

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

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

For the transition period from _____ to _____
Commission file number: 001-14649



Trex Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
160 Exeter Drive, Winchester, Virginia
(Address of principal executive offices)

54-1910453
(I.R.S. Employer
Identification No.)
22603-8605
(Zip Code)

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

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

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

Title of each class
Common stock

Trading Symbol(s)
TREN

Name of each exchange on which registered
New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 (§ 232.405 of this chapter) 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, or a smaller reporting Company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting Company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 762(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common equity held by non-affiliates of the registrant at June 30, 2020, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$7.5 billion based on the closing price of the common stock as reported on the New York Stock Exchange on such date and assuming, for purposes of this computation only, that the registrant's directors, executive officers and beneficial owners of 10% or more of the registrant's common stock are affiliates.

The number of shares of the registrant's common stock outstanding on January 29, 2021 was 115,799,503.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Form 10-K as indicated herein:

Document
Proxy Statement relating to Registrant's
2021 Annual Meeting of Stockholders

Part of 10-K into which incorporated
Part III

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. Business	1
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	22
Item 2. Properties	22
Item 3. Legal Proceedings	22
Item 4. Mine Safety Disclosures	22
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6. Selected Financial Data	24
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40
Item 8. Financial Statements and Supplementary Data	40
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	40
Item 9A. Controls and Procedures	41
Item 9B. Other Information	45
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	46
Item 11. Executive Compensation	46
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	46
Item 13. Certain Relationships and Related Transactions, and Director Independence	46
Item 14. Principal Accounting Fees and Services	46
<u>PART IV</u>	
Item 15. Exhibits and Financial Statement Schedules	47
Index to Consolidated Financial Statements	F-1

NOTE ON FORWARD-LOOKING STATEMENTS

This report, including the information it incorporates by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “believe,” “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 this report.

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

PART I

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

Item 1. Business

General

Trex Company, Inc. (Company, we, us or our), was incorporated as a Delaware corporation in 1998. The Company is the world's largest manufacturer of composite decking and railing products, which are marketed under the brand name Trex® and manufactured in the United States. In addition, Trex 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. Our principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and our telephone number at that address is (540) 542-6300.

Products

Operations and Products: The Company currently operates in two reportable segments: Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial).

Trex Residential is the world's largest manufacturer of high-performance, low-maintenance wood-alternative composite decking and 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, railing, fencing, and outdoor lighting categories. A majority of the products are eco-friendly and leverage recycled materials to the extent possible. Trex Residential decking is made in a proprietary process that combines reclaimed wood fibers and recycled polyethylene film, making Trex one of the largest recyclers of waste polyethylene plastic film in North America. Trex Residential products are sold to distributors and home centers for final resale primarily to the residential market.

[Table of Contents](#)

Trex offers the following products through Trex Residential:

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

Trex Residential products offer a number of significant aesthetic advantages over wood while eliminating many of wood’s major functional disadvantages, which include warping, splitting and other damage from moisture. In addition to resisting fading and surface staining, Trex Residential products require no sanding, staining or sealing, resist moisture damage, provide a splinter-free surface and do not require chemical treatment against rot or insect infestation. 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. Combined, these aspects yield significant aesthetic advantages and lower maintenance than wood decking and railing and ultimately render Trex Residential products less costly than wood over the life of the deck.

We have received product building code listings from the major U.S. building code listing agencies for decking and railing and from the major Canadian building code listing agency for decking. The listings facilitate the acquisition of building permits by deck builders and promote consumer and industry acceptance of our products as an alternative to wood decking.

[Table of Contents](#)

We are a licensor in a number of licensing agreements with third parties to manufacture and sell products under the Trex trademark. Our licensed products are:

<i>Trex Outdoor Furniture™</i>	A line of outdoor furniture products manufactured and sold by PolyWood, Inc.
<i>Trex RainEscape®</i>	An above joist deck drainage system manufactured and sold by DriDeck Enterprises, LLC.
<i>Trex Pergola™</i>	Pergolas made from low maintenance cellular PVC product, manufactured by Home & Leisure, Inc. dba Structureworks Fabrication.
<i>Trex Latticeworks™</i>	Outdoor lattice boards manufactured and sold by Structureworks Fabrication.
<i>Trex Cornhole™ Boards</i>	Cornhole boards manufactured and sold by IPC Global Marketing LLC.
<i>Diablo® Trex Blade</i>	A specialty saw blade for wood-alternative composite decking manufactured and sold by Freud America, Inc.
<i>Trex SpiralStairs™ and Structural Steel Posts</i>	A staircase alternative and structural steel posts for use with all deck substructures manufactured and sold by M. Cohen and Sons, Inc. dba The Iron Shop.
<i>Trex Outdoor Kitchens, Cabinetry and Storage</i>	Outdoor kitchens, cabinetry and storage manufactured and sold by Danver Stainless Outdoor Kitchens.
<i>Trex Outdoor Fire & Water™</i>	A line of outdoor fire features, water elements and decorative planters manufactured by Custom Molded Products, LLC.

Trex Commercial is a leading national provider of custom-engineered railing and staging systems. Trex Commercial designs and engineers custom railing solutions, which are prevalent in professional and collegiate sports facilities, standardized architectural and aluminum railing systems, which target commercial and high-rise applications, and portable staging equipment for the performing arts, sports, and event production and rental market. Trex Commercial has a team of devoted engineers and an industry-leading reputation for quality and dedication to customer service.

[Table of Contents](#)

Trex offers the following products through Trex Commercial:

<i>Architectural Railing Systems</i>	Our architectural railing systems are pre-engineered guardrails with options to accommodate styles ranging from classic and elegant wood top rail combined with sleek stainless components and glass infill, to modern and minimalist stainless cable and rod infill choices. Trex Commercial can also design, engineer and manufacture custom railing systems tailored to the customer's specific material, style and finish. Many railing styles are achievable, including glass, mesh, perforated railing and cable railing.
<i>Aluminum Railing Systems</i>	Our Trex Signature aluminum railings, made from a minimum of 50 percent recycled content, are a versatile, cost-effective and low-maintenance choice for a variety of interior and exterior applications that we believe blend form, function and style. The strength and durability of Trex Signature railings make them a choice for any commercial setting, from high-rise condominiums and resort projects to public walkways and balconies. Aluminum railings come in a variety of colors and stock lengths to accommodate project needs.
<i>Staging Equipment and Accessories</i>	Our advanced modular, lightweight custom staging systems include portable platforms, orchestral 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.

Customers and Distribution

Trex Residential: Wholesale Distributors/Retail Lumber Dealers. We generate most of our sales for our composite decking and railing products through our wholesale distribution network by selling Trex Residential products to wholesale distributors, who in turn, sell our products to retail lumber outlets. These retail dealers market to both homeowners and contractors, but they emphasize sales to professional contractors, remodelers and homebuilders. Contractor-installed decks generally are larger installations with professional craftsmanship. Our retail dealers generally provide sales personnel trained in Trex Residential products, contractor training, inventory commitment and point-of-sale display support. We believe that attracting wholesale distributors, who are committed to our products and marketing approach and can effectively sell higher value products to contractor-oriented lumber yards and other retail outlets, is important to our future growth. Our distributors provide value-added service in marketing our products because they sell premium wood decking products and other innovative building materials that typically require product training and personal selling efforts. We typically appoint two distributors within a specified area to sell only Trex Residential decking products on an exclusive basis. The distributor purchases our products at prices in effect at the time we ship the product to the distributor.

Home Depot and Lowe's. We sell our products through Home Depot and Lowe's stores. Home Depot and Lowe's purchase products directly from us for stocking on their shelves. They also purchase product through our wholesale distributors for special orders placed by consumers. Home Depot and Lowe's serve both the contractor market and the "do-it-yourself" market. We believe that brand exposure through Home Depot and Lowe's distribution promotes consumer acceptance of our products.

In the years ended December 31, 2020, 2019, and 2018 sales to certain customers of Trex Residential accounted for 10% or more of the Company's total net sales. For the year ended December 31, 2020, three

[Table of Contents](#)

customers of Trex Residential represented approximately 56% of the Company's total net sales. For the year ended December 31, 2019, three customers of Trex Residential represented approximately 57% of the Company's total net sales. For the year ended December 31, 2018, two customers of Trex Residential represented approximately 42% of the Company's total net sales.

Trex Commercial: We sell our modular and architectural railing and staging systems to the commercial and multifamily market, including sports stadiums and performing arts venues, primarily to facility owners and general contractors throughout the country. We market these products through our direct sales staff, independent sales representatives, and bidding on projects.

