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 June 30, 2019

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)

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 $.01 per share, outstanding at July 11, 2019 was 58,424,677 shares.

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**

TREX COMPANY, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

TREX COMPANY, INC.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net sales	$ 206,453	$ 206,692	$ 386,024	$ 377,899
Cost of sales	123,009	115,577	233,214	210,071
Gross profit	83,444	91,115	152,810	167,828
Selling, general and administrative expenses	35,705	33,513	65,872	62,472
Income from operations	47,739	57,602	86,938	105,356
Interest (income) expense, net	(1)	370	(57)	598
Income before income taxes	47,740	57,232	86,995	104,758
Provision for income taxes	12,030	14,413	19,730	24,828
Net income	$ 35,710	$ 42,819	$ 67,265	$ 79,930
Basic earnings per common share	$ 0.61	$ 0.73	$ 1.15	$ 1.36
Basic weighted average common shares outstanding	58,486,192	58,760,753	58,514,676	58,807,694
Diluted earnings per common share	$ 0.61	$ 0.73	$ 1.14	$ 1.35
Diluted weighted average common shares outstanding	58,687,540	59,051,413	58,758,201	59,125,258
Comprehensive income	$ 35,710	$ 42,819	$ 67,265	$ 79,930

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 106,084	$ 105,699
Accounts receivable, net	117,909	91,163
Inventories	42,919	57,801
Prepaid expenses and other assets	19,251	15,562
Total current assets	286,163	270,225
Property, plant and equipment, net	129,612	117,144
Goodwill and other intangibles	74,294	74,503
Operating lease assets	42,571	—
Other assets	3,558	3,250
Total assets	$ 536,198	$ 465,122
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 27,307	$ 31,084
Accrued expenses and other liabilities	48,762	56,291
Accrued warranty	5,400	5,400
Line of credit	—	—
Total current liabilities	81,469	92,775
Operating lease liabilities	37,056	—
Deferred income taxes	2,125	2,125
Non-current accrued warranty	23,936	25,354
Other long-term liabilities	79	1,905
Total liabilities	144,665	122,159
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, 120,000,000 shares authorized; 70,137,027 and 69,998,336 shares issued and 58,440,204 and 58,551,653 shares outstanding at June 30, 2019 and December 31, 2018, respectively	701	700
Additional paid-in capital	122,720	124,224
Retained earnings	484,207	416,942
Treasury stock, at cost, 11,696,823 and 11,446,683 shares at June 30, 2019 and December 31, 2018, respectively	(216,095)	(198,903)
Total stockholders' equity	391,533	342,963
Total liabilities and stockholders' equity	$ 536,198	$ 465,122

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 Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2018	58,551,653	$ 700	$ 124,224	$ 416,942	11,446,683	$ (198,903)	$ 342,963
Net income	—	—	—	31,555	—	—	31,555
Employee stock plans	24,472	—	302	—	—	—	302
Shares withheld for taxes on awards	(74,010)	—	(5,727)	—	—	—	(5,727)
Stock-based compensation	160,359	1	2,793	—	—	—	2,794
Repurchases of common stock	(124,989)	—	—	—	124,989	(8,730)	(8,730)
Balance, March 31, 2019	58,537,485	$ 701	$ 121,592	$ 448,497	11,571,672	$ (207,633)	$ 363,157
Net income	—	—	—	35,710	—	—	35,710
Employee stock plans	14,905	—	257	—	—	—	257
Shares withheld for taxes on awards	(19,174)	—	(1,254)	—	—	—	(1,254)
Stock-based compensation	32,139	—	2,125	—	—	—	2,125
Repurchases of common stock	(125,151)	—	—	—	125,151	(8,462)	(8,462)
Balance, June 30, 2019	58,440,204	$ 701	$ 122,720	$ 484,207	11,696,823	$ (216,095)	$ 391,533

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2017	58,856,860	$ 698	$ 121,694	$ 282,370	10,987,362	$ (173,512)	$ 231,250
Net income	—	—	—	37,110	—	—	37,110
Employee stock plans	26,832	—	195	—	—	—	195
Shares withheld for taxes on awards	(13,028)	—	(3,782)	—	—	—	(3,782)
Stock-based compensation	80,988	1	2,295	—	—	—	2,296
Repurchases of common stock	(100,044)	—	—	—	100,044	(5,211)	(5,211)
Balance, March 31, 2018	58,851,608	$ 699	$ 120,402	$ 319,480	11,087,406	$ (178,723)	$ 261,858
Net income	—	—	—	42,819	—	—	42,819
Employee stock plans	22,549	1	209	—	—	—	210
Shares withheld for taxes on awards	(7,493)	—	(420)	—	—	—	(420)
Stock-based compensation	9,735	—	1,350	—	—	—	1,350
Repurchases of common stock	(150,000)	—	—	—	150,000	(7,818)	(7,818)
Balance, June 30, 2018	58,726,399	$ 700	$ 121,541	$ 362,299	11,237,406	$ (186,541)	$ 297,999

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

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

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating Activities		
Net income	$ 67,265	$ 79,930
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,857	9,363
Stock-based compensation	4,918	3,645
Loss (gain) on disposal of property, plant and equipment	10	(29)
Other non-cash adjustments	(373)	(406)
Changes in operating assets and liabilities:		
Accounts receivable	(26,746)	(104,250)
Inventories	14,882	(1,664)
Prepaid expenses and other assets	210	(2,616)
Accounts payable	(3,777)	14,863
Accrued expenses and other liabilities	(16,548)	(5,705)
Income taxes receivable/payable	(3,640)	5,195
Net cash provided by (used in) operating activities	43,058	(1,674)
Investing Activities		
Expenditures for property, plant and equipment and intangibles	(19,061)	(17,697)
Proceeds from sales of property, plant and equipment	—	83
Net cash used in investing activities	(19,061)	(17,614)
Financing Activities		
Borrowings under line of credit	89,500	167,750
Principal payments under line of credit	(89,500)	(159,250)
Repurchases of common stock	(24,172)	(17,230)
Proceeds from employee stock purchase and option plans	560	405
Net cash used in financing activities	(23,612)	(8,325)
Net increase (decrease) in cash and cash equivalents	385	(27,613)
Cash and cash equivalents, beginning of period	105,699	30,514
Cash and cash equivalents, end of period	106,084	$ 2,901
Supplemental Disclosure:		
Cash paid for interest	$ 321	$ 385
Cash paid for income taxes, net	$ 23,371	$ 19,618

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2019 and 2018
(Unaudited)

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (Company) is the world's largest manufacturer of wood-alternative decking and railing products, with more than 25 years of product experience, which are marketed under the brand name Trex®. The Company manufactures and distributes high-performance, low-maintenance wood/plastic composite outdoor living products and related accessories. 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 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 condensed consolidated financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Trex Wood-Polymer Espana, S.L. and Trex Commercial Products, Inc., for all periods presented.

The consolidated results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 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 June 2018, the FASB issued ASU No. 2018-07, "*Compensation – Stock Compensation (Topic 718)*." The ASU expands the scope of Topic 718, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods or services. The ASU supersedes Subtopic 505-50, "*Equity—Equity-Based Payment to Non-Employees*." Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU was effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company adopted the guidance on January 1, 2019. Adoption did not have an impact on the Company's financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*," and issued subsequent amendments to the initial guidance in January 2018 within ASU No. 2018-01, in July 2018 within ASU Nos. 2018-10 and 2018-11, in December 2018 within ASU No. 2018-20, and in March 2019 within ASU No. 2019-01 (collectively, the standard). The standard requires lessees to recognize operating leases on the balance sheet as a right-of-use asset and a lease liability. The liability is equal to the present value of the lease payments over the remaining lease term. The asset is based on the liability, subject to certain adjustments. Operating leases result in straight-line expense. The Company adopted the standard on January 1, 2019, and elected the transition method of adoption, which allowed the Company to apply the standard as of the beginning of the period of adoption. The Company opted to elect the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, and certain other practical expedients, including the use of hindsight to determine the lease term for existing leases and in assessing impairment of the right-of-use asset, and the exception for short-term leases. For its current classes of underlying assets, the Company did not elect the practical expedient under which the lease components would not be separated from the nonlease components. Nonlease components include certain maintenance services provided by the lessor and the related consideration is specified on a stand-alone basis in the applicable lease agreements. Adoption of the standard had a significant impact on the Company's condensed consolidated balance sheet due to the recognition of a right-of-use asset and lease liability of $45.8 million and $47.2 million, respectively, upon adoption. As the Company's leases do not provide an implicit rate that can be readily determined, the Company used its incremental borrowing rate based on the information available at the implementation date in determining the present value of lease payments.

4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

In August 2018, the FASB issued ASU No. 2018-15, "*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of FASB Emerging Issues Task Force)*". The new guidance aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. Under that model, implementation costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred. Capitalized implementation costs are amortized over the term of the associated hosted cloud computing arrangement service contract on a straight-line basis, unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from its right to access the hosted software. Capitalized implementation costs would then be assessed for impairment in a manner similar to long-lived assets. The new guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities can choose to adopt the new guidance either prospectively to eligible costs incurred on or after the date the guidance is first applied or retrospectively. The Company intends to adopt the guidance on January 1, 2020, and does not believe adoption will have a material impact on its financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*". The guidance removes Step 2 of the goodwill impairment test and eliminates the need to determine the fair value of individual assets and liabilities to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance will be applied prospectively, and is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed on testing dates after January 1, 2017. The Company intends to adopt the guidance on January 1, 2020. The Company continues to evaluate the guidance and does not believe adoption will have a material impact on its financial condition or results of operations.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses in Financial Instruments*," and issued subsequent amendments to the initial guidance in November 2018 within ASU No. 2018-09, April 2019 within ASU No. 2019-04, and May 2019 within ASU No. 2019-05. The ASU amends the guidance on the impairment of financial instruments and adds an impairment model, known as the current expected credit loss (CECL) model. The CECL model requires an entity to recognize its current estimate of all expected credit losses, rather than incurred losses, and applies to trade receivables and other receivables. The CECL model is designed to capture expected credit losses through the establishment of an allowance account, which will be presented as an offset to the amortized cost basis of the related financial asset. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is applied using the modified-retrospective approach. The Company intends to adopt the guidance on January 1, 2020. The Company continues to evaluate the guidance and does not believe adoption will have a material impact on its financial condition or results of operations.

