 770,492

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
(In thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance, December 31, 2020	115,799,503	$1,406	$126,087	$737,311	24,777,502	$(276,273)	$588,531
Net income	—	—	—	48,545	—	—	48,545
Employee stock plans	28,286	—	460	—	—	—	460
Shares withheld for taxes on awards	(38,212)	—	(4,045)	—	—	—	(4,045)
Stock-based compensation	76,094	—	2,176	—	—	—	2,176
Repurchases of common stock	(504,275)	—	—	—	504,275	(45,523)	(45,523)
Balance, March 31, 2021	115,361,396	$1,406	$124,678	$785,856	25,281,777	$(321,796)	$590,144

	Common Stock		Additional Paid-In	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance, December 31, 2019	116,481,442	$1,404	$123,294	$561,680	23,893,484	$(237,203)	$449,175
Net income	—	—	—	42,402	—	—	42,402
Employee stock plans	32,772	—	299	—	—	—	299
Shares withheld for taxes on awards	(76,284)	—	(3,856)	—	—	—	(3,856)
Stock-based compensation	152,408	—	2,775	—	—	—	2,775
Repurchases of common stock	(884,018)	—	—	—	884,018	(39,072)	(39,072)
Balance, March 31, 2020	115,706,320	$1,404	$122,512	$604,082	24,777,502	$(276,275)	$451,723

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Operating Activities		
Net income	$ 48,545	$ 42,402
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6,423	3,851
Stock-based compensation	2,176	2,775
Gain on disposal of property, plant and equipment	(98)	(123)
Other non-cash adjustments	77	32
Changes in operating assets and liabilities:		
Accounts receivable	(202,781)	(162,780)
Inventories	(6,774)	(2,610)
Prepaid expenses and other assets	(809)	1,059
Accounts payable	10,494	8,865
Accrued expenses and other liabilities	(14,453)	(14,089)
Income taxes receivable/payable	14,626	11,850
Net cash used in operating activities	(142,574)	(108,768)
Investing Activities		
Expenditures for property, plant and equipment	(58,093)	(22,733)
Proceeds from sales of property, plant and equipment	293	2,136
Net cash used in investing activities	(57,800)	(20,597)
Financing Activities		
Borrowings under line of credit	142,000	36,500
Principal payments under line of credit	(6,000)	(8,000)
Repurchases of common stock	(49,566)	(42,929)
Proceeds from employee stock purchase and option plans	460	300
Net cash provided by (used in) financing activities	86,894	(14,129)
Net decrease in cash and cash equivalents	(113,480)	(143,494)
Cash and cash equivalents, beginning of period	121,701	148,833
Cash and cash equivalents, end of period	$ 8,221	$ 5,339
Supplemental Disclosure:		
Cash paid for interest	$ 92	$ 1
Cash paid for income taxes, net	$ 1,319	$ 1,405

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2020 and 2019
(Unaudited)

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (Company) is the world's largest manufacturer of high-performance, low-maintenance wood-alternative decking and residential railing and outdoor living products and accessories, marketed under the brand name Trex®, with more than 25 years of product experience. A majority of its products are manufactured in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. Also, the Company is a leading national provider of custom-engineered railing and staging systems for the commercial and multi-family market, including sports stadiums and performing arts venues. The Company operates in two reportable segments, Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial). 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.

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 and, accordingly, the accompanying unaudited condensed consolidated financial statements do not include all of the information and notes 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 unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Trex Commercial Products, Inc., for all periods presented.

The unaudited consolidated results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021. The Company's results of operations are affected by economic conditions, including macroeconomic conditions and levels of business confidence. As of the date of this report, the Company has not experienced any material disruptions to its operations, production or its supply chain and has not experienced any material reduction in demand for its products due to the COVID-19 pandemic. However, even though a vaccine has been approved, the pandemic remains an evolving situation due to the continuation of the outbreak and any future measures that may be taken to contain the spread of the virus. The Company is actively managing its business to respond to the impact and continuing to ensure the safety of its employees.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 included in the Annual Report of Trex Company, Inc. on Form 10-K, as filed with the U.S. Securities and Exchange Commission.

3. RECENTLY ADOPTED ACCOUNTING STANDARDS

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*". The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The Company adopted the standard on a prospective basis on January 1, 2021. Adoption did not have a material effect on its consolidated financial statements.

4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In March 2020, the FASB issued ASU No. 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*". The guidance provides temporary optional expedients and exceptions related to contract modifications and hedge accounting to ease entities' financial reporting burdens as the market transitions from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. The new guidance allows entities to elect not to apply certain modification accounting requirements, if certain criteria are met, to contracts affected by what the guidance calls reference rate reform. An entity that makes this election would consider changes in reference rates and other contract modifications related to reference rate reform to be events that do not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The ASU notes that changes in contract terms that are made to effect the reference rate reform transition are considered related to the replacement of a reference rate if they are not the result of a business decision that is separate from or in addition to changes to the terms of a contract to effect that transition. The guidance is effective upon issuance and generally can be applied as of March 12, 2020 through December 31, 2022. The Company does not expect adoption of the guidance to have a material effect on its consolidated financial statements.

5. INVENTORIES

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

	March 31, 2021	December 31, 2020
Finished goods	$ 45,688	$ 39,048
Raw materials	44,407	44,475
Total FIFO (first-in, first-out) inventories	90,095	83,523
Reserve to adjust inventories to LIFO value	(16,821)	(16,821)
Total LIFO inventories	$ 73,274	$ 66,702

The Company utilizes the LIFO method of accounting to its Trex Residential wood-alternative decking and residential railing products, which generally provides for the 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. Since inventory levels and costs are subject to factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation. As of March 31, 2021, there were no LIFO inventory liquidations or related impact on cost of sales in the three months ended March 31, 2021.

Inventories valued at lower of cost (FIFO method) and net realizable value were $1.7 million at March 31, 2021 and $1.5 million at December 31, 2020, consisting primarily of raw materials. The Company utilizes the FIFO method of accounting to its Trex Commercial products.

6. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following (in thousands):

	March 31, 2021	December 31, 2020
Prepaid expenses	$ 7,640	$ 7,285
Revenues in excess of billings	6,499	6,612
Contract retainage	2,896	2,267
Income tax receivable	—	7,823
Other	287	1,323
Total prepaid expenses and other assets	$ 17,322	$ 25,310

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill by reportable segment at March 31, 2021 and December 31, 2020 was $14.2 million for Trex Residential and $54.3 million for Trex Commercial.

The Company's intangible assets consist of domain names. At March 31, 2021 and December 31, 2020, intangible assets were $6.3 million and accumulated amortization was $1.2 million and $1.1 million, respectively. Intangible asset amounts were determined based on the estimated economics of the asset and are amortized over the estimated useful lives on a straight-line basis over 15 years, which approximates the pattern in which the economic benefits are expected to be received. The Company evaluates the recoverability of intangible assets periodically and considers events or circumstances that may warrant revised estimates of useful lives or that may indicate an impairment. Intangible asset amortization expense for the three months ended March 31, 2021 and March 31, 2020 was $0.1 million and $0.1 million, respectively.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following (in thousands):

	March 31, 2021	December 31, 2020
Sales and marketing	$ 19,861	$ 22,938
Compensation and benefits	10,902	21,156
Income taxes	7,193	389
Operating lease liabilities	7,130	6,708
Manufacturing costs	2,813	3,641
Billings in excess of revenues	1,189	1,244
Customer deposits	1,086	1,174
Other	4,884	5,081
Total accrued expenses and other liabilities	$ 55,058	$ 62,331

9. DEBT

The Company's outstanding debt consists of a revolving credit facility. The Company had $136 million in outstanding borrowings under its revolving credit facility and remaining available borrowing capacity of $214 million at March 31, 2021.