We are committed to conducting business activities with the highest standards of business ethics and in accordance with all applicable laws and regulations. Our Vendor and Customer Code of Conduct and Ethics (Code), available at www.trex.com/our-company, applies to all parties providing goods and services to the Company, and all channel partners who distribute, sell and/or install our products (collectively, Business Partners). We expect all Business Partners, and all employees, agents and subcontractors to follow our high ethical standards set forth in the Code while they are conducting business with us or on our behalf. In addition, we expect our Business Partners to understand and comply with the Trex Company Code of Conduct and Ethics, available at www.trex.com/our-company, to do business with Business Partners who share the same commitment to human rights that we have and as set forth in our Human Rights Policy, available at www.trex.com/our-company.

Manufacturing Process

Products manufactured at our Trex Residential manufacturing facilities in Virginia and Nevada are primarily manufactured from reclaimed wood fiber and scrap polyethylene. Our primary manufacturing process for the products involves mixing wood particles with plastic, heating and then extruding, or forcing, the highly viscous and abrasive material through a profile die. We use many proprietary and skill-based advantages in our eco-friendly manufacturing process. Products manufactured at our Trex Commercial manufacturing facility in Minnesota are primarily manufactured from aluminum and stainless steel. Our primary manufacturing process for these products involves cutting, machining, welding and finishing. We use Six Sigma and Lean Manufacturing methodologies throughout our Company within our plant operations and in the planning and execution of certain projects.

Our manufacturing processes require significant capital investment, expertise and time to develop. We have continuously invested the capital necessary to expand our manufacturing throughput and improve our manufacturing processes. We have also broadened the range of raw materials that we can use to produce a consistent and high-quality finished product. In connection with national building code listings, we maintain a quality control testing program.

Suppliers

We conduct supply chain assessments when considered necessary in relation to the significance of the purchase and business opportunity for the Company. Assessments include in-person reviews and tours of operating facilities. The Company is committed to conducting business activities with the highest standards of business ethics and in accordance with all applicable laws and regulations. As stated above, our Vendor and Customer Code of Conduct and Ethics, our Company Code of Conduct and Ethics, and our Human Rights Policy apply to all suppliers of the Company.

The production of most of our decking products requires a supply of reclaimed wood fiber and scrap polyethylene. We fulfill requirements for raw materials under both purchase orders and supply contracts. In the year ended December 31, 2020, we purchased our reclaimed wood fiber requirements under purchase orders and long-term supply commitments not exceeding four years. All of our polyethylene purchases are under short-term

[Table of Contents](#)

supply contracts that generally have a term of approximately one to two years for which pricing is negotiated as needed, or under purchase orders that do not involve long-term supply commitments.

- *Reclaimed Wood Fiber:* Cabinet and flooring manufacturers are our preferred suppliers of reclaimed wood fiber because the reclaimed wood fiber produced by these operations contains little contamination and is low in moisture. These facilities generate reclaimed wood fiber as a byproduct of their manufacturing operations. If the reclaimed wood fiber meets our specifications, our reclaimed wood fiber supply agreements generally require us to purchase at least a specified minimum and at most a specified maximum amount of reclaimed wood fiber. Depending on our needs, the amount of reclaimed wood fiber that we actually purchase within the specified range under any supply agreement may vary significantly from year to year.
- *Scrap Polyethylene:* The polyethylene we consume is primarily composed of scrap plastic film and plastic bags. We will continue to seek to meet our future needs for scrap polyethylene from the expansion of our existing supply sources and the development of new sources. We believe our use of multiple sources provides us with a cost advantage and facilitates an environmentally responsible approach to our procurement of polyethylene. Our ability to source and use a wide variety of polyethylene from third party distribution and manufacturing operations is important to our cost strategy. We maintain this ability through the continued expansion of our plastic reprocessing operations in combination with the advancement of our proprietary material preparation and extrusion processes.

In addition, we outsource the production of certain products to third-party manufacturers.

The production of our commercial products requires a supply of aluminum, stainless steel and glass components. We use multiple sources for each material to ensure consistent availability of material and competitive pricing. We purchase substantially all of our aluminum, stainless steel and glass under purchase orders, which do not involve long-term supply commitments.

Training

Trex University is our state-of-the-art training facility located near our Virginia manufacturing plant designed to educate and train retailers, contractors and other partners on the benefits of Trex Residential aesthetically pleasing, high-performance, low-maintenance, eco-friendly outdoor living products.

Growth Strategies

Our long-term goals are to continue leading the category with beautiful, high-performance, low-maintenance Trex products, including our outdoor living products, such as composite decking and railing for the residential market and custom-engineered railing systems for the commercial market. To do this, we will increase market share and expand into new product categories and geographic markets through the design, creation and marketing of outdoor living products that offer superior aesthetics and quality and by expanding our sales to the commercial market. Trex Residential will expand its offering of eco-friendly decking and railing products for a breadth of audiences, whether by converting wood buyers who have not previously considered composite decking or appealing to the most discriminating high-end homeowners seeking superior aesthetics and quality. Trex Commercial will extend its position as a leading national provider of custom-engineered railing for the commercial and multi-family market, including sports stadiums. Additionally, Trex will continue to explore opportunities that leverage our manufacturing and extrusion expertise and recycling heritage. We intend to employ the following long-term strategies to achieve our goals:

- *Innovation:* Introduce new products that address unmet consumer and trade professional needs. Provide a compelling value proposition through ease of installation, low maintenance, long-term durability and superior aesthetics.

Table of Contents

- *Brand:* Expand awareness, preference and commitment for the Trex brand with both consumers and trade professionals. Deliver on the brand's promise of superior quality, functionality, pleasing aesthetics and overall performance in outdoor living products and custom-engineered railing systems. Leverage omnichannel efforts to extend the Trex brand presence, both nationally and globally.
- *Channels:* Achieve comprehensive market segment and geographic coverage for Trex products by increasing the number of stocking dealers and retailers and expanding our international presence for our eco-friendly wood-alternative outdoor living products, thereby making our products available wherever our customers choose to purchase their decking or railing , and by continuing to develop our commercial market penetration for our railing systems.
- *Quality:* Continuously advance the quality of all operational and business processes, with the goal of achieving superior product quality and service levels, thereby giving us a sustainable competitive advantage.
- *Cost:* Through capital investments and process engineering, continuously seek to lower the cost to manufacture Trex residential and commercial products. Investments in polyethylene recycling capabilities will allow us to expand our ability to use a wider breadth of waste materials thereby lowering raw material costs of our outdoor living products. We plan to continue to achieve significant improvements in manufacturing productivity by reducing waste and improving our production process.
- *Customer Service:* Through our commitment to superior customer service, continually deliver consistently outstanding, personalized service to all customers and prospects in all segments.

Competition

Our primary competition for our composite decking and residential railing products consists of wood products, which constitute a substantial majority of decking and railing sales, as measured by linear feet of lumber. Many of the conventional lumber suppliers with which we compete have established ties to the building and construction industry and have well-accepted products. A majority of the lumber used in wood decks is pressure-treated lumber. Southern yellow pine and fir have a porosity that readily allows the chemicals used in the pressure treating process to be absorbed. The same porosity makes southern yellow pine susceptible to absorbing moisture, which causes the lumber to warp, crack, splinter and expel fasteners. In addition to pine and fir, other segments of wood material for decking include redwood, cedar and tropical hardwoods, such as ipe, teak and mahogany. These products are often significantly more expensive than pressure-treated lumber, but do not eliminate some of the disadvantages of other wood products.

In addition to wood, we also compete with other manufacturers of wood-alternative products. Industry studies indicate that we have the leading market share of the wood-alternative segment of the decking and railing market. Our principal competitors include The Azek Company Inc., and Fiberon (a division of Fortune Brands, Inc.).

Our ability to compete depends, in part, on a number of factors outside our control, including the ability of our competitors to develop new wood-alternative decking and railing products that are competitive with our products. We believe that the principal competitive factors in the decking and railing market include product quality, price, aesthetics, maintenance cost, and distribution and brand strength. We believe we compete favorably with respect to these factors. We believe that our products offer aesthetic and cost advantages over the life of a deck when compared to other types of decking and railing materials. Although a contractor-installed deck built with Trex products using a pressure-treated wood substructure generally costs more than a deck made entirely from pressure-treated wood, Trex products are low maintenance compared to the on-going maintenance required for a pressure-treated deck and are, therefore, less costly over the life of the deck. We believe that our manufacturing process and utilization of relatively low-cost raw material sources provide us with a competitive cost advantage relative to other manufacturers of wood-alternative decking and railing products. The scale of our operations also confers cost efficiencies in manufacturing, sales and marketing.