5. INVENTORIES

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

	June 30, 2019	December 31, 2018
Finished goods	$ 25,518	$ 46,638
Raw materials	33,924	27,321
Total FIFO (first-in, first-out) inventories	59,442	73,959
Reserve to adjust inventories to LIFO value	(18,442)	(18,442)
Total LIFO inventories	$ 41,000	$ 55,517

The Company utilizes the LIFO method of accounting related 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 June 30, 2019, management estimates that interim inventory balances will be replenished by year-end and there were no LIFO inventory liquidations or related impact on cost of sales in the six months ended June 30, 2019.

Inventories valued at lower of cost (FIFO method) and net realizable value were $1.9 million at June 30, 2019 and $2.3 million at December 31, 2018, consisting primarily of raw materials. The Company utilizes the FIFO method of accounting related to its Trex Commercial architectural railing and staging systems for the commercial and multi-family market.

6. PREPAID EXPENSES AND OTHER ASSETS

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

	June 30, 2019	December 31, 2018
Revenues in excess of billings	$ 5,793	$ 7,987
Prepaid expenses	5,581	3,390
Contract retainage	3,046	2,469
Income tax receivable	4,370	471
Other	461	1,245
Total prepaid expenses and other assets	$19,251	$ 15,562

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	June 30, 2019	December 31, 2018
Intangible assets:		
Customer backlog	$ 4,000	$ 4,000
Trade names and trademarks	900	900
Domain names	6,327	6,327
Total intangible assets	11,227	11,227
Accumulated amortization:		
Customer backlog	(4,000)	(4,000)
Trade name and trademarks	(900)	(900)
Domain names	(494)	(285)
Total accumulated amortization	(5,394)	(5,185)
Intantible assets, net	$ 5,833	$ 6,042

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 12 months for customer backlog and trade names and trademarks and 15 years for domain names, which approximates the pattern in which the economic benefits are expected to be received. In May 2018, the Company purchased certain domain names for $6.3 million. We evaluate the recoverability of intangible assets periodically and consider events or circumstances that may warrant revised estimates of useful lives or that may indicate an impairment. Intangible asset amortization expense for the six months ended June 30, 2019 and 2018 was $0.2 million and $2.5 million, respectively. As of June 30, 2019, the Company had goodwill of $68.5 million.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	June 30, 2019	December 31, 2018
Sales and marketing	$22,670	$ 25,379
Compensation and benefits	8,257	19,124
Operating lease liabilities	6,857	—
Customer deposits	2,926	2,058
Manufacturing costs	2,199	3,744
Billings in excess of revenues	1,466	512
Other	4,387	5,474
Total accrued expenses and other liabilities	$48,762	$ 56,291

9. DEBT

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

Revolving Credit Facility

On January 12, 2016, the Company entered into a Third Amended and Restated Credit Agreement, as amended, with Bank of America, N.A. as Lender, Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and certain other lenders including Citibank, N.A., Capital One, N.A., and SunTrust. The Third Amended Credit Agreement, as amended, 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 January 12, 2021.

The Company had no outstanding borrowings under its revolving credit facility and remaining available borrowing capacity of $250 million at June 30, 2019.

Compliance with Debt Covenants and Restrictions

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

As of June 30, 2019, the Company was in compliance with all of the covenants contained in its debt agreements. Failure to comply with the loan covenants might cause lenders to accelerate the repayment obligations under the credit facility, which may be declared payable immediately based on a default.

10. LEASES

The Company leases office space, storage warehouses and certain plant equipment under various operating leases. The Company determines if an arrangement is a lease at inception. The arrangement is a lease if it conveys the right to the Company to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. Operating leases are included in operating lease right-of-use (ROU) assets, accrued expenses and other current liabilities, and operating lease liabilities in the condensed consolidated balance sheets. Operating leases with an initial term of 12 months or less are not included in the condensed consolidated balance sheet. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. ROU assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company gives consideration to instruments with similar characteristics when calculating its incremental borrowing rate. The Company's operating leases have remaining lease terms of 1 year to 10 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 six months ended June 30, 2019, total operating lease cost was $4.2 million. The weighted average remaining lease term and weighted average discount rate at June 30, 2019 were 6.8 years and 3.67%, respectively.

The following table includes supplemental cash flow information for the six months ended June 30, 2019 and supplemental balance sheet information at June 30, 2019 related to operating leases (in thousands):

Supplemental cash flow information (in thousands)	
Cash paid for amounts included in the measurement of operating lease liabilities	$ 4,242
Operating ROU assets obtained in exchange for lease liabilities	$ 388
Supplemental balance sheet information (in thousands)	
Operating lease ROU assets	$42,571
Operating lease liabilities:	
Accrued expenses and other current liabilities	$ 6,857
Operating lease liabilities	37,056
Total operating lease liabilities	$43,913

The following table includes maturities of operating lease liabilities at June 30, 2019 (in thousands):

Maturities of operating lease liabilities	
2019 (excluding the six months ended June 30, 2019)	$ 4,197
2020	8,290
2021	8,095
2022	6,278
2023	5,932
Thereafter	17,063
Total lease payments	49,855
Less imputed interest	(5,942)
Total operating liabilities	$ 43,913

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 June 30, 2019 and December 31, 2018.

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income available to common shareholders	$ 35,710	$ 42,819	$ 67,265	$ 79,930
Denominator:				
Basic weighted average shares outstanding	58,486,192	58,760,753	58,514,676	58,807,694
Effect of dilutive securities:				
Stock appreciation rights and options	129,839	173,571	141,958	183,814
Restricted stock	71,509	117,089	101,567	133,750
Diluted weighted average shares outstanding	58,687,540	59,051,413	58,758,201	59,125,258
Basic earnings per share	$ 0.61	$ 0.73	$ 1.15	$ 1.36
Diluted earnings per share	$ 0.61	$ 0.73	$ 1.14	$ 1.35

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock appreciation rights	24,536	21,260	18,675	16,063
Performance-based restricted stock units	—	854	—	427

Stock Repurchase Programs

On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 5.8 million shares of the Company’s outstanding common stock (Stock Repurchase Program). As of June 30, 2019, the Company had repurchased 709,461 shares of the Company’s outstanding common stock under the Stock Repurchase Program.

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 provides a single, comprehensive model for revenue recognition arising from contracts with customers. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. A contract’s transaction price is allocated to each distinct performance obligation and revenue is recognized when or as the Company satisfies the performance obligation. Revenue is recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring control of the goods or services to a customer.

Trex Residential Products

Trex Residential principally generates revenue from the manufacture and sale of its high performance, low maintenance 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 and recognized when the product ships and the performance obligation is satisfied.

For each product shipped, the transaction price by product is specified in the purchase order. The Company recognizes revenue on the transaction price less any amount offered under a sales incentive program. The Company recognizes an account receivable (contract asset) for the amount of revenue recognized as it has an unconditional right to consideration at the time of shipment and payment from the customer is due based solely on the passage of time. The Company receives payments from its customers based on the payment terms applicable to each individual contract and the customer pays in accordance with the billing terms specified in the purchase order, which is less than one year. The related accounts receivables are included in “*Accounts receivable, net*” in the Condensed Consolidated Balance Sheets.

Trex Residential may offer various sales incentive programs throughout the year. It estimates the amount of sales incentive to allocate to each performance obligation, or product shipped, based on direct sales to the customer. The estimate is updated each reporting period and any changes are allocated to the performance obligations on the same basis as at inception. Changes in estimate allocated to a previously satisfied performance obligation are recognized as a reduction of revenue in the period in which the change occurs under the cumulative catch-up method. In addition to sales incentive programs, Trex Residential may offer a payment discount. It estimates the payment discount that it believes will be taken by the customer based on prior history.

Trex Residential pays commissions to certain employees. However, the sales commissions are not directly attributable to identifiable contracts, are discretionary in nature and are based on other factors not related to obtaining a contract, such as individual performance, profitability of the entity, annual sales targets, etc. These costs are included in selling, general and administrative expenses as incurred. Trex Residential does not grant contractual product return rights to customers other than pursuant to its assurance product warranty (see related disclosure on product warranties in Note 18, "*Commitments and Contingencies*"). Trex Residential accounts for all shipping and handling fees invoiced to the customer in net sales and the related costs in cost of sales.

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.

Trex Commercial satisfies its performance obligation over time as work progresses because control is transferred continuously to its customers. Revenue and estimated profit is recognized over time based on the proportion of actual costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying the performance obligation. Incurred costs represent work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Incurred costs include all direct material, labor, subcontract and certain indirect costs. The Company reviews and updates its estimates regularly and recognizes adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the impact of the adjustment on revenue and estimated profit to date on a contract is recognized in the period the adjustment is identified. Revenues and profits in future periods are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, the Company recognizes the total loss in the period it is identified. During the six months ended June 30, 2019, no adjustment to any one contract was material to the Company's Condensed Consolidated Financial Statements. In accordance with ASC 606-10-50-15, the Company discloses only the transaction price allocated to its remaining performance obligations on contracts with an original duration greater than one year, which was $48.2 million as of June 30, 2019. The Company will recognize this revenue as contracts are completed, which is expected to occur within the next 24 months.