Revolving Credit Facility

On November 5, 2019, the Company entered into a Fourth Amended and Restated Credit Agreement (Fourth Amended Credit Agreement) as borrower, Trex Commercial Products, Inc., as guarantor; Bank of America, N.A. as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, and Truist Bank, arranged by BOA Securities, Inc., as Sole Lead Arranger and Sole Bookrunner, to amend and restate the Third Amended and Restated Credit Agreement (Third Amended Credit Agreement), dated as of January 12, 2016, as amended. The Fourth Amended Credit Agreement provides the Company with one or more Revolving Loans in a collective maximum principal amount of $250 million from January 1 through June 30 of each year and a maximum principal amount of $200 million from July 1 through December 31 of each year throughout the term, which ends November 5, 2024.

On May 26, 2020, the Company entered into a First Amendment to the Original Credit Agreement (the First Amendment) to provide for an additional $100 million line of credit through May 26, 2022. The purpose of the additional $100 million line of credit is primarily to reduce risk associated with the COVID-19 pandemic should the Company need to secure additional capital to continue its strategy of accelerating the conversion of wood decking to Trex composite decking and expanding its addressable market. As a matter of convenience, the parties incorporated the amendments to the Original Credit Agreement made by the First Amendment into a new Fourth Amended and Restated Credit Agreement (New Credit Agreement). In the New Credit Agreement, the revolving commitments under the Original Credit Agreement are referred to as Revolving A Commitments and the new $100 million line of credit is referred to as Revolving B Commitments. In the New Credit Agreement, all of the material terms and conditions related to the original line of credit (Revolving A Commitments) remain unchanged from the Original Credit Agreement.

Compliance with Debt Covenants and Restrictions

Pursuant to the terms of the Fourth Amended Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of March 31, 2021. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

10. LEASES

The Company leases office space, storage warehouses and certain plant equipment under various operating leases. The Company's operating leases have remaining lease terms of less than 1 year to 8 years. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

For the three months ended March 31, 2021 and March 31, 2020, total operating lease expense was $2.0 million and $2.1 million, respectively. The weighted average remaining lease term at March 31, 2021 and December 31, 2020 was 5.4 years and 5.6 years, respectively. The weighted average discount rate at March 31, 2021 and December 31, 2020 was 3.42% and 3.47%, respectively.

The following table includes supplemental cash flow information for the three months ended March 31, 2021 and March 31, 2020 and supplemental balance sheet information at March 31, 2021 and December 31, 2020 related to operating leases (in thousands):

	Three Months Ended March 31,	
Supplemental cash flow information	**2021**	**2020**
Cash paid for amounts included in the measurement of operating lease liabilities	$ 2,056	$ 2,143
Operating ROU assets obtained in exchange for lease liabilities	$ 1,038	$ —

Supplemental balance sheet information	**March 31, 2021**	**December 31, 2020**
Operating lease ROU assets	$ 33,672	$ 34,382
Operating lease liabilities:		
Accrued expenses and other current liabilities	$ 7,130	$ 6,708
Operating lease liabilities	27,420	28,579
Total operating lease liabilities	$ 34,550	$ 35,287

The following table summarizes maturities of operating lease liabilities at March 31, 2021 (in thousands):

Maturities of operating lease liabilities	
2021	$ 6,163
2022	7,723
2023	6,748
2024	6,390
2025	4,483
Thereafter	6,599
Total lease payments	38,106
Less imputed interest	(3,556)
Total operating lease liabilities	$ 34,550

11. 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, other current liabilities, and debt to approximate the fair value of the respective assets and liabilities on the Condensed Consolidated Balance Sheets at March 31, 2021 and December 31, 2020.

12. 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, 2021	Three Months Ended March 31, 2020
Numerator:		
Net income available to common shareholders	$ 48,545	$ 42,402
Denominator:		
Basic weighted average shares outstanding	115,663,366	116,259,058
Effect of dilutive securities:		
Stock appreciation rights and options	207,060	181,446
Restricted stock	146,974	206,938
Diluted weighted average shares outstanding	116,017,400	116,647,442
Basic earnings per share	$ 0.42	$ 0.37
Diluted earnings per share	$ 0.42	$ 0.36

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, 2021	Three Months Ended March 31, 2020
Stock appreciation rights	7,181	18,270
Restricted stock	23,079	—

Stock Repurchase Program

On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 11.6 million shares of the Company’s outstanding common stock (Stock Repurchase Program). On March 12, 2020, the Company suspended repurchases of its common stock under the Stock Repurchase Program due to the volatility and uncertainty in the stock market associated with the COVID-19 pandemic. On October 30, 2020, the Company lifted the suspension of repurchases of its common stock under the Stock Repurchase Program. As of March 31, 2021, the Company has repurchased 3.3 million shares of the Company’s outstanding common stock under the Stock Repurchase Program.

Stock Split

On July 29, 2020, the Company’s Board of Directors approved a two-for-one stock split of the Company’s common stock, par value, $0.01. The stock split was in the form of a stock dividend distributed on September 14, 2020, to stockholders of record at the close of business on August 19, 2020. The stock split entitled each stockholder to receive one additional share of common stock for each share they held as of the record date. All common stock share and per share data for all periods presented in the accompanying unaudited condensed consolidated financial statements and notes thereto have been retroactively adjusted to reflect the stock split.

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Trex Residential Products

Trex Residential principally generates revenue from the manufacture and sale of its high-performance, low-maintenance, eco-friendly wood-alternative composite decking and residential railing products and accessories. Substantially all of its revenues are from contracts with customers, which are purchase orders of short-term duration of less than one year. Its customers, in turn, sell primarily to the residential market, which includes replacement, remodeling and new construction related to outdoor living products. Trex Residential satisfies its performance obligations at a point in time. The shipment of each product is a separate performance obligation as the customer is able to derive benefit from each product shipped and no performance obligation remains after shipment. Upon shipment of the product, the customer obtains control over the distinct product and Trex Residential satisfies its performance obligation. Any performance obligation that remains unsatisfied at the end of a reporting period is part of a contract that has an original expected duration of one year or less. Any variable consideration related to the unsatisfied performance obligation is allocated wholly to the unsatisfied performance obligation, is recognized when the product ships and the performance obligation is satisfied and is included in “Accrued expenses and other liabilities, Sales and marketing” in Note 8 to the Condensed Consolidated Financial Statements.

Trex Commercial Products

Trex Commercial generates revenue from the manufacture and sale of its modular and architectural railing and staging systems. All of its revenues are from fixed-price contracts with customers. Trex Commercial contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and is, therefore, not distinct. The transaction price allocated to remaining performance obligations on contracts with an original duration greater than one year was $59.1 million as of March 31, 2021. The Company will recognize this revenue as contracts are completed, which is expected to occur within the next 24 months.

For the three months ended March 31, 2021 and March 31, 2020, net sales were disaggregated in the following tables by (1) market, (2) timing of revenue recognition, and (3) type of contract. The tables also include a reconciliation of the respective disaggregated net sales with the Company's reportable segments (in thousands).

Three Months Ended March 31, 2021	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$233,070	$ —	$233,070
Products transferred over time and fixed price contracts	—	12,454	12,454
	$233,070	$ 12,454	$245,524

Three Months Ended March 31, 2020	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$186,874	$ —	$186,874
Products transferred over time and fixed price contracts	—	13,521	13,521
	$186,874	$ 13,521	$200,395

14. STOCK-BASED COMPENSATION

The Company has one stock-based compensation plan, the 2014 Stock Incentive Plan (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 was subsequently amended and restated by the Company's Board of Directors in May 2014 and May 2018. 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. The total aggregate number of shares of the Company's common stock that may be issued under the Plan is 25,680,000 and as of March 31, 2021, the total number of shares available for future issuance is 11,193,906.