[Table of Contents](#)

Our primary competition for our products in the commercial and multi-family market consists of companies that provide components to assemble guard rails, including C.R. Laurence Co., Inc., a CRH Group company, regional railing and metal fabricators, and Wenger Corporation. Our ability to compete depends on our product design advantages, relationships with architects and general contractors, and competitive manufacturing costs. We believe we have a competitive advantage in products and markets in which we have established a leading market share versus our competition, including the stadium and arena railing market. We do not yet experience those favorable dynamics in markets in which we are a relatively new entrant, including the aluminum balcony market. These dynamics derive from familiarity with project and customer requirements, technical product requirements, and contractor and architect relationships.

Seasonality

Our 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 Products has historically offered incentive programs to its distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of its product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs. The operating results for Trex Commercial have not historically varied from quarter to quarter as a result of seasonality. However, they are driven by the timing of individual projects, which may vary significantly each period.

Government Regulation

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

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

Intellectual Property

Our success depends, in part, upon our intellectual property rights relating to our products, production processes and other operations. We rely upon a combination of trade secret, nondisclosure and other contractual arrangements, and patent, copyright and trademark laws, to protect our proprietary rights. We have made substantial investments in manufacturing process improvements that have enabled us to increase manufacturing line production rates, facilitate our development of new products, and produce improvements in our existing products' dimensional consistency, surface texture and color uniformity.

Intellectual property rights may be challenged by third parties and may not exclude competitors from using the same or similar technologies, brands or works. We seek to secure effective rights for our intellectual property but cannot provide assurance that third parties will not successfully challenge, or avoid infringing, our intellectual property rights.

[Table of Contents](#)

We consider our trademarks to be of material importance to our business plans. The U.S. Patent and Trademark Office has granted us federal registrations for many of our trademarks. Federal registration of trademarks is effective for as long as we continue to use the trademarks and renew their registrations. We do not generally register any of our copyrights with the U.S. Copyright Office but rely on the protection afforded to such copyrights by the U.S. Copyright Act. This law provides protection to authors of original works, whether published or unpublished, and whether registered or unregistered.

We hold a number of U.S. Patents and U.S. Patent Applications for various technologies. We have one current U.S. Patent for decking technology and five U.S. Patents for various staging systems, accessories and related technologies. We intend to maintain our existing patents in effect until they expire as well as to seek additional patents as we consider appropriate.

We enter into confidentiality agreements with our employees and limit access to and distribution of our proprietary information. If it is necessary to disclose proprietary information to third parties for business reasons, we require that such third parties sign a confidentiality agreement prior to any disclosure.

Human Capital

We are committed to furthering our stature as the highest quality, pre-eminent decking brand in the world, while delivering robust value to our shareholders. As we continue to grow, a differentiating factor continues to be the caliber of our talent. The Company embraces a culture of diverse thinking and perspectives. We strive for this by making human capital a key strategic pillar overseen by the Board of Directors and management.

Our focus is to attract, develop and retain a highly engaged and diverse workforce. We accomplish this through broad and transparent employment branding efforts, competitive and equitable compensation philosophies, proactive employee relations, and by offering a work environment with meaningful career growth opportunities.

At December 31, 2020, Trex Residential employed 1,555 full-time employees and Trex Commercial employed 164 full-time employees. Our employees are not covered by collective bargaining agreements. We believe that our relationships with our employees are favorable, and we have not had any serious complaints or claims over the last three years. Our Human Rights Policy sets forth our values related to working conditions and human rights, and it underscores our philosophy about the way we conduct our business. The policy is available at www.trex.com/our-company.

We believe that diversity, equity and inclusion enriches our organization, contributes to our long-term value creation, and fosters an environment of creativity and innovative thinking, which will bring forth new ideas and challenge the status quo. The strategy we have developed aims to advance our efforts to increase the diversity of our workforce, while we continue to be a destination workplace for talent and maximize returns to our shareholders.

We believe a diverse candidate or employee is someone who is driven, bold, hard-working, determined and tenacious; embodies our overarching ideals and identity; and who looks, thinks or acts differently than the majority. These differences could be represented by race, ethnicity, gender, or academic and professional backgrounds. When comparing our ethnicity demographics against those in the geographies where we operate, we seek to accurately represent the diversity of our local communities and beyond.

We hired approximately 350 employees over the past year in support of our current expansion efforts and growth at Trex Residential and expect to continue to add additional employees to support our growth. We continue to build our employer brand by accurately and transparently reflecting our work culture to attract candidates. Recent actions include:

- Developing a recruiting campaign specifically for Spanish-speaking job seekers.

Table of Contents

- Utilizing candidate assessment tools for certain roles to remove potential bias.
- Leveraging large, diverse recruiting platforms to reach broad audiences.
- Establishing a new training department focused solely on the training and development of our employees.
- Launching a new, more robust and engaging careers website designed to attract ideal candidates in a competitive job market, which replaces our previous solo landing page approach with details about our organization, locations, people and benefits.
- Increasing our employee and employment digital presence across many platforms.

Trex has taken these steps to ensure all employees feel comfortable, and to ensure that we remain an employer of choice, well-known for both innovation and opportunity. All Trex employees will complete live diversity, equity and inclusion training, which addresses valuing differences, communicating inclusively, avoiding harassment and hostile work environment, and resolving unconscious bias.

Our recruitment strategy includes advanced education recruitment and veteran recruitment. We recognize the skills learned through these pursuits align with the skills necessary to be a successful employee, and our active involvement with these recruiting paths offers many opportunities to build partnerships and reach candidate pools at various career stages that are both diverse and geographically varied. The strategy also offers opportunities to partner with organizations that appeal to these talent groups, to increase our employer brand exposure, and to help sustain diversity and recruitment efforts.

Corporate Governance

Information related to the Company's governance and related activities and programs may be found in the Company's Definitive Proxy Statement filed on March 17, 2020 in Schedule 14A. Also, a copy of the Company's Code of Conduct and Ethics (Code) is maintained on the Company's web site at www.trex.com/our-company. The Company has a whistle-blowing policy included in its Code that encourages reporting by employees of activities the employee considers illegal or dishonest. Each employee is notified of the whistle-blower policy and a toll-free hotline is provided for reporting issues directly to the Board of Directors and the Company's General Counsel.

Environmental and Occupational Safety

Environmental

The Company's commitment to managing environmental impact includes developing and offering more sustainable products to the market as well as reducing the environmental impact of its corporate activities. From continuous improvement in its manufacturing practices that reduce the use of energy to making products using industry leading high levels of reclaimed and recycled materials, the Company is able to improve its use of resources, its greenhouse gas emissions, and its waste streams. Our Environmental Policy, located on our web site at www.trex.com/our-company, outlines our foundational commitment to conducting business in an ethical and socially responsible manner that respects the environment. Environmental matters relevant to the Company's operations are the responsibility of members of the executive management team, including the President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, and the General Counsel.

Trex Residential's eco-friendly composite decking products consist of a blend of 95 percent reclaimed wood and recycled polyethylene film. In addition, Trex Residential's proprietary, eco-friendly processing method minimizes greenhouse gas emissions and our bi-coastal factories reduce fuel consumption and CO₂ emissions. Almost 100 percent of our factory runoff and refuse are recycled back into the manufacturing line. Any product that does not meet quality specifications is reprocessed, which eliminates the need for landfill. In addition, it is Trex Commercial's goal to provide eco-friendly products for the architectural railing market and promote an effort for design innovation that decreases the environmental footprint.

Table of Contents

The Company's primary resource usage consists of water, natural gas and electricity. The Company develops budgets and plans that improve shareholder return by ensuring the optimal use of each resource, which promotes resource efficiency and minimal waste of the resource. Water management is of critical importance to us and we prioritize energy savings as part of our ongoing evaluation and optimization of business operations and manufacturing processes. We ensure that all manufacturing facilities meet emission standards for the locality in which they operate and certify to applicable authorities that our emissions are within the relevant locality's standards.

Market Recognition of Trex Brand's Environmental Characteristics

The Company's internal standards for environmental stewardship and product integrity are recognized year-over-year in the marketplace. In 2020, Trex received the 2020 Sustainability Leadership Award by the Business Intelligence Group, Green Builder Media's best Brand Index score for the decking category, Green Builder Media's Readers' Choice Award for "Greenest Decking" – one of the most respected surveys issued by the publication – for an unprecedented 10-year streak.