The Company recognizes an account receivable (contract asset) for satisfied performance obligations as it has an unconditional right to consideration and payment from the customer is due based solely on the passage of time. The Company receives payments from its customers on the accounts receivable based on the payment terms applicable to each individual contract and the customer pays in less than one year. Accounts receivables are included in "*Accounts receivable, net*" in the Condensed Consolidated Balance Sheets.

In addition, the timing of revenue recognition, billings and cash collections may result in revenues in excess of billings and contract retainage (contract assets), and billings in excess of revenues and customer deposits (contract liabilities) in the Condensed Consolidated Balance Sheet. These assets and liabilities are reported on a contract-by-contract basis at the end of each reporting period in prepaid expenses and other assets (contract assets), and accrued expenses and other liabilities (contract liabilities). These assets and liabilities and changes in these assets and liabilities were not material as of and for the six months ended June 30, 2019.

Trex Commercial pays sales commissions that are directly attributable to identifiable contracts to certain of its employees. If the amortization period of the commission is one year or less then the Company recognizes the commission expense as incurred. Otherwise, the Company capitalizes the commission and amortizes it on a straight-line basis over the life of the contract. Trex Commercial does not grant contractual product return rights to customers other than pursuant to its assurance product warranty. All shipping and handling fees invoiced to the customer are included in net sales and the related costs are included in cost of sales.

For the three months and six months ended June 30, 2019 and 2018, 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 June 30, 2019	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	$ 193,468	$ —	$ 193,468
Products transferred over time and fixed price contracts	—	12,985	12,985
	$ 193,468	$ 12,985	$ 206,453

Six Months Ended June 30, 2019	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	$ 358,947	$ —	$ 358,947
Products transferred over time and fixed price contracts	—	27,077	27,077
	$ 358,947	$ 27,077	$ 386,024

Three Months Ended June 30, 2018	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	$ 189,201	$ —	$ 189,201
Products transferred over time and fixed price contracts	—	17,491	17,491
	$ 189,201	$ 17,491	$ 206,692

Six Months Ended June 30, 2018	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	$ 344,401	$ —	$ 344,401
Products transferred over time and fixed price contracts	—	33,498	33,498
	$ 344,401	$ 33,498	$ 377,899

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 12,840,000 and as of June 30, 2019, the total number of shares available for future issuance are 5,761,081.

The following table summarizes the Company's stock-based compensation grants for the six months ended June 30, 2019:

	Stock Awards Granted	Weighted-Average Grant Price Per Share
Time-based restricted stock units	26,325	$ 77.53
Performance-based restricted stock units (a)	80,104	$ 47.89
Stock appreciation rights	24,536	$ 77.70

(a) Includes 32,462 of target performance-based restricted stock unit awards granted during the six months ended June 30, 2019, and adjustments of 27,154, 14,900 and 5,588 to grants due to the actual performance level achieved for restricted stock and restricted stock units awarded in 2016, 2017, 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 six months ended June 30, 2019 and 2018 the data and assumptions shown in the following table were used:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Weighted-average fair value of grants	$ 29.56	$ 22.09
Dividend yield	0%	0%
Average risk-free interest rate	2.5%	2.7%
Expected term (years)	5	5
Expected volatility	39.1%	40.4%

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 in 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock appreciation rights	$ 203	$ 56	$ 498	$ 259
Time-based restricted stock and restricted stock units	1,306	578	2,455	1,400
Performance-based restricted stock and restricted stock units	569	666	1,883	1,919
Employee stock purchase plan	47	45	82	67
Total stock-based compensation	$ 2,125	$ 1,345	$4,918	$3,645

Total unrecognized compensation cost related to unvested awards as of June 30, 2019 was $6.3 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 six months ended June 30, 2019 and 2018 was 22.7% and 23.7%, respectively, which resulted in expense of $19.7 million and $24.8 million, respectively. The decrease of 1.0% in the effective tax rate was primarily due to a current year increase in excess tax benefits from the exercise of share-based payments against lower year-over-year income before taxes.

During the six months ended June 30, 2019 and 2018, the Company realized $2.6 million and $2.0 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 June 30, 2019, the Company maintains a valuation allowance of $3.0 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 June 30, 2019, for certain tax jurisdictions tax years 2015 through 2018 remain subject to examination. The Company's returns filed with the state of Oregon for the tax years 2015 through 2017 are currently under examination. No material adjustments are expected as a result of the audit. 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 Residential net sales were $358.9 million and $344.4 million in the six months ended June 30, 2019 and 2018, respectively.
- 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. Trex Commercial net sales were $27.1 million and $33.5 million in the six months ended June 30, 2019 and 2018, respectively.

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, 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, taxes, and depreciation and amortization charges to income. The below segment data for the three and six months ended June 30, 2019 and 2018 includes data for Trex Residential and Trex Commercial (in thousands):

	Three Months Ended June 30, 2019		
	Trex Residential	Trex Commercial	Total
Net sales	$ 193,468	$ 12,985	$206,453
Net income	$ 35,223	$ 487	$ 35,710
EBITDA	$ 50,353	$ 785	$ 51,138
Depreciation and amortization	$ 3,258	$ 141	$ 3,399
Income tax expense	$ 11,866	$ 164	$ 12,030
Capital expenditures	$ 10,124	$ 290	$ 10,414
Total assets	$ 447,725	$ 88,473	$536,198

Reconciliation of net income to EBITDA:

	Three Months Ended June 30, 2019		
	Trex Residential	Trex Commercial	Total
Net income	$ 35,223	$ 487	$ 35,710
Interest expense (income), net	6	(7)	(1)
Income tax expense	11,866	164	12,030
Depreciation and amortization	3,258	141	3,399
EBITDA	$ 50,353	$ 785	$ 51,138

	Six Months Ended June 30, 2019		
	Trex Residential	Trex Commercial	Total
Net sales	$ 358,947	$ 27,077	$386,024
Net income	$ 66,478	$ 787	$ 67,265
EBITDA	$ 92,419	$ 1,312	$ 93,731
Depreciation and amortization	$ 6,525	$ 268	$ 6,793
Income tax expense	$ 19,466	$ 264	$ 19,730
Capital expenditures	$ 17,818	$ 1,243	$ 19,061
Total assets	$ 447,725	$ 88,473	$536,198

Reconciliation of net income to EBITDA:

	Six Months Ended June 30, 2019		
	Trex Residential	Trex Commercial	Total
Net income	$ 66,478	$ 787	$67,265
Interest income, net	(50)	(7)	(57)
Income tax expense	19,466	264	19,730
Depreciation and amortization	6,525	268	6,793
EBITDA	$ 92,419	$ 1,312	$93,731

	Three Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net sales	$ 189,201	$ 17,491	$206,692
Net income	$ 42,115	$ 704	$ 42,819
EBITDA	$ 59,939	$ 2,228	$ 62,167
Depreciation and amortization	$ 3,277	$ 1,289	$ 4,566
Income tax expense	$ 14,178	$ 235	$ 14,413
Capital expenditures	$ 11,825	$ 438	$ 12,263
Total assets	$ 334,289	$ 80,156	$414,445

Reconciliation of net income to EBITDA: $2,228

	Three Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net income	$ 42,115	$ 704	$42,819
Interest expense, net	369	—	369
Income tax expense	14,178	235	14,413
Depreciation and amortization	3,277	1,289	4,566
EBITDA	$ 59,939	$ 2,228	$62,167

	Six Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net sales	$ 344,401	$ 33,498	$377,899
Net income	$ 79,694	$ 236	$ 79,930
EBITDA	$ 111,773	$ 2,882	$114,655
Depreciation and amortization	$ 6,731	$ 2,568	$ 9,299
Income tax expense	$ 24,750	$ 78	$ 24,828
Capital expenditures	$ 16,868	$ 829	$ 17,697
Total assets	$ 334,289	$ 80,156	$414,445

Reconciliation of net income to EBITDA:

	Six Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net income	$ 79,694	$ 236	$ 79,930
Interest expense, net	598	—	598
Income tax expense	24,750	78	24,828
Depreciation and amortization	6,731	2,568	9,299
EBITDA	$ 111,773	$ 2,882	$114,655

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. 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 six months ended June 30, 2019 was lower than the Company's expectations and lower than the number of claims received in the six months ended June 30, 2018, continuing the historical year-over-year decline in incoming claims. Average settlement cost per claim experienced in the six months ended June 30, 2019 was higher than the Company's expectations and higher than the average settlement cost per claim experienced in the six months ended June 30, 2018. The Company believes its reserve at June 30, 2019 is sufficient to cover future surface flaking obligations and no adjustments were required in the current quarter.

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 financial condition, results of operations or cash flows. The Company estimates that the annual number of claims received will continue to decline over time and that the average cost per claim will increase slightly, 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. 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 $2.2 million change in the surface flaking warranty reserve.

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

	Six Months Ended June 30, 2019		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 23,951	$ 6,803	$ 30,754
Provisions and changes in estimates	—	1,312	1,312
Settlements made during the period	(2,064)	(666)	(2,730)
Ending balance, June 30	$ 21,887	$ 7,449	$ 29,336

	Six Months Ended June 30, 2018		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 28,157	$ 6,842	$ 34,999
Provisions and changes in estimates	—	1,567	1,567
Settlements made during the period	(2,287)	(506)	(2,793)
Ending balance, June 30	$ 25,870	$ 7,903	$ 33,773

Legal Matters

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

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

The following management discussion should be read in conjunction with the Trex Company, Inc. (Company, we or our) Annual Report on Form 10-K for the year ended December 31, 2018 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.

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, 2018 filed with the SEC. 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; 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 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; and the impact of upcoming data privacy laws and the EU General Data Protection Regulation and the related actual or potential costs and consequences.