The following table summarizes the Company's stock-based compensation grants for the three months ended March 31, 2021:

	Stock Awards Granted	Weighted-Average Grant Price Per Share
Time-based restricted stock units	23,330	$ 103.89
Performance-based restricted stock units (a)	36,522	$ 86.26
Stock appreciation rights	15,029	$ 104.56

(a) Includes 26,511 of target performance-based restricted stock unit awards granted during the three months ended March 31, 2021, and adjustments of 4,813, (887), and 6,085 to grants due to the actual performance level achieved for restricted stock and restricted stock units awarded in 2020, 2019, and 2018, respectively.

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, 2021 and March 31, 2020 the data and assumptions shown in the following table were used:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Weighted-average fair value of grants	$ 51.84	$ 17.83
Dividend yield	0%	0%
Average risk-free interest rate	0.6%	1.4%
Expected term (years)	5	5
Expected volatility	58.7%	37.8%

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 and performance-based restricted stock units, 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. For the employee stock purchase plan, compensation expense is recognized related to the discount on purchases. Stock-based compensation expense is included in "Selling, general and administrative expenses" in the Condensed Consolidated Statements of Comprehensive Income. The following table summarizes the Company's stock-based compensation expense (in thousands):

	Three Months Ended March 31	
	2021	2020
Stock appreciation rights	$ 114	$ 354
Time-based restricted stock and restricted stock units	687	1,256
Performance-based restricted stock and restricted stock units	1,275	1,135
Employee stock purchase plan	100	30
Total stock-based compensation	$ 2,176	$ 2,775

Total unrecognized compensation cost related to unvested awards as of March 31, 2021 was $12.6 million. The cost of these unvested awards is being recognized over the requisite vesting period of each award.

15. INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2021 and March 31, 2020 was 24.7% and 23.8%, respectively, which resulted in expense of $15.9 million and $13.3 million, respectively. The increase of 0.9% in the effective tax rate was primarily due to a current year decrease in excess tax benefits from the exercise of share-based payments and an increase in non-deductible executive compensation.

During the three months ended March 31, 2021 and March 31, 2020, the Company realized $0.8 million and $1.0 million, respectively, of excess tax benefits from stock-based awards and recorded a corresponding benefit to income tax expense.

The Company analyzes its deferred tax assets each reporting period, considering all available positive and negative evidence in determining the expected realization of those deferred tax assets. As of March 31, 2021, the Company maintains a valuation allowance of $2.8 million against deferred tax assets primarily related to state tax credits it estimates will expire before they are realized.

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, 2021, for certain tax jurisdictions tax years 2017 through 2020 remain subject to examination. The Company believes that adequate provisions have been made for all tax returns subject to examination. Sales made to foreign distributors are not taxable in any foreign jurisdiction as the Company does not have a taxable presence in any foreign jurisdiction.

16. SEGMENT INFORMATION

The Company operates in two reportable segments:

- Trex Residential manufactures wood-alternative decking and residential railing and related products marketed under the brand name Trex®. Trex Residential products are sold to distributors and home centers for final resale primarily to the residential market, which includes replacement, remodeling and new construction related to outdoor living products.
- Trex Commercial designs, engineers, and markets modular and architectural railing and staging systems for the commercial and multi-family market, including sports stadiums and performing arts venues. Trex Commercial products are marketed to architects, specifiers, contractors, and others doing business within the commercial and multi-family market.

The Company's reportable segments have been determined in accordance with its internal management structure, which is organized based on residential and commercial sales activities. The Company evaluates performance of each segment primarily based on net sales and earnings before interest, income taxes, depreciation and amortization (EBITDA). The Company uses net sales to assess performance and allocate resources as this measure represents the amount of business the segment engaged in during a given period of time, is an indicator of market growth and acceptance of segment products, and represents the segment's customers' spending habits along with the amount of product the segment sells relative to its competitors. The Company uses EBITDA to assess performance and allocate resources because it believes that EBITDA facilitates performance comparison between the segments by eliminating interest, income taxes, and depreciation and amortization charges to income. The below segment data for the three months ended March 31, 2021 and March 31, 2020 includes data for Trex Residential and Trex Commercial (in thousands):

Segment Data:

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net sales	$ 233,070	$ 12,454	$245,524	$ 186,874	$ 13,521	$200,395
Net income (loss)	$ 48,745	$ (200)	$ 48,545	$ 41,020	$ 1,382	$ 42,402
EBITDA	$ 70,964	$ (52)	$ 70,912	$ 56,950	$ 2,036	$ 58,986
Depreciation and amortization	$ 6,210	$ 213	$ 6,423	$ 3,664	$ 187	$ 3,851
Income tax expense (benefit)	$ 16,012	$ (65)	$ 15,947	$ 12,788	$ 467	$ 13,255
Capital expenditures	$ 56,563	$ 1,530	$ 58,093	$ 22,416	$ 317	$ 22,733
Total assets	$ 808,864	$ 91,426	$900,290	$ 539,352	$ 91,504	$630,856

Reconciliation of Net Income to EBITDA:

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net income (loss)	$ 48,745	$ (200)	$ 48,545	$ 41,020	$ 1,382	$ 42,402
Interest income, net	(3)	—	(3)	(522)	—	(522)
Income tax expense (benefit)	16,012	(65)	15,947	12,788	467	13,255
Depreciation and amortization	6,210	213	6,423	3,664	187	3,851
EBITDA	$ 70,964	$ (52)	$ 70,912	$ 56,950	$ 2,036	$ 58,986

17. SEASONALITY

The operating results for Trex Residential have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for its products to a later period. As part of its normal business practice and consistent with industry practice, Trex Residential has historically offered incentive programs to its distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of its product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs. The operating results for Trex Commercial have not historically varied from quarter to quarter as a result of seasonality. However, they are driven by the timing of individual projects, which may vary each quarterly period.

18. COMMITMENTS AND CONTINGENCIES

Product Warranty

The Company warrants that its decking and residential railing products will be free from material defects in workmanship and materials for warranty periods ranging from 10 years to 25 years, depending on the product and its 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. Depending on the product and its use, the Company also warrants its Trex Commercial products will be free of manufacturing defects for one to three years.

The Company continues to receive and settle claims for products manufactured at its Nevada facility prior to 2007 that exhibit surface flaking 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.

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 (collectively, elements). Estimates for these elements are quantified using a range of assumptions derived from claim count history and the identification of factors influencing the claim counts. The cost per claim varies due to a number of factors, including the size of affected decks, the availability and 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. Typically, a majority of surface flaking claims received in a year are received during the summer outdoor season, which spans the second and third quarters. It has been the Company’s practice to utilize the actuarial techniques discussed above during the third quarter, after a significant portion of all claims has been received for the fiscal year and variances to annual claims expectations are more meaningful.

The number of incoming claims received in the three months ended March 31, 2021, was higher than the number of claims received in the three months ended March 31, 2020 and exceeded the Company’s expectations for the first quarter of 2021. Average cost per claim experienced in the three months ended March 31, 2021 was higher than that experienced in the three months ended March 31, 2020 but was consistent with the Company’s expectations for the current year. The Company estimates that average cost per claim will increase in future years, primarily due to inflation. The Company believes its reserve at March 31, 2021 is sufficient to cover future surface flaking obligations.

The Company’s analysis is based on currently known facts and a number of assumptions, as discussed above, and current expectations. 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 actual warranty liabilities to be higher or lower than those projected, which could materially affect the Company’s consolidated financial condition, results of operations or cash flows. The Company estimates that the annual number of claims received will decline over time and that the average cost per claim will increase, primarily due to inflation. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases or decreases to the warranty reserve and a decrease or an increase in 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 $2.1 million change in the surface flaking warranty reserve.