Trex Residential decking products meet LEED requirements for builders and our commercial products have contributed to the LEED certifications of some high-profile venues. LEED is a point-based system created in part by the U.S. Green Building Council and designed to reward points to building projects that incorporate efficient, and safe eco-friendly products, leading to a building's designation as LEED Silver, Gold or Platinum. LEED buildings attract higher demand, premium rates and longer occupancy leases, thereby supporting continued and growing demand for products that can facilitate LEED designations. As a U.S. Green Building Council member, Trex works along with council members to transform the way buildings and communities are designed, built and operated with the goal of creating environmentally and socially responsible spaces that improve the quality of life.

Trex Commercial railing products also typically contribute to LEED certification points in the Materials and Resources category based on recycled aluminum, steel, stainless steel and glass content.

Occupational Safety

The Company is committed to plan and perform all operations at all facilities in a manner that is safe for its employees, and has adopted an Occupational Health and Safety Policy, located on our web site at www.trex.com/our-company. The policy sets forth our commitment to sustaining a compliant and safety conscious work environment. and keeping safety at the forefront of our business. The commitment is based on:

- A comprehensive understanding of worker expectations and requirements;
- Compliance to statutory, regulatory and other legal requirements;
- Prevention considerations in all designs and redesigns of facilities, equipment, processes, work methods and products, and incorporation of safe design methods into all phases of hazard and risk mitigation;
- Demonstrating employee safety leadership in all processes while striving for world class performance; and
- Continual improvement by analyzing this commitment through the use of leading and lagging key performance indicators, such as safety observation audit completions, work area audit card completion, attendance at monthly safety training, safety work order completions, and targets related to recordable and lost time incident rates and days away or restricted time.

The Company applies industry best-practices for monitoring and reporting near misses, lost days and frequency of incidents and for implementing safety systems similar to OHSAS 18001 including:

- Management leadership and employee involvement;

Table of Contents

- Worksite analysis;
- Hazard prevention and control; and
- Safety and health training.

The Company's "Design for Safety" program incorporates reviewing and building safety into every project from conception through completion, beginning with a Pre-startup Safety Review (PSSR) that ensures safety items are addressed. A fully empowered Plant Safety Committee performs safety audits and observations, reviews and trends all incidents, writes their own Safety Work Orders, and participates in all PSSRs. Each member is required to successfully complete an Occupational Safety and Health Training course in General Industry Safety and Health, which is sanctioned and accredited by the U.S. Department of Labor/Occupational Safety and Health Administration. In addition, the Company has an Employee Health and Safety Manager who is a Certified Occupational Safety Specialist and Certified Occupational Safety Manager. The Company is a member of the Voluntary Protection Program Participants Association, the National Safety Council, and the National Fire Protection Association.

Web Sites and Additional Information

The U. S. Securities and Exchange Commission (SEC) maintains an Internet web site at www.sec.gov that contains reports, proxy statements, and other information regarding our Company. In addition, we maintain an Internet corporate web site at www.trex.com/our-company/investor-relations. We make available through our web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file with or furnish such material to the SEC. We do not charge any fees to view, print or access these reports on our web site. The contents of our web site are not a part of this report.

[Table of Contents](#)

Item 1A. Risk Factors

Our business operates in two reportable segments, Trex Residential and Trex Commercial, and is subject to a number of risks, including the following. If applicable to a particular segment, we have specified the respective segment subject to the risk factor.

Risks Related to the Distribution and Sale of Our Product

Risk	Discussion
<p data-bbox="67 383 181 409">Description</p> <p data-bbox="67 427 783 483">We may not be able to grow unless we increase market acceptance of our products, compete effectively and develop new products and applications.</p> <p data-bbox="67 517 137 544">Impact</p> <p data-bbox="67 562 798 645">Our failure to compete successfully could have a material adverse effect on the ability of Trex Residential to replace wood products or increase our market share amongst wood-alternative products.</p> <ul data-bbox="105 663 810 965" style="list-style-type: none"><li data-bbox="105 663 810 745">• If our Trex Residential products do not meet emerging demands and preferences, we could lose market share, which could have a material adverse effect on our business.<li data-bbox="105 763 810 965">• In addition, substantially all of our revenues are derived from sales of our proprietary wood/polyethylene composite material. Although we have developed, and continue to develop, new products made from other materials, if we should experience significant problems, real or perceived, with acceptance of the Trex wood/polyethylene composite material, our lack of product diversification could have a significant adverse impact on our net sales levels. <p data-bbox="67 999 788 1081">If our Trex Commercial products do not keep up with consumer trends, demands, and preferences we could lose market share, which could have a material adverse effect on our business.</p>	<p data-bbox="829 427 1527 719">Our primary competition for Trex Residential products consists of wood products, which constitute a substantial majority of decking, railing, fencing, and deck framing sales. Since composite products were introduced to the market in the late 1980s, their market acceptance has increased. Our ability to grow depends, in part, on our success in continuing to convert demand for wood products into demand for composite Trex Residential products. Many of the conventional lumber suppliers with which we compete have established ties to the building and construction industry and have well-accepted products.</p> <p data-bbox="829 752 1527 920">Our ability to compete depends, in part, upon a number of factors outside our control, including the ability of competitors to develop new alternatives that are more competitive with Trex products. Our ability to identify and respond to emerging consumer demands and preferences for Trex Residential products depends, in part, on how successfully we develop, manufacture and market new products.</p> <p data-bbox="829 954 1318 981">To increase our market share, we must overcome:</p> <ul data-bbox="884 999 1527 1305" style="list-style-type: none"><li data-bbox="884 999 1527 1081">• Lack of awareness of the enhanced value of composite products in general and Trex Residential brand products in particular;<li data-bbox="884 1099 1527 1155">• Resistance of many consumers and contractors to change from well-established wood products;<li data-bbox="884 1173 1527 1305">• Consumer lack of awareness that the greater initial expense of Trex Residential products compared to wood is a one-time cost that is reduced over time as Trex Residential products have lower maintenance costs and a longer life span than wood;

- Established relationships existing between suppliers of wood products and contractors and homebuilders;
- Actual and perceived quality issues with first generation composite products; and
- Competition from other wood-alternative manufacturers.

Although Trex Commercial is a leading national provider of custom-engineered railing and staging systems for the commercial and multi-family market, including performing arts venues and sports stadiums, there is significant competition for projects. In order to effectively compete, we must continually produce and install high quality products and innovate with new products.

Risk	Discussion
<p>Description</p> <p>We may not be able to fully maintain our Trex Residential wholesaler and dealer channels.</p> <p>Impact</p> <p>If Trex Residential fails to compete successfully for wholesale distributors and dealers, our business could experience material adverse effects, which could negatively impact profitability and cash flows.</p>	<p>Trex Residential sells most of our composite decking and railing products through our network of wholesale distributors who, in turn, sell to retail lumber outlets. Our Trex Residential growth strategy depends on maintaining this network and on our ability to compete with other entities for these channels. In order to successfully compete for wholesaler distributors, dealers and retail lumber outlets, we must accurately assess their customers' needs and preferences.</p>

Risk	Discussion
<p>Description</p> <p>Certain of our Trex Residential product customers account for a significant portion of our sales, and the loss of one or more of these customers could have an adverse effect on our business.</p> <p>Impact</p> <p>The loss of a significant customer could have a significant negative impact on our business, results of operations and financial condition.</p>	<p>A limited number of our Trex Residential product customers account for a significant percentage of our sales. We expect that a significant portion of our Trex Residential sales will continue to be sold through a small number of customers, and certain customers will continue to account for a significant portion of our sales.</p>

[Table of Contents](#)

Risk	Discussion
<p data-bbox="68 197 185 226">Description</p> <p data-bbox="68 241 743 324">We have limited ability to project inventory build-ups in our Trex Residential distribution channel that can negatively affect our sales in subsequent periods.</p> <p data-bbox="68 360 140 389">Impact</p> <p data-bbox="68 405 775 577">We cannot definitively determine the level of inventory in the Trex Residential distribution channels at any time and, therefore, have limited ability to precisely project inventory build-ups in the Trex Residential two-step distribution channel. Significant increases in inventory levels in the distribution channel without a corresponding change in end-use demand could have an adverse effect on the timing of future sales.</p>	<p data-bbox="794 241 1501 389">Trex Residential sells most of our composite decking and railing products through our network of wholesale distributors who, in turn, sell to retail outlets. The seasonal nature of, and changing conditions in, our industry can result in substantial fluctuations in inventory levels of Trex Residential products carried in our two-step distribution channel.</p> <p data-bbox="794 389 1501 763">Because of the seasonal nature of the demand for our products, our distribution channel partners must forecast demand for our products, place orders for the products, and maintain Trex Residential product inventories in advance of the prime deck-building season, which generally occurs in the latter part of the first calendar quarter through the third calendar quarter. Accordingly, our results for the second and third quarters are difficult to predict, and past performance will not necessarily indicate future performance. Inventory levels respond to a number of changing conditions in our industry, including product price increases, increases in the number of competitive producers, the rapid pace of product introduction and innovation, changes in the levels of home-building and remodeling expenditures and the cost and availability of consumer credit.</p>
<p data-bbox="68 835 185 864">Description</p> <p data-bbox="68 880 759 963">The demand for our Trex Residential products is negatively affected by adverse weather conditions.</p> <p data-bbox="68 999 140 1028">Impact</p> <p data-bbox="68 1043 807 1171">Seasonal, erratic, or prolonged adverse weather conditions may shift sales of Trex Residential products to future periods or decrease overall sales given the limited decking season in many locations, which could have a negative impact on our results of operations and liquidity.</p>	<p data-bbox="794 925 1501 1133">Our Trex Residential products are generally purchased shortly before installation and used in outdoor environments. As a result, there is a correlation between the amount of product we sell and weather conditions during the time they are to be installed. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions may interfere with ordinary construction, delay projects or lead to cessation of construction involving our products.</p>