OVERVIEW

Operations and Products: Trex Company, Inc. currently operates in two reportable segments: Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial). The Company is focused on using renewable resources within both our Residential and 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, steel deck framing, 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	Our principal decking products are Trex Transcend®, Trex Enhance® and Trex Select®. Late in 2018, we re-engineered our Enhance line to provide homeowners with a high-performance, lower-cost deck board designed to compete more directly with wood. Differentiating the Enhance collection is a scalloped profile that is lighter weight for easier handling and installation. Our eco-friendly composite decking products are comprised of a blend of 95 percent reclaimed wood fibers and recycled plastic film and feature a protective polymer shell for enhanced protection against fading, staining, mold and scratching. We also offer Trex Hideaway®, a hidden fastening system for grooved boards.

Railing	Our residential railing products are Trex Transcend Railing, Trex Select Railing, Trex Enhance Railing and Trex Signature® aluminum railing. Trex Transcend Railing 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 is offered in a white finish and is ideal for consumers who desire a simple clean finished look for their deck. Trex Enhance is available in three colors and is offered through home improvement retailers in kits that contain the top rail, bottom rail, balusters and hardware in one box. 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.
Steel Deck Framing	Our triple-coated steel deck framing system called Trex Elevations® leverages the strength and dimensional stability of steel to create a flat surface for our decking. Trex Elevations provides consistency and reliability that wood does not and is fire resistant.
Outdoor Lighting	Our outdoor lighting systems are Trex DeckLighting™ and Trex LandscapeLighting™. 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. The Trex LandscapeLighting line includes an energy-efficient well light, path light, multifunction light and spotlight.

Trex Commercial is a leading national provider of custom-engineered railing and staging systems. Trex Commercial Products 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 rental markets. 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.
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 three colors – charcoal black, bronze and classic white – and is available in a variety of stock lengths.
Custom Railing Options	Trex Commercial can 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.

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 and six months ended June 30, 2019:

- Repurchase of 125,151 shares of our outstanding common stock during the three months ended June 30, 2019 under our Stock Repurchase Program, for a total of 709,461 shares repurchased under the program to date.
- Net cash provided by operating activities of $43.1 million during the six months ended June 30, 2019 compared to net cash used in operating activities of $1.7 million during the six months ended June 30, 2018.
- New capital expenditure program to increase production capacity at the Trex Residential facilities in Winchester, Virginia, and Fernley, Nevada, and projected at approximately $200 million between now and 2021.

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 practices, 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 and favorable payment terms. In addition, we offer 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 sales incentive programs can significantly impact sales, receivables and inventory levels during the offering period. However, the timing and terms of the majority of our programs are generally consistent from year to year. 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.

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. We also warrant our Trex Commercial products for 1 to 3 years.

We continue to receive and settle claims for decking products manufactured at our 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 six months ended June 30, 2019 was lower than our expectations and lower than the claims received in the six months ended June 30, 2018, continuing the historical year-over-year decline in incoming claims. Average settlement cost per claim experienced in the six months ended June 30, 2019 was higher than our expectations and higher than the average settlement cost per claim experienced in the six months ended June 30, 2018. We believe that our reserve at June 30, 2019 is sufficient to cover future surface flaking obligations.

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

	Six Months Ended June 30, 2019	2018
Claims open, beginning of period	2,021	2,306
Claims received (1)	700	796
Claims resolved (2)	(716)	(871)
Claims open, end of period	2,005	2,231
Average cost per claim (3)	$ 2,992	$ 2,663

(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.

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.

RESULTS OF OPERATIONS

Below is our discussion and analysis of our operating results and material changes in our operating results for the three months ended June 30, 2019 (2019 quarter) compared to the three months ended June 30, 2018 (2018 quarter), and for the six months ended June 30, 2019 (2019 six-month period) compared to the six months ended June 30, 2018 (2018 six-month period).

Three Months Ended June 30, 2019 Compared To The Three Months Ended June 30, 2018

Net Sales

	Three Months Ended June 30, 2019	2018	$ Change	% Change
	(dollars in thousands)			
Total net sales	$ 206,453	$ 206,692	$ (239)	(0.1)%
Trex Residential net sales	$ 193,468	$ 189,201	$ 4,267	2.3%
Trex Commercial net sales	$ 12,985	$ 17,491	$ (4,506)	(25.8)%

Total net sales decreased slightly by 0.1% in the 2019 quarter compared to the 2018 quarter. Net sales of Trex Residential decking were constrained due to supply issues, which were primarily caused by new product startup inefficiencies late in 2018, through the first quarter of 2019 and, to a much lesser extent, in the second quarter of 2019 related to our new Enhance product. These supply issues resulted in lower throughput and finished goods inventory than was needed to support market demand. Trex Residential net sales were positively impacted by strength in the residential remodeling sector, our marketing programs aimed at taking market share from wood and the healthy demand across our full suite of outdoor living products. The increase in Trex Residential net sales was offset by a 25.8% decrease in Trex Commercial net sales due to reduced volume.

Gross Profit

	Three Months Ended June 30, 2019	2018	$ Change	% Change
	(dollars in thousands)			
Cost of sales	$ 123,009	$ 115,577	$ 7,432	6.4%
% of total net sales	59.6%	55.9%		
Gross profit	$ 83,444	$ 91,115	$ (7,671)	(8.4)%
Gross margin	40.4%	44.1%		

Gross profit as a percentage of net sales, gross margin, was 40.4% in the 2019 quarter compared to 44.1 % in the 2018 quarter. Gross margin for Trex Residential and Trex Commercial in the 2019 quarter totaled 41.7% and 21.4%, respectively, compared to 45.9% and 24.6%, respectively, in the 2018 quarter. The decrease in total gross margin in the 2019 quarter was primarily due to a decrease in Trex Residential gross profit resulting from startup costs on our new Enhance product, which were much improved compared to the first quarter, and the modification late in the first quarter to the profile of our new Enhance product that improved manufacturability but added material and increased cost. During March and through the 2019 quarter, we made a number of changes to improve throughput. As a result, our production rates returned to planned levels and associated operating inefficiencies have been reduced.

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative expenses	$ 35,705	$ 33,513	$ 2,192	6.5%
% of total net sales	17.3%	16.2%		

The $2.2 million increase in selling, general and administrative expenses in the 2019 quarter compared to the 2018 quarter resulted primarily from an increase of $1.6 million increase in branding and advertising spend in support of our market growth programs, $1.3 million in personnel related expenses, primarily related to executive severance benefits, and $0.2 million in research and development expenses. The increases were offset by a $1.2 million decrease in amortization expense due to the full amortization of intangible assets acquired as part of the SC Company acquisition in July 2017.

Provision for Income Taxes

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	$ 12,030	$ 14,413	$(2,383)	(16.5)%
Effective tax rate	25.2%	25.2%		

The effective tax rate for the 2019 quarter of 25.2% was unchanged from the effective tax rate for the 2018 quarter. The decrease in income taxes was due to lower year-over-year income before income taxes.

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 June 30, 2019 Trex Residential	Trex Commercial	Total
Net income	$ 35,223	$ 487	$ 35,710
Interest expense (income), net	6	(7)	(1)
Income tax expense	11,866	164	12,030
Depreciation and amortization	3,258	141	3,399
EBITDA	$ 50,353	$ 785	$ 51,138

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 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, taxes, and depreciation and amortization charges to net income or loss. For these reasons, management believes that EBITDA provides important information regarding the operating performance of the Company's reportable segments.

	Three Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net income	$ 42,115	$ 704	$ 42,819
Interest expense, net	369	—	369
Income tax expense	14,178	235	14,413
Depreciation and amortization	3,277	1,289	4,566
EBITDA	$ 59,939	$ 2,228	$ 62,167

	Three Months Ended June 30,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Total EBITDA	$ 51,138	$ 62,167	$ (11,029)	(17.7)%
Trex Residential EBITDA	$ 50,353	$ 59,939	$ (9,586)	(16.0)%
Trex Commercial EBITDA	$ 785	$ 2,228	$ (1,443)	(64.8)%

The Company uses EBITDA to assess performance as it believes EBITDA facilitates performance comparison between its reportable segments by eliminating interest, income taxes, and depreciation and amortization charges to income. Total EBITDA decreased 17.7% to $51.1 million for the 2019 quarter compared to $62.2 million for the 2018 quarter. The decrease was driven by a decrease in Trex Residential and Trex Commercial gross margins of 4.2% and 3.2%, respectively, and a decrease in net sales volume at Trex Commercial.

Six Months Ended June 30, 2019 Compared To The Six Months Ended June 30, 2018

Net Sales

	Six Months Ended June 30,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Total net sales	$ 386,024	$ 377,899	$ 8,125	2.2%
Trex Residential net sales	$ 358,947	$ 344,401	$ 14,546	4.2%
Trex Commercial net sales	$ 27,077	$ 33,498	$ (6,421)	(19.2)%

The 2.2% increase in total net sales in the 2019 six-month period compared to the 2018 six-month period was due primarily to volume growth at Trex Residential for both our legacy and new residential decking and railing products. Net sales of Trex Residential decking were constrained due to supply issues, which were primarily caused by new product startup inefficiencies late in 2018, through the first quarter of 2019, and to a much lesser extent in the second quarter of 2019 related to our new Enhance product. These supply issues resulted in lower throughput and finished goods inventory than was needed to support market demand. Trex Residential net sales were positively impacted by strength in the residential remodeling sector, our marketing programs at Trex Residential aimed at taking market share from wood and the healthy demand across our full suite of outdoor living products. The increase in total net sales was offset by a 19.2% decrease in Trex Commercial net sales primarily due to reduced volume.