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

	Three Months Ended March 31, 2021		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 21,325	$ 8,148	$ 29,473
Provisions and changes in estimates	—	1,092	1,092
Settlements made during the period	(604)	(416)	(1,020)
Ending balance, March 31	$ 20,721	$ 8,824	$ 29,545

	Three Months Ended March 31, 2020		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 19,024	$ 6,470	$ 25,494
Provisions and changes in estimates	—	321	321
Settlements made during the period	(557)	(168)	(725)
Ending balance, March 31	$ 18,467	$ 6,623	$ 25,090

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.

Fire at Virginia Facility

On March 13, 2021, an electrical fire occurred at one of the Company's manufacturing buildings in its Virginia complex. No injuries occurred from the event. The building was off-line while damage to the building's electrical systems was addressed. Repairs were substantially completed at the end of March 2021. The Company has insurance coverage for repairs, incremental direct costs to serve its customers, and losses in operating income from the loss in net sales. No proceeds from the insurance recovery were received during the three months ended March 31, 2021.

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

The following management discussion should be read in conjunction with the Trex Company, Inc. (Company, we or our) Annual Report on Form 10-K for the year ended December 31, 2020 filed with the U.S. Securities and Exchange Commission (SEC) and the condensed consolidated financial statements and notes thereto included in Part I, Item 1. "Financial Statements" of this quarterly report.

EXPLANATORY NOTE: On July 29, 2020, the Board of Directors of the Company approved a two-for-one stock split of the Company's common stock, par value $0.01. The stock split was in the form of a stock dividend distributed on September 14, 2020, to stockholders of record at the close of business on August 19, 2020. The stock split entitled each stockholder to receive one additional share of common stock, par value $0.01, for each share they held as of the record date. All common stock share and per share data for all periods presented have been retroactively adjusted to reflect the stock split.

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, 2019 filed with the SEC, and the factor discussed under "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. 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 current and newly developed 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 and raw materials; the Company's ability to obtain raw materials, including scrap polyethylene, wood fiber, and other materials used in making our products, at acceptable prices; the Company's ability to maintain product quality and product performance at an acceptable cost; the Company's ability to increase throughput and capacity to adequately match supply with demand; the level of expenses associated with product replacement and consumer relations expenses related to product quality; the highly competitive markets in which the Company operates; cyber-attacks, security breaches or other security vulnerabilities; the impact of upcoming data privacy laws and the EU General Data Protection Regulation and the related actual or potential costs and consequences; material adverse impacts from global public health pandemics, including the strain of coronavirus known as COVID-19; and material adverse impacts related to labor shortages or increases in labor costs.

OVERVIEW

Operations and Products: Trex Company, Inc. currently operates in two reportable segments: Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial). Refer to Note 16, *Segments*, in the Notes to the Condensed Consolidated Financial Statements in Part I. Item 1. *Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q for additional information. The Company is focused on using renewable resources within both our Trex Residential and Trex Commercial segments.

Trex Residential is the world's largest manufacturer of high-performance composite decking and residential railing products, which are marketed under the brand name Trex® and manufactured in the United States. We offer a comprehensive set of aesthetically appealing and durable, low-maintenance product offerings in the decking, residential railing, fencing and outdoor lighting categories. A majority of the products are eco-friendly and leverage recycled materials to the extent possible. Trex Residential decking is made in a proprietary process that combines reclaimed wood fibers and recycled polyethylene film, making Trex one of the largest recyclers of plastic film in North America. In addition to resisting fading and surface staining, Trex Residential products require no sanding and sealing, resist moisture damage, provide a splinter-free surface and do not require chemical treatment against rot or insect infestation. Combined, these aspects yield significant aesthetic advantages and lower maintenance than wood decking and railing and ultimately render Trex products less costly than wood over the life of the deck. Special characteristics (including resistance to splitting, the ability to bend, and ease and consistency of machining and finishing) facilitate installation, reduce contractor call-backs and afford consumers a wide range of design options. Trex Residential products are sold to distributors and home centers for final resale primarily to the residential market.

Trex offers the following products through Trex Residential:

Decking and Accessories	Our principal decking products are Trex Transcend®, Trex Select® and Trex Enhance®. In addition, our Trex Transcend decking product can also be used as cladding. Our high-performance, low-maintenance, eco-friendly composite decking products are comprised of a blend of 95 percent reclaimed wood fibers and recycled polyethylene film and feature a protective polymer shell for enhanced protection against fading, staining, mold and scratching. We also offer accessories to our decking products, including Trex Hideaway® and Trex DeckLighting™, an outdoor lighting system. Trex DeckLighting is a line of energy-efficient LED dimmable deck lighting, which is designed for use on posts, floors and steps. The line includes a post cap light, deck rail light, riser light and a recessed deck light.
Railing	Our residential railing products are Trex Transcend® Railing, Trex Select® Railing, Trex Enhance® Railing and Trex Signature® aluminum railing. Trex Transcend Railing, made from approximately 40 percent recycled content, is available in the colors of Trex Transcend decking and finishes that make it appropriate for use with Trex decking products as well as other decking materials, which we believe enhances the sales prospects of our railing products. Trex Select Railing, made from approximately 40 percent recycled content, is offered in a white finish and is ideal for consumers who desire a simple clean finished look for their deck. Trex Enhance, made from approximately 40 percent recycled content, is available in three colors and is offered through home improvement retailers in kits that contain the complete railing system. Trex Signature aluminum railing, made from a minimum of 50 percent recycled content, is available in three colors and designed for consumers who want a sleek, contemporary look.
Fencing	Our Trex Seclusions® fencing product is offered through two specialty distributors. This product consists of structural posts, bottom rail, pickets, top rail and decorative post caps.

Trex Commercial is a leading national provider of custom-engineered railing and staging systems. Trex Commercial designs and engineers custom solutions, which are prevalent in professional and collegiate sports facilities, commercial and high-rise applications, performing arts, sports, and event production and rentals. With a team of devoted engineers, and industry-leading reputation for quality and dedication to customer service, Trex Commercial markets to architects, specifiers, contractors, and building owners.

Trex offers the following products through Trex Commercial:

Architectural Railing Systems	Our architectural railing systems are pre-engineered guardrails with options to accommodate styles ranging from classic and elegant wood top rail combined with sleek stainless components and glass infill, to modern and minimalist stainless cable and rod infill choices. Trex Commercial can also design, engineer and manufacture custom railing systems tailored to the customer's specific material, style and finish. Many railing styles are achievable, including glass, mesh, perforated railing and cable railing.
Aluminum Railing Systems	Trex Signature® aluminum railing collection, made from a minimum of 50 percent recycled content, combines superior styling with the unparalleled strength of aluminum – making it an ideal railing choice for a variety of commercial settings. Its straightforward, unobtrusive design features traditional balusters and contemporary vertical rods, and can be installed with continuously graspable rail options for added safety, comfort and functionality. Trex Signature is available in a variety of colors and stock lengths to accommodate project needs.

Staging Equipment and Accessories	Our advanced modular, lightweight custom staging systems include portable platforms, orchestra shells, guardrails, stair units, barricades, camera platforms, VIP viewing decks, ADA infills, DJ booths, pool covers, and other custom applications. Our systems provide superior staging product solutions for facilities and venues with custom needs. Our modular stage equipment is designed to appear seamless, feel permanent, and maximize the functionality of the space.