[Table of Contents](#)

Risk	Discussion
<p data-bbox="68 197 185 226">Description</p> <p data-bbox="68 241 738 322">We depend on third parties for transportation services and the lack of availability of transportation and/or increases in cost could materially adversely affect our business and operations.</p> <p data-bbox="68 360 140 389">Impact</p> <p data-bbox="68 405 810 689">If the required supply of third-party transportation services is unavailable when needed, we may be unable to deliver our products in a timely manner and, therefore, unable to sell our products at full value, or at all. Similarly, if any of these providers were unavailable to deliver raw materials to us in a timely manner, we may be unable to manufacture our products in response to customer demand. This could harm our reputation, negatively impact our customer relationships and have a material adverse effect on our financial condition and results of operations. In addition, a material increase in transportation rates or fuel surcharges could have a material adverse effect on our profitability.</p>	<p data-bbox="823 241 1520 416">Our business depends on the transportation by third parties of both raw materials to us and finished goods to our customers. In particular, a significant portion of our finished goods are transported by flatbed trucks, which are occasionally in high demand (especially at the end of calendar quarters) and/or subject to price fluctuations based on market conditions and the price of fuel.</p>
<p data-bbox="68 752 185 781">Description</p> <p data-bbox="68 846 783 927">The demand for our products is influenced by the home improvement and commercial construction markets and could be adversely affected by conditions that negatively impact these markets.</p> <p data-bbox="68 965 140 994">Impact</p> <p data-bbox="68 1010 810 1184">We cannot predict conditions that may negatively impact the home remodeling and new home construction environment. Any economic downturn or adverse changes in the home improvement market could reduce consumer income or equity capital available for spending on discretionary items, which could adversely affect the demand for our Trex Residential products.</p> <p data-bbox="68 1223 810 1384">We cannot predict conditions that may negatively impact the commercial construction environment. Any economic downturn could negatively impact the availability of funding for commercial construction projects and the ability of Trex Commercial customers to engage in commercial construction activity, which could adversely affect the demand for Trex Commercial products.</p>	<p data-bbox="823 846 1520 1021">The demand for Trex Residential composite decking and railing products is influenced by the general health of the economy, the level of home improvement activity and, to a much lesser extent, new home construction. These factors are affected by home equity values, credit availability and interest rates, consumer confidence, income and spending habits, employment, inflation and general economic conditions.</p> <p data-bbox="823 1059 1520 1200">The demand for Trex Commercial railing and staging system products is influenced by the general health of the economy and the level of commercial construction activity, building variances, funding availability for large public use facilities, including sports stadiums and arenas, and the construction schedules of our projects.</p>

[Table of Contents](#)

Risks Related to the Manufacture of Our Product

Risk	Discussion
<p>Description</p> <p>Our Trex Residential business is dependent on consistently producing a product which is available when needed to meet the demands of our customers. As our business grows, we must adjust capacity to meet customer needs and provide increased throughput on our existing capacity.</p> <p>Impact</p> <p>Our Trex Residential sales growth and profitability could suffer from our failure to effectively pair supply and demand for our products. Our customers' demands for varying quantities of products and delivery items throughout the year, and increased demand year to year, require monitoring and the ability to adjust production in accordance with these demands. Failure to do so can lead to lost or reduced sales and have a negative effect on earnings.</p>	<p>In order to meet Trex Residential customer demand in a timely manner, we must adjust capacity to meet customer needs and provide increased throughput on our existing capacity. Our sourcing team must obtain raw materials on a timely basis at an appropriate volume.</p>
<p>Description</p> <p>Our prospects for sales growth and profitability may be adversely affected if we fail to maintain product quality and product performance at an acceptable cost.</p> <p>Impact</p> <p>If we are unable to produce high-quality products at standard manufacturing rates and yields, unit costs may be higher. A lack of product performance could impede acceptance of our products in the marketplace and negatively affect our profitability.</p> <p>Future increases to our Trex Residential warranty reserve could have a material adverse effect on our profitability and cash flows.</p> <p>In the event lawsuits relating to alleged product quality issues are brought against us in the future, such lawsuits may be costly and could cause adverse publicity, which in turn could result in a loss of consumer confidence in our products and reduce our sales. Product quality claims could increase our expenses, have a material adverse effect on demand for our products and decrease net sales, net income and liquidity.</p>	<p>In order to expand our net sales and sustain profitable operations we must maintain the quality and performance of our products.</p> <p>Trex Residential continues to receive and settle claims and maintain a warranty reserve related to decking product produced at our Nevada facility prior to 2007 that exhibits surface flaking. We have limited our financial exposure by settling a nationwide class action lawsuit that provides that a consumer's remedy is limited to the replacement of product and a partial labor reimbursement. However, because the establishment of reserves is an inherently uncertain process involving estimates of the number of future claims and the average cost of claims, our ultimate losses may differ from our warranty reserve. Increases to the warranty reserve and payments for related claims have had a material adverse effect on our profitability and cash flows.</p> <p>A number of class action lawsuits alleging defects in our products have been brought against us, all of which have been settled.</p>

[Table of Contents](#)

Risk	Discussion
<p data-bbox="68 197 185 226">Description</p> <p data-bbox="68 241 759 297">Our business is subject to risks in obtaining the raw materials we use at acceptable prices.</p> <p data-bbox="68 331 140 360">Impact</p> <p data-bbox="68 376 802 488">Our business could suffer from the termination of significant sources of raw materials, the payment of higher prices for raw materials, the quality of available raw materials, or from the failure to obtain sufficient additional raw materials to meet planned increases in production.</p>	<p data-bbox="823 241 1522 589">The manufacture of our Trex Residential composite decking and railing products requires substantial amounts of wood fiber and scrap polyethylene. Our business strategy is to create a substantial cost advantage over our competitors by using scrap polyethylene. Our ability to obtain adequate supplies of wood fiber and scrap polyethylene depends on our success in developing new sources that meet our quality requirements, maintaining favorable relationships with suppliers and managing the collection of supplies from geographically dispersed locations. In addition to wood fiber and scrap polyethylene, we also use a small percentage of other materials in making our products, which are sometimes subject to volatility in supply and pricing and could negatively affect our profitability.</p> <p data-bbox="823 622 1522 734">The manufacture of our Trex Commercial products requires substantial amounts of aluminum, steel, glass and wood. These materials are also sometimes subject to volatility in pricing, which could negatively affect our profitability.</p>

Risk	Discussion
<p data-bbox="68 846 185 875">Description</p> <p data-bbox="68 891 759 947">Labor shortages or increases in labor costs could adversely impact our business and results of operations.</p> <p data-bbox="68 981 140 1010">Impact</p> <p data-bbox="68 1025 791 1227">We rely heavily on our employees and any shortage of qualified labor could adversely affect our business. If we are not successful in our recruiting and retention efforts, we could encounter a shortage of qualified employees in future periods. Any such shortage would decrease our ability to produce sufficient quantities of our product to serve our customers effectively. Such a shortage may also require us to pay higher wages for employees and incur a corresponding reduction in our profitability.</p>	<p data-bbox="823 898 1522 1122">Labor is one of the primary components of our production process. Our success is dependent upon recruiting qualified employees to manufacture our product. Our future success depends on, among other things, our ability to identify, attract, hire, train, retain and motivate operational personnel on a timely basis as we continue our pace of growth. If we fail to do so, our ability to maintain and grow our business could be adversely impacted. Further, improvements in the economy and labor markets could impact our ability to attract and retain key personnel.</p>

[Table of Contents](#)