Gross Profit

	Six Months Ended June 30,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Cost of sales	$ 233,214	$ 210,071	$ 23,143	11.0%
% of total net sales	60.4%	55.6%		
Gross profit	$ 152,810	$ 167,828	$ (15,018)	(9.0)%
Gross margin	39.6%	44.4%		

Gross profit as a percentage of net sales, gross margin, was 39.6% in the 2019 six-month period compared to 44.4% in the 2018 six-month period. Gross margin for Trex Residential and Trex Commercial products in the 2019 six-month period totaled 41.0% and 21.0%, respectively, compared to 46.7% and 21.3%, respectively, in the 2018 six-month period. The decrease in gross margin was primarily due to a decrease in Trex Residential gross profit related to new product startup costs and manufacturing inefficiencies associated with the slower than normal production ramp up on those products, including reduced line rates, increased material usage and lower manufacturing yields. During March and through the second quarter, we made a number of changes to improve throughput. As a result, our production rates returned to planned levels and associated operating inefficiencies have been reduced. Additionally, our Trex Residential Nevada facility had two equipment failures during the first quarter which resulted in the loss of two lines for approximately 30 days each. Those lines are now back in full production.

Selling, General and Administrative Expenses

	Six Months Ended June 30, 2019	2018	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative expenses	$ 65,872	$ 62,472	$ 3,400	5.4%
% of total net sales	17.1%	16.5%		

The $3.4 million increase in selling, general and administrative expenses in the 2019 six-month period compared to the 2018 six-month period resulted primarily from an increase of $2.4 million increase in branding and advertising spend in support of our market growth programs, $1.5 million in personnel related expenses, primarily related to executive severance benefits, and $1.4 million in research and development expenses. The increases were offset by a $2.3 million decrease in amortization expense due to the full amortization of intangible assets acquired as part of the SC Company acquisition in July 2017.

Provision for Income Taxes

	Six Months Ended June 30, 2019	2018	$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	$ 19,730	$ 24,828	$(5,098)	(20.5)%
Effective tax rate	22.7%	23.7%		

The effective tax rate for the 2019 six-month period decreased by 1.0% compared to the effective tax rate for the 2018 six-month period primarily due to an increase in excess tax benefits from the exercise of share-based payments against a lower year-over-year income before taxes.

Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)[2] (in thousands)

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

	Six Months Ended June 30, 2019 Trex Residential	Trex Commercial	Total
Net income	$ 66,478	$ 787	$ 67,265
Interest income, net	(50)	(7)	(57)
Income tax expense	19,466	264	19,730
Depreciation and amortization	6,525	268	6,793
EBITDA	$ 92,419	$ 1,312	$ 93,731

2 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 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, taxes, and depreciation and amortization charges to net income or loss. For these reasons, management believes that EBITDA provides important information regarding the operating performance of the Company’s reportable segments.

	Six Months Ended June 30, 2018		
	Trex Residential	Trex Commercial	Total
Net income	$ 79,694	$ 236	$ 79,930
Interest expense, net	598	—	598
Income tax expense	24,750	78	24,828
Depreciation and amortization	6,731	2,568	9,299
EBITDA	$ 111,773	$ 2,882	$ 114,655

	Six Months Ended June 30,			
	2019	2018	$ Change	% Change
	(dollars in thousands)			
Total EBITDA	$ 93,731	$ 114,655	$ (20,924)	(18.3)%
Trex Residential EBITDA	$ 92,419	$ 111,773	$ (19,354)	(17.3)%
Trex Commercial EBITDA	$ 1,312	$ 2,882	$ (1,570)	(54.5)%

The Company uses EBITDA to assess performance as it believes EBITDA facilitates performance comparison between its reportable segments by eliminating interest, income taxes, and depreciation and amortization charges to income. Total EBITDA decreased 18.3% to $93.7 million for the 2019 six-month period compared to $114.7 million for the 2018 six-month period. The decrease was driven by a $19.4 million decrease in Trex Residential EBITDA resulting primarily from a 5.7% decrease in gross margin related to the startup expenses on new products at Trex Residential and slower than normal production ramp-up of those products.

LIQUIDITY AND CAPITAL RESOURCES

We finance operations and growth primarily with cash flows from operations, borrowings under our revolving credit facility, operating leases and normal trade credit terms from operating activities. At June 30, 2019 we had $106.1 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):

	Six Months Ended June 30,	
	2019	2018
Net cash provided by (used in) operating activities	$ 43,058	$ (1,674)
Net cash used in investing activities	(19,061)	(17,614)
Net cash used in financing activities	(23,612)	(8,325)
Net increase (decrease) in cash and cash equivalents	$ 385	$ (27,613)

Operating Activities

Cash provided from operations was $43.1 million during the 2019 six-month period compared to cash used in operations of $1.7 million during the 2018 six-month period. The improved cash flows from operations was primarily due to lower working capital investment in accounts receivable and inventory. The reduced investment in inventory resulted from demand for Trex Residential outdoor living products and supply constraints caused primarily by new product startup inefficiencies. The reduced investment in accounts receivables was primarily driven by earlier collections in 2019 as compared to 2018 due to the timing of residential sales within the period. Cash provided from operations during the 2019 six-month period was offset by increased cash paid for accounts payable and accrued expenses and other liabilities. Cash from operations decreased $1.7 million in the 2018 six-month period, primarily due to a $104.3 million increase in accounts receivables on $377.9 million in net sales, primarily offset by $80.0 million in net income, a $14.9 million increase in accounts payable and a $3.8 million increase in income taxes payable.

Investing Activities

Capital expenditures in the 2019 six-month period were $19.1 million, consisting primarily of $15.7 million for general plant cost reduction initiatives and other production improvements and $3.2 million for other non-production and general support initiatives. Capital expenditures in the 2018 six-month period were $11.4 million, consisting primarily of $8.4 million for general plant cost reduction initiatives and other production improvements. During the 2018 six-month period, we purchased domain names for $6.3 million.

Financing Activities

Net cash used in financing activities was $23.6 million in the 2019 six-month period primarily for repurchases of our common stock of $24.2 million. Net cash used in financing activities in the 2018 six-month period was $8.3 million primarily related to $17.2 million for repurchases of our common stock, offset by net borrowings under our line of credit of $8.5 million.

Stock Repurchase Programs. On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 5.8 million shares of the Company's outstanding common stock (Stock Repurchase Program). As of the June 30, 2019, the Company had repurchased 709,461 shares of the Company's outstanding common stock under the Stock Repurchase Program.

Indebtedness. Our Third Amended and Restated Credit Agreement, as amended, 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 January 12, 2021. At June 30, 2019, we had no outstanding indebtedness under the revolving credit facility and borrowing capacity under the facility of $250 million.

Debt Covenants. To remain in compliance with covenants contained within our debt agreements, we must maintain specified financial ratios based on levels of debt, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization. At June 30, 2019, we were in compliance with these covenants. Failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our credit facility, which may be declared payable immediately based on a default.

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

Capital Requirements. In June 2019 we announced a new capital expenditure program to increase production capacity at our Trex Residential facilities in Winchester, Virginia, and Fernley, Nevada. The new multi-year capital expenditure program is projected at approximately $200 million between now and 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. It is anticipated that the additional production lines in Nevada will come online beginning in the third quarter of 2019. Additional lines will also be installed by the end of the second quarter of 2020. The Virginia capacity will begin to come online in the first quarter of 2021. The investment will allow us to increase production output for future projected growth related to our strategy of converting wood demand to Trex Residential composite decking. When completed these investments will increase our capacity by approximately 70 percent. As a result of the new capital expenditure program, we have revised our capital expenditure guidance to $75 million - $80 million in 2019. In addition to the above, our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, upgrading equipment, and acquisitions which fit out 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 June 30, 2019 compared to inventory levels at June 30, 2018.

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.

RECENT ACCOUNTING GUIDANCE

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*," and issued subsequent amendments to the initial guidance in January 2018 within ASU No. 2018-01, in July 2018 within ASU Nos. 2018-10 and 2018-11, in December 2018 within ASU No. 2018-20, and in March 2019 within ASU No. 2019-01 (collectively, the standard). The standard requires lessees to recognize operating leases on the balance sheet as a right-of-use asset and a lease liability. The liability is equal to the present value of the lease payments over the remaining lease term. The asset is based on the liability, subject to certain adjustments. Operating leases result in straight-line expense. The Company adopted the standard on January 1, 2019, and elected the transition method of adoption, which allowed the Company to apply the standard as of the beginning of the period of adoption. The Company opted to elect the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs, and certain other practical expedients, including the use of hindsight to determine the lease term for existing leases and in assessing impairment of the right-of-use asset, and the exception for short-term leases. For its current classes of underlying assets, the Company did not elect the practical expedient under which the lease components would not be separated from the nonlease components. Nonlease components include certain maintenance services provided by the lessor and the related consideration is specified on a stand-alone basis in the applicable lease agreements. Adoption of the standard had a significant impact on the Company's condensed consolidated balance sheet due to the recognition of a right-of-use asset and lease liability of $45.8 million and $47.2 million, respectively, upon adoption. As the Company's leases do not provide an implicit rate that can be readily determined, the Company used its incremental borrowing rate based on the information available at the implementation date in determining the present value of lease payments.

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, 2018. There were no material changes to the Company's market risk exposure during the six months ended June 30, 2019.

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 Executive 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 June 30, 2019. Based on this evaluation, the President and Chief Executive Officer and the Executive 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 six-month period ended June 30, 2019, 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 June 30, 2019 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
April 1, 2019 – April 30, 2019	49,510	$ 71.94	41,859	5,173,831
May 1, 2019 – May 31, 2019	53,881	$ 62.40	43,612	5,130,219
June 1, 2019 – June 30, 2019	40,934	$ 68.30	39,680	5,090,539
Quarterly period ended June 30, 2019	144,325		125,151	

(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 5.8 million shares of the Company's outstanding common stock (Stock Repurchase Program). The Stock Repurchase Program was publicly announced on February 21, 2018. During the three months ended June 30, 2019, the Company repurchased 125,151 shares under the Stock Repurchase Program.