Highlights for the three months ended March 31, 2021:

- Increase in net sales of 22.5%, or $45.1 million, to $245.5 million for the three months ended March 31, 2021 compared to $200.4 million for the three months ended March 31, 2020.
- Increase in net income to $48.5 million, or $0.42 per diluted share, for the three months ended March 31, 2021 compared to $42.4 million, or $0.36 per diluted share, for the three months ended March 31, 2020.
- Increase in EBITDA (earnings before interest, income tax and depreciation and amortization) of 20.2%, or $11.9 million, to $70.9 million for the three months ended March 31, 2021 compared to $59.0 million for the three months ended March 31, 2020.
- Capital expenditures of $58.1 million, primarily to increase production capacity at the Trex Residential facilities and for cost reduction initiatives and other production improvements.
- Repurchase of 504,275 shares of our outstanding common stock during the three months ended March 31, 2021 under our Stock Repurchase Program for a total 3.3 million shares repurchased under the program to date.

Net Sales. Net sales consist of sales and freight, net of discounts. The level of net sales is principally affected by sales volume and the prices paid for Trex products. Trex Residential operating results have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home and commercial improvement and residential and commercial construction and can shift demand for our products to a later period. As part of our normal business practice and consistent with industry practice, we have historically provided our distributors and dealers of our Trex Residential products incentives to build inventory levels before the start of the prime deck-building season to ensure adequate availability of our product to meet anticipated seasonal consumer demand and to enable production planning. These incentives include payment discounts, favorable payment terms, price discounts, or volume rebates on specified products and other incentives based on increases in purchases as part of specific promotional programs. The timing of our incentive programs can significantly impact sales, receivables and inventory levels during the offering period. In addition, the operating results for Trex Commercial are driven by the timing of individual projects, which may vary each quarterly period.

Gross Profit. Gross profit represents the difference between net sales and cost of sales. Cost of sales consists of raw material costs, direct labor costs, manufacturing costs, subcontract costs and freight. Raw material costs generally include the costs to purchase and transport reclaimed wood fiber, reclaimed polyethylene, pigmentation for coloring our products, and commodities used in the production of railing and staging. Direct labor costs include wages and benefits of personnel engaged in the manufacturing process. Manufacturing costs consist of costs of depreciation, utilities, maintenance supplies and repairs, indirect labor, including wages and benefits, and warehouse and equipment rental activities.

Selling, General and Administrative Expenses. The largest component of selling, general and administrative expenses is personnel related costs, which includes 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. 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 may vary from quarter to quarter due, in part, to the seasonality of our business.

Product Warranty. We warrant that our Trex Residential products will be free from material defects in workmanship and materials for warranty periods ranging from 10 years to 25 years, depending on the product and its use. If there is a breach of such warranties, we have an obligation either to replace the defective product or refund the purchase price. Depending on the product and its use, we also warrant our Trex Commercial products will be free of manufacturing defects for periods ranging from 1 year to 3 years.

We continue to receive and settle claims for decking products manufactured at our Trex Residential Nevada facility prior to 2007 that exhibit 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. Typically, a majority of surface flaking claims received in a fiscal year are received during the summer outdoor season, which spans the second and third fiscal quarters.

It has been our practice to utilize actuarial techniques during the third quarter, after a significant portion of all claims has been received for the fiscal year and variances to annual claims expectations are more meaningful. Our actuarial 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 our financial condition, results of operations or cash flows.

The number of incoming claims received in the three months ended March 31, 2021 was higher than the number of claims received in the three months ended March 31, 2020 and exceeded our expectations for the first quarter of 2021. Average cost per claim experienced in the three months ended March 31, 2021 was higher than that experienced in the three months ended March 31, 2020 but was consistent with expectations for the current year. We estimate that average cost per claim will increase in future years, primarily due to inflation.

We believe the reserve at March 31, 2021 is sufficient to cover future surface flaking obligations. Refer to Note 18, *Commitments and Contingencies, Product Warranty*, in the Notes to the Condensed Consolidated Financial Statements in Part I. Item 1. *Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q for additional information.

We estimate that the annual number of claims received will decline over time and that the average cost per claim will increase, primarily due to inflation. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases or decreases to the warranty reserve and a decrease or increase in earnings and cash flows in future periods. We estimate 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 $2.1 million change in the surface flaking warranty reserve.

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

	Three Months Ended March 31,	
	2021	**2020**
Claims open, beginning of period	1,799	1,724
Claims received (1)	214	205
Claims resolved (2)	(215)	(195)
Claims open, end of period	1,798	1,734
Average cost per claim (3)	$ 3,620	$ 3,331

(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 the average settlement cost of claims closed with payment during the period.

COVID-19. Our results of operations are affected by economic conditions, including macroeconomic conditions and levels of business and consumer confidence. The COVID-19 pandemic increased the level of volatility and uncertainty globally and created macroeconomic disruption. We are actively managing our business to respond to this health crisis, and we continue to evaluate the nature and extent of its impact. We have not experienced any material disruptions to our operations, production, supply chain, or any material reduction in demand for our products due to the COVID-19 pandemic. Even though vaccines have been approved and are being distributed, the pandemic remains an evolving situation. The extent and duration of the economic fallout from COVID-19 remains unclear. We are actively managing our business to respond to the impact, such as engaging with our distributor network regarding market demand, ongoing communications with our suppliers, and continuing to ensure the safety of our employees. Our commitment to stakeholders is to take the appropriate actions to ensure the safety and well-being of our employees and partners, comply with any governmental orders relating to COVID-19, which may result in a period of disruption to our business, while at the same time leveraging our strengths and ensuring financial flexibility.

We are following or exceeding all Centers for Disease Control and Prevention (CDC) and public officials' guidelines. We adopted a business continuity plan and local emergency response plans at each location. We continue to take precautionary measures, make contingency plans and improve our response to the developing situation. We have assembled a cross-functional team whose chief charge is to oversee our efforts to ensure the health and safety of all employees and supply product to our customers. That team constantly monitors the latest CDC, Federal, state and other regulatory guidance, works to secure personal protective equipment, finds new ways to help mitigate risk, and identifies opportunities for us to exceed recommendations.

We have implemented preventative or protective actions at our facilities, our corporate headquarters and with field sales personnel. In order to mitigate the spread of the virus, we instructed our employees to practice social distancing. In addition, face masks and other protective equipment have been distributed to employees across all of our facilities, and handwashing and hand sanitizing stations have been installed. We have installed air purifier systems for all enclosed areas in every one of our buildings. Our internal cleaning crew sanitizes an extensive checklist of high-touch items and areas across work facilities, and our facilities are cleaned repeatedly throughout each shift with CDC-recommended chemicals and disinfectants by internal and external groups.

Fire at Virginia Facility

On March 13, 2021, an electrical fire occurred at one of the Company's manufacturing buildings in its Virginia complex. No injuries occurred from the event. The building was off-line while damage to the building's electrical systems was addressed. Repairs were substantially completed at the end of March 2021. The Company has insurance coverage for repairs, incremental direct costs to serve its customers, and losses in operating income from the loss in net sales. No proceeds from the insurance recovery were received during the three months ended March 31, 2021.

RESULTS OF OPERATIONS

Below is the discussion and analysis of our operating results and material changes in our operating results for the three months ended March 31, 2021 (2021 quarter) compared to the three months ended March 31, 2020 (2020 quarter).

Three Months Ended March 31, 2021 Compared To The Three Months Ended March 31, 2020

Net Sales

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
	(dollars in thousands)			
Total net sales	$ 245,524	$ 200,395	$ 45,129	22.5%
Trex Residential net sales	$ 233,070	$ 186,874	$ 46,196	24.7%
Trex Commercial net sales	$ 12,454	$ 13,521	$(1,067)	(7.9)%

Total net sales increased by 22.5% in the 2021 quarter compared to the 2020 quarter reflecting a 24.7% increase in Trex Residential net sales and a 7.9% decrease in Trex Commercial net sales. The increase in Trex Residential net sales was substantially all due to volume growth across all residential product lines. The sustained broad-based demand continued to reflect strong secular trends, including growth in the outdoor living category, renewed focus on the home, the shift in population from urban to suburban and smaller metropolitan areas and consumers' increasing preference for environmentally sustainable products. In addition, we continue to benefit from our long-term growth strategy to convert consumers from wood decking to our eco-friendly Trex decking, a benefit that we believe is not only continuing but accelerating as we are still in the early stages of executing our strategy, providing us with a significant runway. As a result of our capacity expansion program at Trex Residential announced in 2019, the production lines at our new Virginia facility started coming online in the first quarter of 2021 and will continue to ramp up through the end of May giving us more available capacity to capture additional growth. Also, due to inflationary pressures, effective with January orders we took a mid single-digit price increase on certain product lines. The decrease in Trex Commercial net sales reflects the impact of the COVID-19 pandemic on the commercial construction business due to the delay in and deferral of the startup of new projects.