Risk	Discussion
<p data-bbox="68 197 183 226">Description</p> <p data-bbox="68 241 786 297">We have significant capital invested in assets that may become obsolete or impaired and result in a charge to our earnings.</p> <p data-bbox="68 331 140 360">Impact</p> <p data-bbox="68 376 786 461">The recognition of goodwill may result in an impairment charge to our earnings if circumstances change and reduce the fair value of the goodwill acquired below its carrying amount.</p> <p data-bbox="68 495 786 580">Significant replacement of equipment or changes in the expected cash flows related to our assets could result in reduced earnings or cash flows in future periods.</p>	<p data-bbox="813 241 1524 533">We have made and may continue to make significant capital investments in order to acquire businesses or operations that allow us to diversify into new product markets. These investments have resulted in, and may in the future result in, the recognition of goodwill. In addition, we have made and may continue to make significant capital investments to our property plant and equipment in order to improve or expand our manufacturing capabilities. These investments sometimes involve the implementation of new technology and replacement of existing equipment at our manufacturing facilities, which may result in charges to our earnings if the existing equipment is not fully depreciated.</p>

Risks Related to the Availability of Capital

Risk	Discussion
<p data-bbox="68 775 183 804">Description</p> <p data-bbox="68 819 786 904">Our ability to continue to obtain financing on favorable terms, and the level of any outstanding indebtedness, could adversely affect our financial health and ability to compete.</p> <p data-bbox="68 938 140 967">Impact</p> <p data-bbox="68 983 786 1180">Our ability to make future principal and interest payments, borrow and repay amounts under our senior credit facility and continue to comply with our loan covenants will depend primarily on our ability to generate sufficient cash flow from operations. Our failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our senior credit facility, which may be declared payable immediately based on a default.</p>	<p data-bbox="813 819 1524 972">Our ability to continue to obtain financing on favorable terms may limit our discretion on some business matters, which could make it more difficult for us to expand, finance our operations and engage in other business activities that may be in our interest. In addition, our senior credit facility may impose operating and financial restrictions.</p> <p data-bbox="813 1005 1524 1171">At certain periods during the year, we may borrow significant amounts on our senior credit facility for working capital purposes. In addition, we may borrow on the senior credit facility to pursue strategic opportunities or other general business matters. Accordingly, our future level of indebtedness and the terms of our borrowings could have important consequences.</p>

[Table of Contents](#)

Risks Related to Other Matters

Risk	Discussion
<p>Description</p> <p>Our business, results of operations and financial condition may be disrupted and adversely affected by global public health pandemics, including the strain of coronavirus known as COVID-19.</p> <p>Impact</p> <p>If our employees or the employees of our suppliers or transportation providers are unable to work because of illness related to the COVID-19 pandemic, or if we or our suppliers or transportation providers are forced to temporarily cease operations, either on a voluntary or mandatory basis, then we may have a period of reduced operations and be unable to supply our customers in a timely manner, which could have a material negative impact on our business.</p> <p>If the COVID-19 outbreak disrupts the operations of our distributors and retail outlets and negatively impacts economies in the United States, Canada and the rest of the world, our business, results of operations and financial condition may be adversely affected.</p>	<p>In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. It spread to other countries, including the United States, and efforts to contain COVID-19 have intensified. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Our business, results of operations and financial condition may be adversely affected if COVID-19 interferes with the ability of our employees, suppliers and other business partners to perform their respective responsibilities and obligations relative to the conduct of our business.</p> <p>We continue to monitor the recent outbreak of COVID-19 and evaluate its impact on our business, including new information as it emerges concerning its severity and the continuation of the outbreak or a new surge in cases, and any actions to prevent, contain or treat it, among others. The extent to which COVID-19 may impact our business will depend on future developments, which are highly uncertain and cannot be predicted.</p>
<p>Description</p> <p>Cyberattacks and other security breaches could compromise our proprietary and confidential information which could harm our business and reputation.</p> <p>Impact</p> <p>While we have certain safeguards in place to reduce the risk of and detect cyber-attacks, our information technology networks and infrastructure may be vulnerable to unpermitted access by hackers or other breaches, or employee error or malfeasance. Any such compromise of our data security and access to, or public disclosure or loss of, confidential business or proprietary information could disrupt our operations, damage our reputation, provide our competitors with valuable information and subject us to additional costs, which could adversely affect our business.</p>	<p>In the ordinary course of our business, we generate, collect and store confidential and proprietary information, including intellectual property and business information. The secure storage, maintenance, and transmission of and access to this information is important to our operations and reputation. Computer hackers may attempt to penetrate our computer systems and, if successful, misappropriate our proprietary and confidential information including e-mails and other electronic communications.</p> <p>In addition, an employee, contractor, competitor, or other third party with whom we do business may attempt to obtain such information and may purposefully or inadvertently cause a breach involving such information.</p>

We also collect limited information on consumers. Although we do not collect any highly sensitive information, there is a risk that a cybersecurity attack could compromise consumer's names, addresses and other personal information.

Proactive measures that reduce our risk of a cybersecurity incident include:

- Maintaining cybersecurity insurance to protect against risks related to cyber-attacks and other security breaches.
- Partnering with an enterprise grade security solutions integrator (SSI) that leverages deep industry expertise to help us build and run holistic cybersecurity programs designed to reduce our overall risk profile. The SSI performs regular audits to evaluate our current security posture and prioritize our improvement plans.
- Implementing an information security training and compliance program for employees. We test our employees monthly with simulated "phishing" attacks. Additionally, we run annual security awareness video training programs and occasional ad hoc awareness sessions as needed.

Despite these proactive measures, there is no guarantee that these measures will prevent a cybersecurity incident.

[Table of Contents](#)

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own and lease certain properties, as noted in the below table:

	Square Footage/ Acres	Leased/ Owned	Lease Expiration Dates	Location	Purpose
Corporate Headquarters	39,250 SF	Leased	2025	Virginia	Office Space
Trex Residential	1,806,942 SF	Leased	2021 – 2028	Virginia / Nevada	Warehouse, Research and Development, Storage, Training and Manufacturing Facilities
Trex Residential	1,202,660 SF / 150 Acres	Owned	N/A	Virginia / Nevada	Manufacturing Facilities, Storage and Office Space
Trex Commercial	142,808 SF	Leased	2022 – 2028	Minnesota	Warehouse, Facility and Office Space

We regularly evaluate our various facilities and equipment and make capital investments where necessary. In 2020, we spent a total of \$172.8 million on capital expenditures, including \$162.9 million related to capacity expansion and general plant cost reduction initiatives, \$6.2 million for other production improvements and \$1.1 million for general support initiatives. In order to keep pace with demand, in June 2019, we announced a new capital expenditure program to increase production capacity at our Trex Residential facilities in Virginia and Nevada. The new multi-year capital expenditure program is projected at approximately \$200 million through 2021 and involves the construction of a new decking facility at the existing Virginia site and the installation of additional production lines at the Nevada site. The investment will allow us to increase production output for future projected growth related to our strategy of converting wood demand to Trex Residential wood-alternative composite decking. When completed these investments will increase our Trex Residential production capacity by approximately 70 percent.

For information about our leases, see Note 9 to our Consolidated Financial Statements appearing elsewhere in this report. The equipment and machinery we use in our operations consist principally of plastic and wood conveying and processing equipment. We own all of our manufacturing equipment. We lease some equipment, primarily forklifts, at our facilities under operating leases.

Item 3. 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 4. Mine Safety Disclosures.

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market for Common Stock**

Our common stock has been listed on the New York Stock Exchange (NYSE) since April 8, 1999. Between April 8, 1999 and November 22, 2009, it was listed under the symbol “TWP”. Effective November 23, 2009, the symbol changed to “TRES”.

Dividend Policy

We have never paid cash dividends on our common stock and our credit agreement places limitations on our ability to pay cash dividends. We intend to retain future earnings to finance the development and expansion of our business or the repurchase of our common shares and, therefore, have no current intention to pay cash dividends. However, we reconsider our dividend policy on a regular basis and may determine to pay dividends in the future.