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.

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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: July 29, 2019

By: /s/ Bryan H. Fairbanks

Bryan H. Fairbanks
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (Company). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014. Filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly p
3.3	Second Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 2, 2018. Filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quart
3.4	Third Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 1, 2019. Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 1, 201
3.5	Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed May 1, 2019 and incorporated herein by reference.
10.1	Updated Form of Trex Company, Inc. 2014 Stock Incentive Plan Stock Appreciation Rights Agreement. Filed herewith. **
10.2	Updated Form of Trex Company, Inc. 2014 Stock Incentive Plan Time-Based Restricted Stock Unit Agreement. Filed herewith. **
10.3	Updated Form of Trex Company, Inc. 2014 Stock Incentive Plan Performance-Based Restricted Stock Unit Agreement. Filed herewith. **
31.1	Certification of Chief Executive Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
31.2	Certification of Chief Financial Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
32	Certifications 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). Furnished herewith.
101.INS	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.INS	XBRL Instance Document. Filed.
101.SCH	XBRL Taxonomy Extension Schema Document. Filed.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. Filed.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. Filed.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. Filed.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. Filed.

** Management contract or compensatory plan or agreement.

Exhibit 10.1

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
STOCK APPRECIATION RIGHTS AGREEMENT

Trex Company, Inc., a Delaware corporation (the "Company"), hereby grants stock appreciation rights ("SARs") relating to its common stock, $.01 par value, (the "Stock") to the Grantee named below, subject to the vesting conditions set forth in the attachment. Additional terms and conditions of the grant are set forth in this cover sheet, in the attachment, and in the Company's 2014 Stock Incentive Plan (the "Plan").

Grant Date: _________________

Name of Grantee: ____

Number of SARs: _________________

SAR Grant Price per Share: $____

Vesting Schedule:

Vesting Date	Number of SARs
Vest 1	#
Vest 2	#
Vest 3	#

Last Date to Exercise: ____________[3]

By signing this cover sheet, you agree to all of the terms and conditions described in the attached Agreement and in the Plan. You acknowledge that you have carefully reviewed the Plan, and agree that unless otherwise specifically provided herein, the Plan will control in the event any provision of this Agreement should appear to be inconsistent.

Grantee: ____
(Signature)

Company: ____
William R. Gupp
Senior Vice President, General Counsel and Secretary

This is not a stock certificate or a negotiable instrument.

3 Certain events can cause an earlier termination of the SAR. See "Effects of Changes in Capitalization" in the Plan. This date shall be extended for one (1) year in the event your employment terminates due to your death during the tenth year of the term.

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
STOCK APPRECIATION RIGHTS AGREEMENT

SARs	The SARS are only exercisable before the Last Date to Exercise (noted on the cover sheet) and then only with respect to the vested portion of the SARs. Subject to the preceding sentence, you may exercise the SARs, in whole or in part, by following the procedures set forth in the Plan and below in this Agreement. For the purpose of this Agreement, “Service” means service as an employee of the Company or any Affiliate or service as Service Provider.
Vesting	Your right to exercise the SARs vests as to thirty three and one-third percent ($33\frac{1}{3}\%$) of the total number of SARs on each anniversary of the grant, as shown on the cover sheet, provided that you then continue in Service on each such vesting date. The resulting aggregate number of vested SARs will be rounded to the nearest whole number, and you may not vest in more than the number of SARs shown on the cover sheet.
	Except as otherwise provided herein, no SARs will vest after your Service has terminated for any reason.
Early Vesting	Upon the termination of your Services, other than by reason of your death, Disability, Retirement, or termination by the Company without “Cause” or at your election with “Good Reason,” any SARs that have not vested hereunder shall immediately be deemed forfeited and your vested SARs will expire at the close of business at Company headquarters on the 90th day after your termination date (or, if such 90th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday); but in any event no later than the Last Date to Exercise.
	In the event of the termination of your Services because of your death, Disability, or Retirement, any SARs that have not vested hereunder shall immediately become fully vested and will expire at the close of business at Company headquarters on the date five (5) years after your termination date (but not later than the Last Date to Exercise). During that five year period (but not later than the Last Date to Exercise), your or your estate or heirs may exercise your SARs. As a condition to such SARs vesting upon your termination of employment by the Company without “Cause” or at your election with “Good Reason”, you must first execute a written release and agreement provided by the Company and not revoke such release and agreement within the time permitted therein for such revocation.
	In the event of the termination of your Services by the Company without “Cause” or at your election with “Good Reason”, or in the event of a “Change in Control”, any SARs that have not vested hereunder shall immediately become fully vested and will expire at the close of business at Company headquarters on the 90th day after your termination date or Change in Control, whichever is applicable, (or, if such 90th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday); but in any event no later than the Last Date to Exercise.
	“Cause” means one of the following reasons for which your employment with the Company is terminated: (1) Your willful or grossly negligent misconduct that is materially injurious to the Company; (2) Your embezzlement or misappropriation of funds or property of the Company; (3) Your conviction of a felony or the entrance of a plea of guilty or nolo contendere to a felony; (4) Your conviction of any crime involving fraud, dishonesty, moral turpitude or breach of trust or the entrance of a plea of guilty or nolo contendere to such a crime; or (5) Your willful failure or refusal by you to devote your full business time (other than on account of disability or approved leave) and attention to the performance of your duties and responsibilities if such breach has not been cured within 15 days after written notice thereof is given to you by the Board of Directors.

“Good Reason” shall exist upon: (1) a material and adverse change in your status or position(s) as an officer or management employee of the Company, including, without limitation, any adverse change in your status or position as an employee of the Company as a result of a material diminution in your duties or responsibilities (other than, if applicable, any such change directly attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are materially inconsistent with such status or position(s) (other than any isolated and inadvertent failure by the Company that is cured promptly upon your giving notice), or any removal of you from or any failure to reappoint or reelect you to such position(s) (except in connection with your termination other than for Good Reason); (2) a 10% or greater reduction in your aggregate base salary and targeted bonus, other than any such reduction proportionately consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company; (3) the failure by the Company to continue in effect any material employee benefit plan (excluding any equity compensation plan) in which you are participating (or plans providing you with similar benefits that are not materially reduced in the aggregate) other than as a result of the normal expiration of any such plan in accordance with its terms; or the taking of any action, or the failure to act, by the Company or any successor which would adversely affect your continued participation in any of such plans on at least as favorable a basis to you or which would materially reduce your benefits under any of such plans; (4) Company’s requiring you to be based at an office that is both more than 50 miles from where your office is located and further from your then current residence; or (5) a material breach by the Company of any agreement with you; provided, however, that if any of the conditions exists, you must provide written notice to the Company no more than ninety (90) calendar days following the initial existence of the condition and your intention to terminate your employment for Good Reason. Upon such notice, the Company shall have a period of thirty (30) calendar days during which it may remedy the condition and, if the Company fails to remedy such condition, you terminate your Services within ninety (90) calendar days following such failure.

“Change in Control” shall have the meaning given to such term in the Change in Control Severance Agreement between you and the Company, provided that in all cases such Change in Control constitutes a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i).

Notwithstanding the foregoing or any other provision herein to the contrary, SARs shall also vest according to the terms and conditions, if so provided, in any separate agreement between you and the Company, including but not limited to any Employment Agreement, Severance Agreement or Change in Control Severance Agreement.

Notice of Exercise

When you wish to exercise this award of SARs, you must notify the Company by filing the proper “Notice of Exercise” form at the address given on the form. All exercises must take place before, and your SARs will expire on, the Last Date to Exercise (shown on the cover sheet), or such earlier date following your death, disability, retirement or other termination of your service as otherwise provided herein or a Change in Control. Your notice must specify how many SARs you wish to exercise. Your notice must also specify how the shares of Stock received on the exercise of your SARs should be registered (in your name only or in your and your spouse’s names as joint tenants with right of survivorship). The notice will be effective when it is received by the Company.

If someone else wants to exercise the SARs after your death, that person must prove to the Company’s satisfaction that he or she is entitled to do so.

Payment for SARs

Upon your exercise of the SARs, the Company will pay you in shares of Stock an amount equal to the positive difference (if any) between the Fair Market Value of a share of Stock on the exercise date and the SAR Grant Price, multiplied by the number of SARs being exercised. Any fractional shares of Stock will be paid to you in cash.

Withholding Taxes	You agree, as a condition of this grant, that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the exercise of SARs. In the event that the Company determines that any federal, state, local or foreign tax or withholding payment is required relating to the exercise of SARs, the Company shall have the right to require such payments from you, withhold shares that would otherwise have been issued to you under this Agreement or withhold such amounts from other payments due to you from the Company or any Affiliate.
Retention Rights	This Agreement does not give you the right to be retained by the Company in any capacity. The Company reserves the right to terminate your Service at any time and for any reason.
Shareholder Rights	You, or your estate or heirs, have no rights as a shareholder of the Company until a certificate for shares of Stock received pursuant to the exercise of your SARS has been issued (or an appropriate book entry has been made). No adjustments are made for dividends or other rights if the applicable record date occurs before your stock certificate is issued (or an appropriate book entry has been made), except as described in the Plan.
Adjustments	In the event of a stock split, a stock dividend or a similar change in the Stock, the number of SARs and the SAR Grant Price per share shall be adjusted (and rounded down to the nearest whole number) if required pursuant to the Plan. Your SARs shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.
The Plan	The text of the Plan is incorporated in this Agreement by reference. **Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.**
	This Agreement and the Plan constitute the entire understanding between you and the Company regarding the SARs. Any prior agreements, commitments or negotiations concerning the SARs are superseded.
Consent to Electronic Delivery	The Company may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting the SARs you agree that the Company may deliver the Plan prospectus and the Company's annual report to you in an electronic format. If at any time you would prefer to receive paper copies of these documents, as you are entitled to, the Company would be pleased to provide copies. Please contact Corporate Human Resources to request paper copies of these documents.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.2

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
TIME-BASED VESTING

Trex Company, Inc., a Delaware corporation (the "Company"), hereby grants restricted stock units ("RSUs") relating to its common stock, $.01 par value (the "Stock"), to the Grantee named below, subject to the vesting conditions set forth in the attachment. Additional terms and conditions of the grant are set forth in this cover sheet, in the attachment and in the Company's 2014 Stock Incentive Plan (the "Plan").