Gross Profit

	Three Months Ended March 31, 2021	2020	$ Change	% Change
		(dollars in thousands)		
Cost of sales	$ 149,723	$ 110,699	$ 39,024	35.3%
% of total net sales	61.0%	55.2%		
Gross profit	$ 95,801	$ 89,696	$ 6,105	6.8%
Gross margin	39.0%	44.8%		

Gross profit as a percentage of net sales, gross margin, was 39.0% in the 2021 quarter compared to 44.8% in the 2020 quarter. Gross margin for Trex Residential and Trex Commercial was 40.2% and 17.2%, respectively, in the 2021 quarter compared to 45.6% and 33.6%, respectively, in the 2020 quarter. Gross margin was unfavorably impacted by inflationary pressures on raw materials, start-up costs and increased depreciation related to our capacity expansion program at Trex Residential, and reduced overhead absorption due to the fire at the Virginia facility. The decrease in gross margin was partially offset by the price increase on certain product lines at Trex Residential. The decrease in Trex Commercial gross margin was due to product mix of lower margin projects and additional project costs.

Selling, General and Administrative Expenses

	Three Months Ended March 31, 2021	2020	$ Change	% Change
		(dollars in thousands)		
Selling, general and administrative expenses	$ 31,312	$ 34,561	$ (3,249)	(9.4)%
% of total net sales	12.8%	17.3%		

Selling, general and administrative expenses in the 2021 quarter were slightly lower than those in the 2020 quarter. The decrease in selling, general and administrative expenses was primarily the result lower branding spend and travel and entertainment expenses.

Provision for Income Taxes

	Three Months Ended March 31, 2021	2020	$ Change	% Change
		(dollars in thousands)		
Provision for income taxes	$ 15,947	$ 13,255	$ 2,692	20.3%
Effective tax rate	24.7%	23.8%		

The effective tax rate for the 2021 quarter of 24.7% was relatively unchanged with an increase of 0.9% compared to the effective tax rate of 23.8% for the 2020 quarter.

Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)[1] (in thousands)

Reconciliation of net income (GAAP) to EBITDA (non-GAAP):

	Three Months Ended March 31, 2021		
	Trex Residential	Trex Commercial	Total
Net income (loss)	$ 48,745	$ (200)	$ 48,545
Interest income, net	(3)	—	(3)
Income tax expense (benefit)	16,012	(65)	15,947
Depreciation and amortization	6,210	213	6,423
EBITDA	$ 70,964	$ (52)	$ 70,912

1 EBITDA represents net income before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States (GAAP). We have included data with respect to EBITDA because management believes it facilitates performance comparison between the Company and its competitors, and management evaluates the performance of its reportable segments using several measures, including EBITDA. Management considers EBITDA to be an important supplemental indicator of our core operating performance because it eliminates interest, income taxes, and depreciation and amortization charges to net income or loss. In relation to competitors, EBITDA eliminates differences among companies in capitalization and tax structures, capital investment cycles and ages of related assets. For these reasons, management believes that EBITDA provides important information regarding the operating performance of the Company and its reportable segments.

	Three Months Ended March 31, 2020		
	Trex Residential	Trex Commercial	Total
Net income	$ 41,020	$ 1,382	$ 42,402
Interest income, net	(522)	—	(522)
Income tax expense	12,788	467	13,255
Depreciation and amortization	3,664	187	3,851
EBITDA	$ 56,950	$ 2,036	$ 58,986

	Three Months Ended March 31,			
	2021	2020	$ Change	% Change
		(dollars in thousands)		
Total EBITDA	$ 70,912	$ 58,986	$ 11,926	20.2%
Trex Residential EBITDA	$ 70,964	$ 56,950	$ 14,014	24.6%
Trex Commercial EBITDA	$ (52)	$ 2,036	$ (2,088)	(102.6)%

Total EBITDA increased 20.2% to $70.9 million for the 2021 quarter compared to $59 million for the 2020 quarter. The increase was driven by a 24.6% increase in Trex Residential EBITDA, primarily due to the volume growth in net sales. The increase was partially offset by a decrease in Trex Commercial EBITDA related to a decrease in gross margin.

LIQUIDITY AND CAPITAL RESOURCES

We finance operations and growth primarily with cash flows from operations, borrowings under our revolving credit facilities, operating leases and normal trade credit terms from operating activities. At March 31, 2021 we had $8.2 million of cash and cash equivalents.

S*ources and Uses of Cash.* The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net cash used in operating activities	$ (142,574)	$ (108,768)
Net cash used in investing activities	(57,800)	(20,597)
Net cash provided by (used in) financing activities	86,894	(14,129)
Net decrease in cash and cash equivalents	$ (113,480)	$ (143,494)

Operating Activities

Cash used in operations was $142.6 million during the 2021 three-month period compared to cash used in operations of $108.8 million during the 2020 three-month period. The increase in the use of cash flows in operations was primarily due to higher working capital investment in accounts receivable as a result of the increase in Trex Residential net sales.

Investing Activities

Capital expenditures in the 2021 three-month period were $58.1 million, primarily for capacity expansion at our Trex Residential facilities, general plant cost reduction initiatives and other production improvements.

Financing Activities

Net cash provided by financing activities of $86.9 million in the 2021 quarter consisted of net borrowings on our line of credit of $136 million offset by repurchases of our common stock of $49.6 million.

Stock Repurchase Program. On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 11.6 million shares of the Company's outstanding common stock (Stock Repurchase Program). On March 12, 2020, the Company suspended repurchases of its common stock under the Stock Repurchase Program due to the volatility and uncertainty in the stock market associated with the COVID-19 pandemic. As of March 31, 2021, the Company has repurchased 3.3 million shares of the Company's outstanding common stock under the Stock Repurchase Program. On October 30, 2020, the Company lifted the suspension of repurchases of its common stock under the Stock Repurchase Program.

Stock Split. On July 29, 2020, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock, par value, $0.01. The stock split was in the form of a stock dividend distributed on September 14, 2020, to stockholders of record at the close of business on August 19, 2020. The stock split entitled each stockholder to receive one additional share of common stock for each share they held as of the record date. All common stock share and per share data for all periods presented in the accompanying unaudited condensed consolidated financial statements and notes thereto have been retroactively adjusted to reflect the stock split.

Indebtedness. Our Fourth Amended and Restated Credit Agreement (Fourth Amended Credit Agreement) provides us with revolving loan capacity in a collective maximum principal amount of $250 million from January 1 through June 30 of each year, and a maximum principal amount of $200 million from July 1 through December 31 of each year throughout the term, which ends November 5, 2024. At March 31, 2021, we had $136 million in outstanding borrowings under the revolving credit facilities and borrowing capacity under the facilities of $214 million.