Issuer Purchases of Equity Securities

The following table provides information relating to the purchases of our common stock during the three months ended December 31, 2020 in accordance with Item 703 of Regulation S-K:

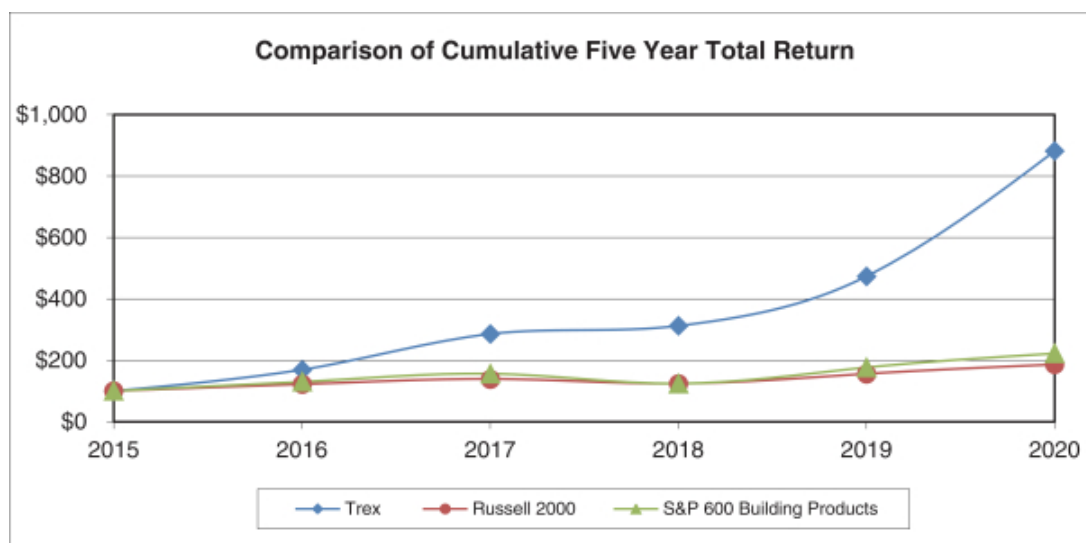
<u>Period</u>	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit) (\$)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum number of Shares (or Units) that May Yet Be Purchased Under the Plan or Program
October 1, 2020 – October 31, 2020	—	\$ —	—	8,797,222
November 1, 2020 – November 30, 2020	5,877	\$ 70.90	—	8,797,222
December 1, 2020 – December 31, 2020	—	\$ —	—	8,797,222
Quarter ended December 31, 2020	<u>5,877</u>		<u>—</u>	

- (1) During the three months ended December 31, 2020, 5,877 shares were withheld by, or delivered to, the Company pursuant to provisions in agreements with recipients of restricted stock granted under the Company’s 2014 Stock Incentive Plan allowing the Company to withhold, or the recipient to deliver to the Company, the number of shares having the fair value equal to tax withholding due.
- (2) On February 16, 2018, the Company’s Board of Directors authorized a common stock repurchase program of up to 11.6 million shares of the Company’s outstanding common stock (Stock Repurchase Program). The Stock Repurchase Program was publicly announced on February 21, 2018.

Stockholder Return Performance Graph

The following graph and table show the cumulative total stockholder return on the Company’s common stock for the last five fiscal years compared to the Russell 2000 Index and the Standard and Poor’s 600 Building Products Index (S&P 600 Building Products). The graph assumes \$100 was invested on December 31, 2015 in (1) the Company’s common stock, (2) the Russell 2000 Index and (3) the S&P 600 Building Products and assumes reinvestment of dividends and market capitalization weighting as of December 31, 2016, 2017, 2018, 2019 and 2020.

**Comparison of Cumulative Total Return
Among Trex Company, Inc., Russell 2000 Index, and S&P 600 Building Products Index**



	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>
Trex Company, Inc.	\$ 100.00	\$ 169.30	\$ 284.96	\$ 312.09	\$ 472.56	\$ 880.34
Russell 2000 Index	\$ 100.00	\$ 121.31	\$ 139.08	\$ 123.77	\$ 155.37	\$ 186.38
S&P 600 Building Products	\$ 100.00	\$ 129.78	\$ 156.02	\$ 123.59	\$ 175.73	\$ 221.52

Other Stockholder Matters

As of January 29, 2021, there were approximately 146 holders of record of our common stock, although we believe that there are a significantly larger number of beneficial owners of our common stock.

In 2020, we submitted to the NYSE in a timely manner the annual certification that our Chief Executive Officer was not aware of any violation by us of the NYSE corporate governance listing standards.

Item 6. Selected Financial Data

The following table presents selected financial data as of December 31, 2020, 2019, 2018, 2017 and 2016 and for each year in the five-year period ended December 31, 2020.

Table of Contents

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

	Year Ended December 31, (1)				
	2020	2019 (2)	2018	2017 (3)	2016 (4)
(In thousands, except share and per share data)					
Statement of Comprehensive Income Data:					
Net sales	\$ 880,831	\$ 745,347	\$ 684,250	\$ 565,153	\$ 479,616
Cost of sales	521,374	438,844	389,356	321,780	292,521
Gross profit	359,457	306,503	294,894	243,373	187,095
Selling, general and administrative expenses	125,822	118,304	118,225	100,993	83,140
Income from operations	233,635	188,199	176,669	142,380	103,955
Interest (income) expense, net	(999)	(1,503)	(192)	461	1,125
Income before income taxes	234,634	189,702	176,861	141,919	102,830
Provision for income taxes	59,003	44,964	42,289	46,791	34,983
Net income	\$ 175,631	\$ 144,738	\$ 134,572	\$ 95,128	\$ 67,847
Basic earnings per share	\$ 1.52	\$ 1.24	\$ 1.15	\$ 0.81	\$ 0.58
Basic weighted average shares outstanding	115,888,859	116,861,194	117,479,340	117,570,236	117,578,236
Diluted earnings per share	\$ 1.51	\$ 1.24	\$ 1.14	\$ 0.81	\$ 0.58
Diluted weighted average shares outstanding	116,252,866	117,315,498	118,134,604	118,301,840	118,450,676
Cash Flow Data:					
Cash provided by operating activities	\$ 187,294	\$ 156,352	\$ 138,121	\$ 101,865	\$ 85,293
Cash used in investing activities	(170,658)	(67,244)	(33,733)	(86,789)	(10,202)
Cash used in financing activities	(43,768)	(45,974)	(29,203)	(3,226)	(62,422)
Other Data:					
EBITDA (non-GAAP) (5)	\$ 251,575	\$ 202,230	\$ 193,136	\$ 159,110	\$ 118,136
Balance Sheet Data:					
Cash and cash equivalents	\$ 121,701	\$ 148,833	\$ 105,699	\$ 30,514	\$ 18,664
Working capital	215,644	224,534	177,450	86,289	54,264
Total assets	770,492	592,239	465,122	326,227	221,430
Total debt	—	—	—	—	—
Total stockholders’ equity	\$ 588,531	\$ 449,175	\$ 342,963	\$ 231,250	\$ 134,161

- 1) All common stock share and per share data in the above table are presented on a post-split basis to reflect the two-for-one stock split of our common stock in the form of a stock dividend distributed on September 14, 2020 to stockholders of record at the close of business on August 19, 2020.
- 2) On January 1, 2019, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, “Leases (Topic 842),” and subsequent amendments to the initial guidance within ASU Nos. 2018-01, 2018-10, 2018-11, 2018-20, and 2019-01 (collectively, the standard). The standard requires lessees to recognize operating leases on the balance sheet as a right-of-use (ROU) asset and a lease liability (current and non-current). The liability is equal to the present value of the lease

Table of Contents

payments over the remaining lease term. The asset is based on the liability, subject to certain adjustments. The Company elected the modified retrospective method of adoption, which allowed the Company to apply the standard as of the beginning of the period of adoption. As a result, at December 31, 2019 the Company reported an ROU asset in total assets and included the current portion of the lease liability in working capital.

- 3) On July 31, 2017, the Company's newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc. acquired certain assets and assumed certain liabilities of Staging Concepts Acquisition, LLC. The Consolidated Financial Statements include the accounts of Trex Commercial Products, Inc. from the date of acquisition. Also, the tax legislation H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018," known as the Tax Cuts and Jobs Act (Act), was enacted on December 22, 2017. Accordingly, we have recognized the tax effects of the Act in our financial statements and related notes as of and for the year ended December 31, 2017. Deferred tax assets that existed as of the enactment date and that reversed after the Act's effective date of January 1, 2018 were adjusted to reflect the new Federal statutory tax rate of 21%. The effect of the change in tax rate on the deferred tax assets was allocated to continuing operations as a discrete item. We finalized our analysis of the Act in 2018, which did not give rise to new deferred tax amounts.
- 4) Year ended December 31, 2016 was materially affected by a pre-tax increase of \$9.8 million to the warranty reserve related to surface flaking. Also, during 2016, the Company adopted FASB ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes."
- 5) 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). The Company has included data with respect to EBITDA because management evaluates and projects the performance of the Company's business using several measures, including EBITDA. Management considers EBITDA to be an important supplemental indicator of the Company's operating performance, particularly as compared to the operating performance of the Company's competitors, because this measure eliminates many differences among companies in capitalization and tax structures, capital investment cycles and ages of related assets, as well as some recurring non-cash and non-operating charges to net income or loss. For these reasons, management believes that EBITDA provides important supplemental information to investors regarding the operating performance of the Company and facilitates comparisons by investors between the operating performance of the Company and the operating performance of its competitors. Management believes that consideration of EBITDA should be supplemental, because EBITDA has limitations as an analytical financial measure. These limitations include the following:
- EBITDA does not reflect the Company's cash expenditures, or future requirements for capital expenditures, or contractual commitments;
 - EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's indebtedness;
 - Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;
 - EBITDA does not reflect the effect of earnings or charges resulting from matters the Company considers not to be indicative of its ongoing operations; and
 - Not all entities in the Company's industry may calculate EBITDA in the same manner in which the Company calculates EBITDA, which limits its usefulness as a comparative measure.