Grant Date:

Name of Grantee:

Number of RSUs Covered by Grant:

Vesting Schedule:

Vesting Date	Number of RSUs
_________, 20___	#
_________, 20___	#
_________, 20___	#

By signing this cover sheet, you agree to all of the terms and conditions described in the attached Agreement and in the Plan. You acknowledge that you have carefully reviewed the Plan, and agree that unless otherwise specifically provided herein, the Plan will control in the event any provision of this Agreement should appear to be inconsistent.

Grantee: ____
(Signature)

Company: ____
William R. Gupp, Senior Vice President, General Counsel and Secretary

This is not a stock certificate or a negotiable instrument.

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
TIME-BASED VESTING

Restricted Stock Units	This grant is an award of restricted stock units in the number of units set forth on the cover sheet, and subject to the vesting and other conditions described below (the “RSUs”). Each RSU represents the right to receive one share of Stock, subject to the terms and conditions set forth in this Agreement and the Plan. Your RSUs may not be transferred, assigned, pledged or hypothecated, whether by operation of law or otherwise, nor may the RSUs be made subject to execution, attachment or similar process.
Vesting	Your RSUs will vest as to thirty three and one-third percent (33 1/3%) of the total number of RSUs covered by this grant, on each anniversary of the grant, as shown on the cover sheet; provided, that you continue to provide services to the Company or a Subsidiary as an employee or a Service Provider (“Services”) on each such vesting date. The resulting aggregate number of vested RSUs will be rounded to the nearest whole number, and you may not vest in more than the number of RSUs covered by this grant.
Delivery	As soon as practicable following the vesting of the RSUs hereunder, the Company will issue to you a share certificate for the shares of Stock to which such vested RSUs relate. In the alternative, the Company may use the book-entry method of share recordation to indicate your share ownership. You will have no further rights with regard to a RSU once the share of Stock related to such RSU has been issued.
Early Vesting	Upon the termination of your Services, other than by reason of your death, Disability, Retirement, or termination by the Company without “Cause” or at your election with “Good Reason,” any RSUs that have not vested hereunder shall immediately be deemed forfeited. In the event of the termination of your Services because of your death, Disability, Retirement or termination by the Company without “Cause” or at your election with “Good Reason”, any RSUs that have not vested hereunder shall immediately become fully vested. (For purposes of clarification, these vesting provisions apply notwithstanding any different vesting provision in the Plan.) As a condition to such RSUs vesting upon your termination of employment by the Company without “Cause” or at your election with “Good Reason”, you must first execute a written release and agreement provided by the Company and not revoke such release and agreement within the time permitted therein for such revocation. “Cause” means one of the following reasons for which your employment with the Company is terminated: (1) Your willful or grossly negligent misconduct that is materially injurious to the Company; (2) Your embezzlement or misappropriation of funds or property of the Company; (3) Your conviction of a felony or the entrance of a plea of guilty or nolo contendere to a felony; (4) Your conviction of any crime involving fraud, dishonesty, moral turpitude or breach of trust or the entrance of a plea of guilty or nolo contendere to such a crime; or (5) Your willful failure or refusal by you to devote your full business time (other than on account of disability or approved leave) and attention to the performance of your duties and responsibilities if such breach has not been cured within 15 days after written notice thereof is given to you by the Board of Directors.

	“Good Reason” shall exist upon: (1) a material and adverse change in your status or position(s) as an officer or management employee of the Company, including, without limitation, any adverse change in your status or position as an employee of the Company as a result of a material diminution in your duties or responsibilities (other than, if applicable, any such change directly attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are materially inconsistent with such status or position(s) (other than any isolated and inadvertent failure by the Company that is cured promptly upon your giving notice), or any removal of you from or any failure to reappoint or reelect you to such position(s) (except in connection with your termination other than for Good Reason); (2) a 10% or greater reduction in your aggregate base salary and targeted bonus, other than any such reduction proportionately consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company; (3) the failure by the Company to continue in effect any material employee benefit plan (excluding any equity compensation plan) in which you are participating (or plans providing you with similar benefits that are not materially reduced in the aggregate) other than as a result of the normal expiration of any such plan in accordance with its terms; or the taking of any action, or the failure to act, by the Company or any successor which would adversely affect your continued participation in any of such plans on at least as favorable a basis to you or which would materially reduce your benefits under any of such plans; (4) Company’s requiring you to be based at an office that is both more than 50 miles from where your office is located and further from your then current residence; or (5) a material breach by the Company of any agreement with you; provided, however, that if any of the conditions exists, you must provide written notice to the Company no more than ninety (90) calendar days following the initial existence of the condition and your intention to terminate your employment for Good Reason. Upon such notice, the Company shall have a period of thirty (30) calendar days during which it may remedy the condition and, if the Company fails to remedy such condition, you terminate your Services within ninety (90) calendar days following such failure.
	In the event of a Change in Control, any RSUs that have not vested hereunder shall immediately become fully vested. “Change in Control” shall have the meaning given to such term in the Change in Control Severance Agreement between you and the Company, provided that in all cases such Change in Control constitutes a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i).
	Notwithstanding the foregoing or any other provision herein to the contrary, RSUs shall also vest according to the terms and conditions, if so provided, in any separate agreement between you and the Company, including but not limited to any Employment Agreement, Severance Agreement or Change in Control Severance Agreement.
Withholding Taxes	You agree, as a condition of this grant, that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of vesting in RSUs (including any employment taxes that may become payable if you become eligible for Retirement prior to the end of the performance period for the RSUs) or delivery of Stock acquired under this grant. In the event that the Company determines that any federal, state, local or foreign tax or withholding payment is required relating to the vesting in RSUs or delivery of shares arising from this grant, the Company shall have the right to require such payments from you, withhold shares that would otherwise have been issued to you under this Agreement or withhold such amounts from other payments due to you from the Company or any Affiliate.
Retention Rights	This Agreement does not give you the right to be retained by the Company in any capacity. The Company reserves the right to terminate your service with the Company at any time and for any reason.
Shareholder Rights	Except as provided in the following paragraph, you do not have any of the rights of a shareholder with respect to the RSUs.
	If, prior to the vesting date, the Company declares a cash dividend on the Stock, you will be credited with dividend equivalents in an amount determined based on the dividends that you would have received, had you held shares of Stock equal to the vested number of your RSUs from the date of your award to the date of the distribution of shares of Stock following the vesting of your RSUs, and assuming that the dividends were reinvested in Stock (and any dividends on such shares were reinvested in Stock). Any such dividend equivalents will be subject to the same vesting conditions as the shares represented by your RSUs and, in the event of vesting of your RSUs, credited dividend equivalents will be settled as soon as practicable thereafter in cash.

Adjustments	In the event of a stock split, a stock dividend or a similar change in the Stock, the number of RSUs covered by this grant shall be adjusted (and rounded down to the nearest whole number) pursuant to the Plan. Your RSUs shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.
Section 409A	To the extent applicable, the RSUs granted under this Agreement are intended to comply with Section 409A of the Internal Revenue Code and the regulations and other guidance promulgated thereunder (collectively, “Section 409A”). The provisions of this paragraph shall qualify and supersede all other provisions of this Agreement and the Plan as necessary to fulfill the foregoing intent. In furtherance of the foregoing, any RSUs that accelerate and vest upon a termination of Services hereunder and that are otherwise subject to Section 409A shall accelerate and vest upon such a termination of Services solely if such termination constitutes a “separation from service” within the meaning of Section 409A. Additionally, if at the time of any such separation from service you are entitled to accelerated vesting of any RSUs granted hereunder and are also a “specified employee” (within the meaning of Section 409A and as determined by the Company) and such RSUs granted hereunder may not be settled without subjecting you to additional tax, interest and/or penalties under Section 409A, then such RSUs shall accelerate and vest upon your separation from service but shall not settle until the earlier of (i) your death or (ii) the first business day of the seventh (7th) month immediately following your separation from service. For purposes of Section 409A, each tranche of RSUs granted hereunder shall be treated as a separate payment and not as one of a series of payments treated as a single payment for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii).
The Plan	The text of the Plan is incorporated in this Agreement by reference. ***Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.***
	This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant of RSUs. Any prior agreements, commitments or negotiations concerning this grant are superseded.
Consent to Electronic Delivery	The Company may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant you agree that the Company may deliver the Plan prospectus and the Company’s annual report to you in an electronic format. If at any time you would prefer to receive paper copies of these documents, as you are entitled to receive, the Company would be pleased to provide copies. Please contact the Director of Human Resources to request paper copies of these documents.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
PERFORMANCE-BASED VESTING

Trex Company, Inc., a Delaware corporation (the “Company”), hereby grants restricted stock units (“RSUs”) relating to its common stock, $.01 par value (the “Stock”), to the Grantee named below, subject to the vesting conditions set forth in the attachment. Additional terms and conditions of the grant are set forth in this cover sheet, in the attachment and in the Company’s 2014 Stock Incentive Plan (the “Plan”).