On May 26, 2020, the Company entered into a First Amendment to the Original Credit Agreement (the First Amendment) to provide for an additional $100 million line of credit. The purpose of the additional $100 million line of credit is primarily to reduce risk associated with the COVID-19 pandemic should the Company need to secure additional capital to continue its strategy of accelerating the conversion of wood decking to Trex composite decking and expanding its addressable market. As a matter of convenience, the parties incorporated the amendments to the Original Credit Agreement made by the First Amendment into a new Fourth Amended and Restated Credit Agreement (New Credit Agreement). In the New Credit Agreement, the revolving commitments under the Original Credit Agreement are referred to as Revolving A Commitments and the new $100 million line of credit is referred to as Revolving B Commitments. In the New Credit Agreement, all of the material terms and conditions related to the original line of credit (Revolving A Commitments) remain unchanged from the Original Credit Agreement.

The Company entered into the First Amendment, as borrower; Trex Commercial Products, Inc. (TCP), as guarantor; Bank of America, N.A. (BOA), as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A. (Wells Fargo), who is also Syndication Agent; Truist Bank (Truist); and Regions Bank (Regions) (each, a Lender and collectively, the Lenders), arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner. The First Amendment further provides that the New Credit Agreement is amended and restated by changing Schedule 2.01 to add applicable Lender percentages related to the Revolving B Commitment for BOA of 47.5%, Well Fargo of 28.0% and Regions of 24.5%.

Compliance with Debt Covenants. Pursuant to the terms of the Fourth Amended Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of March 31, 2021. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

We believe that cash on hand, cash from operations and borrowings expected to be available under our revolving credit facilities, as amended, 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 products and new market developments and opportunities.

In addition, we believe our financial resources will allow us to manage the impact of the COVID-19 pandemic on the Company's business operations for the foreseeable future. However, as the impact of COVID-19 continues to evolve, we will continue to evaluate our financial position and liquidity needs in light of future developments.

Capital Requirements. In June 2019, we announced a new capital expenditure program to increase production capacity at our Trex Residential facilities in Virginia and Nevada. The new multi-year capital expenditure program is projected at approximately $200 million through the second quarter of 2021, and involves the construction of a new decking facility at the existing Virginia site and the installation of additional production lines at the Nevada site. The investment will allow us to increase production output for future projected growth related to our strategy of converting wood demand to Trex Residential wood-alternative composite decking. The production lines at our new Virginia facility started coming online in the first quarter of 2021 and will continue to ramp up through the end of May, one month ahead of schedule. When completed, our capacity expansion program will increase our Trex Residential production capacity by approximately 70 percent when compared to 2019 volume levels. Our capital expenditure guidance for 2021 is $130 million to $150 million. In addition to the above, our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, upgrading equipment and support systems, and acquisitions which fit our long-term growth strategy as we continue to evaluate opportunities that would be a good strategic fit for Trex, and return of capital to shareholders.

Inventory in Distribution Channels. We sell our Trex Residential decking and railing products through a tiered distribution system. We have over 50 distributors worldwide and two national retail merchandisers to which we sell our products. The distributors in turn sell the products to dealers and retail locations who in turn sell the products to end users. 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. We cannot definitively determine the level of inventory in the distribution channels at any time. We are not aware of any significant increases in the levels of inventory in the distribution channels at March 31, 2021 compared to inventory levels at March 31, 2020.

Seasonality. The operating results for Trex Residential have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for its products to a later period. As part of its normal business practice and consistent with industry practice, Trex Residential has historically offered incentive programs to its distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of its product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs. The operating results for Trex Commercial have not historically varied from quarter to quarter as a result of seasonality. However, they are driven by the timing of individual projects, which may vary significantly each quarterly period.

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 Annual Report on Form 10-K for the year ended December 31, 2020. There were no material changes to the Company's market risk exposure during the three months ended March 31, 2021.

Item 4. Controls and Procedures

The Company's management, with the participation of its President and 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, 2021. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. There have been no changes in the Company's internal control over financial reporting during the three-month period ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's 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 three months ended March 31, 2021 in accordance with Item 703 of Regulation S-K:

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit) ($)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum number of Shares (or Units) that May Yet Be Purchased Under the Plan or Program
January 1, 2021 – January 31, 2021	—	—	—	8,797,222
February 1, 2021 – February 28, 2021	201,212	$ 93.98	163,000	8,634,222
March 1, 2021 – March 31, 2021	341,275	$ 89.51	341,275	8,292,947
Quarterly period ended March 31, 2021	542,487		504,275	

(1) Includes 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.

(2) On February 16, 2018, the Company's Board of Directors authorized a common stock repurchase program of up to 11.6 million shares of the Company's outstanding common stock (Stock Repurchase Program). The Stock Repurchase Program was publicly announced on February 21, 2018. The Company purchased 504,275 shares of its common stock under the Stock Repurchase Program during the three months ended March 31, 2021.

Item 5. Other Information

Stock Split

On July 29, 2020, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock, par value, $0.01. The stock split was in the form of a stock dividend distributed on September 14, 2020, to stockholders of record at the close of business on August 19, 2020. The stock split entitled each stockholder to receive one additional share of common stock for each share they held as of the record date. All common stock share and per share data for all periods presented in the accompanying unaudited condensed consolidated financial statements and notes thereto have been retroactively adjusted to reflect the stock split. The Company amended the Trex Company, Inc. Amended and Restated 2014 Stock Incentive Plan (Plan) to adjust the aggregate number of shares of stock available for issuance under Plan to reflect the two-for-one stock split.

Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on May 6, 2021. Only holders of the Company's common stock at the close of business on March 10, 2021 (Record Date) were entitled to vote at the Annual Meeting. As of the Record Date, there were 115,859,557 shares of common stock entitled to vote. A total of 106,720,188 shares of common stock (92.11%), constituting a quorum, were represented in person or by valid proxies at the Annual Meeting.

The stockholders voted on three proposals at the Annual Meeting. The proposals are described in detail in the Company's definitive proxy statement dated March 23, 2021. The final results for the votes regarding each proposal are set forth below.

Proposal 1: The Company's stockholders elected three directors to the Board to serve for a three-year term until the 2024 annual meeting of stockholders and until their successors are duly elected and qualified. The votes regarding this proposal were as follows:

	For	Against	Abstain	Broker Non-Votes
James A. Cline	91,265,534	5,955,022	689,178	8,810,454
Bryan H. Fairbanks	95,701,457	1,660,017	548,260	8,810,454
Patricia B. Robinson	90,332,987	6,535,808	1,040,939	8,810,454
Gena C. Lovett	96,463,791	900,600	545,343	8,810,454

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 23, 2021. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
90,343,066	7,105,369	461,299	8,810,454

Proposal 3: The Company's stockholders ratified the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2021. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
104,053,811	2,600,618	65,759	—

Item 6. Exhibits

See Exhibit Index at the end of the Quarterly Report on Form 10-Q for the information required by this Item which is incorporated by reference.