Grant Date:

Name of Grantee:

Target Number of RSUs Covered by Grant:

Maximum Number of RSUs Covered by Grant:

Vesting Schedule:

Vesting Date	Target # of RSUs	Maximum # of RSUs
201___	____________	____________
201___	____________	____________
201___	____________	____________

The actual vesting date each year shall be the date of the first regularly scheduled Compensation Committee meeting held in that year.

By signing this cover sheet, you agree to all of the terms and conditions described in the attached Agreement and in the Plan. You acknowledge that you have carefully reviewed the Plan, and agree that unless otherwise specifically provided herein, the Plan will control in the event any provision of this Agreement should appear to be inconsistent.

Grantee: ____
(Signature)

Company: ____
William R. Gupp, Senior Vice President, General Counsel and Secretary

This is not a stock certificate or a negotiable instrument.

TREX COMPANY, INC.
2014 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
PERFORMANCE-BASED VESTING

Restricted Stock Units	This grant is an award of up to the maximum number of RSUs set forth on the cover sheet, and subject to the vesting and other conditions described below (the “RSUs”). Each RSU represents the right to receive one share of Stock, subject to the terms and conditions set forth in this Agreement and the Plan. Your RSUs may not be transferred, assigned, pledged or hypothecated, whether by operation of law or otherwise, nor may the RSUs be made subject to execution, attachment or similar process.
Vesting	The actual number of RSUs that will vest each year, if any, will be determined based on the Company’s attainment of the performance goals set forth on Schedule A for the time periods indicated; provided that you continue to provide services to the Company or a Subsidiary as an employee or a Service Provider (“Services”) on each such vesting date. Each year, on the vesting date referred to on the cover sheet, the actual performance multiple, as referred to on the attached Schedule A, shall be applied to the Target # of RSUs set forth on the cover sheet to determine the actual number of RSUs that shall vest (which in no event shall be more than the Maximum Number of RSUs set forth on the cover sheet), with any fractional RSUs being rounded to the nearest whole number.
Delivery	As soon as practicable following the vesting of the RSUs hereunder, the Company will issue to you a share certificate for the shares of Stock to which such vested RSUs relate. In the alternative, the Company may use the book-entry method of share recordation to indicate your share ownership. You will have no further rights with regard to a RSU once the share of Stock related to such RSU has been issued.
Early Vesting	Upon the termination of your Services, other than by reason of your death, Disability, Retirement, or termination by the Company without “Cause” or at your election with “Good Reason,” any RSUs that have not vested hereunder shall immediately be deemed forfeited. In the event of the termination of your Services because of your death, Disability, Retirement, or termination by the Company without “Cause” or at your election with “Good Reason”, any RSUs that have not vested hereunder shall immediately become fully vested. (For purposes of clarification, these vesting provisions apply notwithstanding any different vesting provision in the Plan.) As a condition to such RSUs vesting upon your termination of employment by the Company without “Cause” or at your election with “Good Reason”, you must first execute a written release and agreement provided by the Company and not revoke such release and agreement within the time permitted therein for such revocation. “Cause” means one of the following reasons for which your employment with the Company is terminated: (1) Your willful or grossly negligent misconduct that is materially injurious to the Company; (2) Your embezzlement or misappropriation of funds or property of the Company; (3) Your conviction of a felony or the entrance of a plea of guilty or nolo contendere to a felony; (4) Your conviction of any crime involving fraud, dishonesty, moral turpitude or breach of trust or the entrance of a plea of guilty or nolo contendere to such a crime; or (5) Your willful failure or refusal by you to devote your full business time (other than on account of disability or approved leave) and attention to the performance of your duties and responsibilities if such breach has not been cured within 15 days after written notice thereof is given to you by the Board of Directors.

Early Vesting	"Good Reason" shall exist upon: (1) a material and adverse change in your status or position(s) as an officer or management employee of the Company, including, without limitation, any adverse change in your status or position as an employee of the Company as a result of a material diminution in your duties or responsibilities (other than, if applicable, any such change directly attributable to the fact that the Company is no longer publicly owned) or the assignment to you of any duties or responsibilities which are materially inconsistent with such status or position(s) (other than any isolated and inadvertent failure by the Company that is cured promptly upon your giving notice), or any removal of you from or any failure to reappoint or reelect you to such position(s) (except in connection with your termination other than for Good Reason); (2) a 10% or greater reduction in your aggregate base salary and targeted bonus, other than any such reduction proportionately consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company; (3) the failure by the Company to continue in effect any material employee benefit plan (excluding any equity compensation plan) in which you are participating (or plans providing you with similar benefits that are not materially reduced in the aggregate) other than as a result of the normal expiration of any such plan in accordance with its terms; or the taking of any action, or the failure to act, by the Company or any successor which would adversely affect your continued participation in any of such plans on at least as favorable a basis to you or which would materially reduce your benefits under any of such plans; (4) Company's requiring you to be based at an office that is both more than 50 miles from where your office is located and further from your then current residence; or (5) a material breach by the Company of any agreement with you; provided, however, that if any of the conditions exists, you must provide written notice to the Company no more than ninety (90) calendar days following the initial existence of the condition and your intention to terminate your employment for Good Reason. Upon such notice, the Company shall have a period of thirty (30) calendar days during which it may remedy the condition and, if the Company fails to remedy such condition, you terminate your Services within ninety (90) calendar days following such failure. In the event of a Change in Control, any RSUs that have not vested hereunder shall immediately become fully vested. "Change in Control" shall have the meaning given to such term in the Change in Control Severance Agreement between you and the Company, provided that in all cases such Change in Control constitutes a "change in control event" within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i). Notwithstanding the foregoing or any other provision herein to the contrary, RSUs shall also vest according to the terms and conditions, if so provided, in any separate agreement between you and the Company, including but not limited to any Employment Agreement, Severance Agreement or Change in Control Severance Agreement. In the event a RSU vests early (under any circumstance), it shall vest at the "Target" amount (and not the "Maximum" amount) (regardless of the amount of the relevant performance period that precedes such event or the level of performance to date).
Withholding Taxes	You agree, as a condition of this grant, that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of vesting in RSUs (including any employment taxes that may become payable if you become eligible for Retirement prior to the end of the performance period for the RSUs) or delivery of Stock acquired under this grant. In the event that the Company determines that any federal, state, local or foreign tax or withholding payment is required relating to the vesting in RSUs or delivery of shares arising from this grant, the Company shall have the right to require such payments from you, withhold shares that would otherwise have been issued to you under this Agreement or withhold such amounts from other payments due to you from the Company or any Affiliate.
Retention Rights	This Agreement does not give you the right to be retained by the Company in any capacity. The Company reserves the right to terminate your service with the Company at any time and for any reason.
Shareholder Rights	Except as provided in the following paragraph, you do not have any of the rights of a shareholder with respect to the RSUs.

	If, prior to the vesting date, the Company declares a cash dividend on the Stock, you will be credited with dividend equivalents in an amount determined based on the dividends that you would have received, had you held shares of Stock equal to the vested number of your RSUs from the date of your award to the date of the distribution of shares of Stock following the vesting of your RSUs, and assuming that the dividends were reinvested in Stock (and any dividends on such shares were reinvested in Stock). Any such dividend equivalents will be subject to the same vesting conditions as the shares represented by your RSUs and, in the event of vesting of your RSUs, credited dividend equivalents will be settled as soon as practicable thereafter in cash.
Adjustments	In the event of a stock split, a stock dividend or a similar change in the Stock, the number of RSUs covered by this grant shall be adjusted (and rounded down to the nearest whole number) pursuant to the Plan. Your RSUs shall be subject to the terms of the agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.
Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Delaware, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.
Section 409A	To the extent applicable, the RSUs granted under this Agreement are intended to comply with Section 409A of the Internal Revenue Code and the regulations and other guidance promulgated thereunder (collectively, "Section 409A"). The provisions of this paragraph shall qualify and supersede all other provisions of this Agreement and the Plan as necessary to fulfill the foregoing intent. In furtherance of the foregoing, any RSUs that accelerate and vest upon a termination of Services hereunder and that are otherwise subject to Section 409A shall accelerate and vest upon such a termination of Services solely if such termination constitutes a "separation from service" within the meaning of Section 409A. Additionally, if at the time of any such separation from service you are entitled to accelerated vesting of any RSUs granted hereunder and are also a "specified employee" (within the meaning of Section 409A and as determined by the Company) and such RSUs granted hereunder may not be settled without subjecting you to additional tax, interest and/or penalties under Section 409A, then such RSUs shall accelerate and vest upon your separation from service but shall not settle until the earlier of (i) your death or (ii) the first business day of the seventh (7th) month immediately following your separation from service. For purposes of Section 409A, each tranche of RSUs granted hereunder shall be treated as a separate payment and not as one of a series of payments treated as a single payment for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii).
The Plan	The text of the Plan is incorporated in this Agreement by reference. ***Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.***
	This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant of RSUs. Any prior agreements, commitments or negotiations concerning this grant are superseded.
Consent to Electronic Delivery	The Company may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant you agree that the Company may deliver the Plan prospectus and the Company's annual report to you in an electronic format. If at any time you would prefer to receive paper copies of these documents, as you are entitled to receive, the Company would be pleased to provide copies. Please contact the Director of Human Resources to request paper copies of these documents.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 31.1

CERTIFICATION

I, James E. Cline, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent function(s)):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 29, 2019

/s/ James E. Cline
James E. Cline
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: July 29, 2019

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

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 June 30, 2019 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: July 29, 2019

/s/ James E. Cline
James E. Cline
President and Chief Executive Officer

Date: July 29, 2019

/s/ Bryan H. Fairbanks
Bryan H. Fairbanks
Executive Vice President and Chief Financial Officer