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 10, 2021

By: /s/ Dennis C. Schemm
Dennis C. Schemm
Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
3.1	Restated Certificate of Incorporation of Trex Company, Inc.	S-1/A	3.1	March 24, 1999	333-63287
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014.	10-Q	3.2	May 5, 2014	001-14649
3.3	Second Certificate of Amendment to the Restated Certificate of Incorporation of Trex company, Inc. dated May 2, 2018.	10-Q	3.3	May 7, 2018	001-14649
3.4	Third Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 1, 2019.	8-K	3.1	May 1, 2019	001-14649
3.5	Fourth Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 29, 2020.	10-Q	3.5	May 4, 2020	001-14649
3.6	Amended and Restated By-Laws of the Company.	8-K	3.2	May 1, 2019	001-14649
4.1	Third Amended and Restated Credit Agreement dated as of January 12, 2016 between the Company, as borrower; the subsidiaries of the Company as guarantors; Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and Letter of Credit Issuer; and certain other lenders arranged by Bank of America Merrill Lynch as Sole Lead Arranger and Sole Bookrunner.	8-K	4.1	January 14, 2016	001-14649
4.2	Revolver Note dated January 12, 2016 payable by the Company to Bank of America, N.A. in the amount of the lesser of $110,000,000 or the outstanding revolver advances made by Bank of America, N.A.	8-K	4.2	January 14, 2016	001-14649
4.3	Revolver Note dated January 12, 2016 payable by the Company to Citibank, N.A. in the amount of the lesser of $75,000,000 or the outstanding revolver advances made by Citibank, N.A.	8-K	4.3	January 14, 2016	001-14649
4.4	Revolver Note dated January 12, 2016 payable by the Company to Capital One, N.A. in the amount of the lesser of $35,000,000 or the outstanding revolver advances made by Capital One, N.A.	8-K	4.4	January 14, 2016	001-14649
4.5	Revolver Note dated January 12, 2016 payable by the Company to SunTrust Bank in the amount of the lesser of $30,000,000 or the outstanding revolver advances made by SunTrust Bank.	8-K	4.5	January 14, 2016	001-14649
4.6	Third Amended and Restated Security and Pledge Agreement dated as of January 12, 2016 between the Company, as debtor, and Bank of America, N.A. as Administrative Agent (including Notices of Grant of Security Interest in Copyrights and Trademarks).	8-K	4.6	January 14, 2016	001-14649
4.7	Assignment of Amended and Restated Credit Line Deed of Trust, Substitution of Trustee and Amendment, dated as of January 12, 2016, by and among the Company as grantor, PRLAP, INC, as trustee, and Bank of America, N.A., as Administrative Agent for Bank of America, N.A., Citibank, N.A., Capital One, N.A., and SunTrust Bank, as Beneficiaries relating to real property partially located in the County of Frederick, Virginia and partially located in the City of Winchester, Virginia.	8-K	4.7	January 14, 2016	001-14649

Exhibit Number	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
4.8	Amended and Restated Deed of Trust, dated as of January 12, 2016, by and among the Company as grantor, First American Title Insurance Company, as trustee, and Bank of America, N.A., Citibank, N.A., Capital One, N.A., and SunTrust Bank, as Beneficiaries relating to real property located in the County of Fernley, Nevada.	8-K	4.8	January 14, 2016	001-14649
4.9	Fourth Amended and Restated Credit Agreement dated as of November 5, 2019 between the Company, as borrower; Trex Commercial Products, Inc., as guarantor, Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, SunTrust Bank, and Branch Banking and Trust Company arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner.	8-K	4.1	November 6, 2019	001-14649
4.10	First Amendment to the Credit Agreement by and among Trex Company, Inc. as borrower; Trex Commercial Products, Inc. as guarantor; Bank of America, N.A. as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent; Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner dated May 26, 2020.	8-K	4.1	May 28, 2020	001-14649
4.11	Fourth Amended and Restated Credit Agreement between the Company, as borrower; Trex Commercial Products, Inc., as guarantor, Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner, dated May 26, 2020.	8-K	4.2	May 28, 2020	001-14649
4.12	Note dated November 5, 2019 payable by the Company to Bank of America, N.A. in the amount of the lesser of $125,000,000 or the outstanding revolver advances made by Bank of America, N.A.	8-K	4.2	November 6, 2019	001-14649
4.13	Note dated November 5, 2019 payable by the Company to Wells Fargo Bank, N.A. in the amount of the lesser of $70,000,000 or the outstanding revolver advances made by Wells Fargo Bank, N.A.	8-K	4.3	November 6, 2019	001-14649
4.14	Note dated November 5, 2019 payable by the Company to SunTrust Bank in the amount of the lesser of $30,000,000 or the outstanding revolver advances made by SunTrust Bank.	8-K	4.4	November 6, 2019	001-14649
4.15	Note dated November 5, 2019 payable by the Company to Branch Banking and Trust Company in the amount of the lesser of $25,000,000 or the outstanding revolver advances made by Branch Banking and Trust Company.	8-K	4.5	November 6, 2019	001-14649
4.16	Note dated May 26, 2020 payable by the Company to Regions Bank.	8-K	4.6	May 28, 2020	001-14649

Exhibit Number	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
4.17	Fourth Amended and Restated Security and Pledge Agreement dated as of November 5, 2019 between the Company, as debtor, Trex Commercial Products, Inc., as additional obligor; and Bank of America, N.A. as Administrative Agent (including Notices of Grant of Security Interest in Copyrights and Trademarks).	8-K	4.6	November 6, 2019	001-14649
4.18	Description of Securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.	10-K	4.19	February 22, 2021	001-14649
10.1**	Description of Management Compensatory Plans and Arrangements.	10-K	10.1	February 14, 2019	001-14649
10.2**	Trex Company, Inc. Amended and Restated 2014 Stock Incentive Plan.	10-Q	10.4	November 2, 2020	001-14649
10.3**	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors.	10-K	10.3	February 22, 2021	001-14649
10.4**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Stock Appreciation Rights Agreement.	10-Q	10.1	July 29, 2019	001-14649
10.5**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Time-Based Restricted Stock Unit Agreement.	10-Q	10.2	July 29, 2019	001-14649
10.6**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Performance-Based Restricted Stock Unit Agreement.	10-Q	10.3	July 29, 2019	001-14649
10.7**	Form of Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors Restricted Stock Unit Agreement.	10-Q	10.2	August 3, 2015	001-14649
10.8**	Change in Control Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline.	8-K	10.1	May 8, 2015	001-14649
10.9**	Change-in-Control Severance Agreement, dated as of February 21, 2020, by and between Trex Company, Inc. and Bryan H. Fairbanks.	8-K	10.2	February 25, 2020	001-14649
10.10**	Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline.	8-K	10.2	May 8, 2015	001-14649
10.11**	Amended and Restated Severance Agreement, dated as of February 21, 2020, by and between Trex Company, Inc. and Bryan H. Fairbanks.	8-K	10.3	February 25, 2020	001-14649
10.12**	Form of Change in Control Severance Agreement between Trex Company, Inc. and Officers other than the Chief Executive Officer.	10-K	10.16	February 21, 2017	001-14649
10.13**	Form of Severance Agreement between Trex Company, Inc. and Officers other than the Chief Executive Officer.	10-Q	10.1	May 8, 2015	001-14649
10.14**	Form of Retention Agreement for Company Officers dated May 2, 2018.	10-Q	10.2	May 7, 2018	001-14649
10.15	Form of Indemnity Agreement for Directors.	10-K	10.19	March 12, 2009	001-14649
10.16	Form of Indemnity Agreement for Officers.	10-K	10.20	March 12, 2009	001-14649
10.17	Form of Indemnity Agreement for Director/Officers.	10-K	10.21	March 12, 2009	001.14649
10.18	Form of Distributor Agreement of Trex Company, Inc.	10-K	10.23	March 12, 2009	001-14649

Exhibit Number	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
10.19	Form of Trex Company, Inc. Fencing Agreement for Installers/Retailers.	10-Q	10.4	November 9, 2006	001-14649
31.1*	Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
31.2*	Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
32***	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350).				
101.INS*	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104.1	Cover Page Interactive Data File—The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.				

* Filed herewith.
** Management contract or compensatory plan or agreement.
*** Furnished herewith.

Exhibit 31.1

CERTIFICATION

I, Bryan H. Fairbanks, 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 10, 2021

/s/ Bryan H. Fairbanks
Bryan H. Fairbanks
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Dennis C. Schemm, 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 10, 2021

/s/ Dennis C. Schemm
Dennis C. Schemm
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

Certifications 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 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, 2021 filed on the date hereof with the U.S. 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 10, 2021	/s/ Bryan H. Fairbanks
	Bryan H. Fairbanks President and Chief Executive Officer
Date: May 10, 2021	/s/ Dennis C. Schemm
	Dennis C. Schemm Senior Vice President and Chief Financial Officer