[Table of Contents](#)

The Company compensates for these limitations by relying primarily on its GAAP results to evaluate its operating performance and by considering independently the economic effects of the foregoing items that are not reflected in EBITDA. As a result of these limitations, EBITDA should not be considered as an alternative to net income, as calculated in accordance with GAAP, as a measure of operating performance, nor should it be considered as an alternative to cash flows as a measure of liquidity. The following table sets forth, for the years indicated, a reconciliation of EBITDA to net income:

	Year Ended December 31,				
	2020	2019	2018	2017	2016
			(In thousands)		
Net income	\$175,631	\$144,738	\$134,572	\$ 95,128	\$ 67,847
Interest (income) expense, net	(999)	(1,503)	(192)	461	1,125
Income tax provision	59,003	44,964	42,289	46,791	34,983
Depreciation and amortization	17,940	14,031	16,467	16,730	14,181
EBITDA (non-GAAP)	<u>\$251,575</u>	<u>\$202,230</u>	<u>\$193,136</u>	<u>\$159,110</u>	<u>\$118,136</u>

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

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.” 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 our products and raw materials; the Company’s ability to obtain raw materials at acceptable prices; the Company’s ability to maintain product quality and product performance at an acceptable cost; the Company’s ability to increase throughput and capacity to adequately match supply with demand; the level of expenses associated with product replacement and consumer relations expenses related to product quality; the highly competitive markets in which the Company operates; cyber-attacks, security breaches or other security vulnerabilities; the impact of upcoming data privacy laws and the EU General Data Protection Regulation and the related actual or potential costs and consequences; material adverse impacts from global public health pandemics, including the strain of coronavirus known as COVID-19; and material adverse impacts related to labor shortages or increases in labor costs.

OVERVIEW

General. 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 Trex Residential and Trex Commercial segments.

COVID-19. Our results of operations are affected by economic conditions, including macroeconomic conditions and levels of business and consumer confidence. The COVID-19 pandemic has increased the level of volatility and uncertainty globally and has created macroeconomic disruption. We are actively managing our business to respond to this health crisis, and we continue to evaluate the nature and extent of its impact. As of the date of this report, we continue to operate at output levels similar to those prior to the COVID-19 pandemic. We have not experienced any material disruptions to our operations, production or our supply chain, and have not experienced any material reduction in demand for our products due to the COVID-19 pandemic. We experienced \$2.3 million and \$6.0 million in COVID-19 management costs during the three months and twelve months ended December 31, 2020, respectively, of which \$1.9 million and \$4.8 million, respectively, were related to higher production costs. These costs reflect measures we implemented to ensure the health and safety of our employees, such as additional cleaning and sterilization of work areas, and additional personnel expenses. Even though a vaccine has been approved, the pandemic remains an evolving situation due to the continuation of the outbreak and any measures taken to contain the spread of the virus. The extent and duration of the economic fallout from COVID-19 remains unclear. We are actively managing our business to respond to the impact, such as engaging with our distributor network regarding market demand, ongoing communications with our suppliers, and continuing to ensure the safety of our employees. Our commitment to stakeholders is to take the appropriate actions to ensure the safety and well-being of our employees and partners, comply with any governmental orders relating to COVID-19, which may result in a period of disruption to our business, while at the same time leveraging our strengths and ensuring financial flexibility.

We are following or exceeding all Centers for Disease Control and Prevention (CDC) and public officials’ guidelines. We have also adopted a business continuity plan and local emergency response plans at each location.

[Table of Contents](#)

We continue to take precautionary measures, make contingency plans and improve our response to the developing situation. We have assembled a cross-functional team whose chief charge is to oversee our efforts to ensure the health and safety of all employees and supply product to our customers. That team constantly monitors the latest CDC, Federal, state and other regulatory guidance, works to secure personal protective equipment, finds new ways to help mitigate risk, and identifies opportunities for us to exceed recommendations.

We have implemented preventative or protective actions at our facilities, our corporate headquarters and with field sales personnel. In order to mitigate the spread of the virus, we instructed our employees to practice social distancing. Efforts for social distancing included employees working from home, where possible, revising our production processes to allow for compliance with our social distancing efforts, suspending air travel and enabling technologies to allow employees to effectively perform their functions remotely. Our sales force worked from home and conducted training sessions with our channel partners by utilizing online audio and visual technologies. Late in the second quarter, our employees began transitioning back to the workplace and conducting customer visits on a voluntary basis. In addition, face masks and other protective equipment have been distributed to employees across all of our facilities, handwashing and hand sanitizing stations have been installed, and automated temperature scanners have been provided at the entrances to our manufacturing facilities and corporate office. We have installed air purifier systems for all enclosed areas in every one of our buildings. Our internal cleaning crew sanitizes an extensive checklist of high-touch items and areas across work facilities, and our facilities are cleaned repeatedly throughout each shift with CDC-recommended chemicals and disinfectants by internal and external groups. In addition, we fabricated face shields, donated the proceeds from decking sample sales to Feeding America, and supported the COVID-19 Relief Fund of our local United Way, supplementing our annual fund-raising campaign.

Trex Residential is the world's largest manufacturer of wood-alternative composite decking and railing products marketed under the brand name Trex® and manufactured in the United States. We offer a comprehensive set of aesthetically pleasing, high-performance, low maintenance, eco-friendly products in the decking, railing, fencing and outdoor lighting categories. We believe that the range and variety of our products allow consumers to design much of their outdoor living space using Trex brand products.

We offer the following composite decking and railing products through Trex Residential:

<i>Decking and Accessories</i>	Trex Transcend® decking Trex Select® decking Trex Enhance® decking Trex Hideaway® hidden fastening system Trex DeckLighting™ outdoor lighting system
<i>Railing</i>	Trex Transcend Railing Trex Select Railing Trex Enhance Railing Trex Signature® aluminum railing
<i>Fencing</i>	Trex Seclusions®

Trex Commercial is a leading national provider of custom-engineered railing and staging systems. We offer modular and architectural railing and staging systems and solutions for the commercial and multifamily market, including sports stadiums and performing arts venues.

Highlights related to the twelve months ended December 31, 2020 include:

- Increase in net sales of 18.2%, or \$135.5 million, to \$880.8 million in the twelve months ended December 31, 2020 compared to \$745.3 million in the twelve months ended December 31, 2019 and were the highest of any year in our history.

[Table of Contents](#)

- Trex Residential net sales increased \$133.5 million, or 19.2%, in the twelve months ended December 31, 2020 compared to the twelve months ended December 31, 2019. Net sales were the highest of any year in our history.
- Increase in gross profit of 17.3%, or \$53.0 million, to \$359.5 million for the twelve months ended December 31, 2020 compared to \$306.5 million for the twelve months ended December 31, 2019.
- Increase in net income to \$175.6 million, also reflecting the highest of any year in our history.
- Cash flows from operating activities were \$187.3 million in the twelve months ended December 31, 2020 compared to \$156.4 million in the twelve months ended December 31, 2019.
- Capital expenditures of \$172.8 million, primarily to increase production capacity at the Virginia and Nevada facilities and for general plant cost reduction initiatives.
- Repurchase of 884,018 shares of our outstanding common stock under our Stock Repurchase Program in 2020, for a total of 2.8 million share repurchased under the program as of December 31, 2020.

Net Sales. Net sales consist of sales and freight, net of returns and discounts. The level of net sales is principally affected by sales volume and the prices paid for Trex products. The operating results for Trex Residential have historically varied from quarter to quarter, often due to seasonal trends in the demand for outdoor living products. 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 practices, 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 to ensure adequate availability of its product to meet anticipated seasonal consumer demand and to enable production planning. These incentives include prompt 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 impact sales, receivables and inventory levels during the offering period. In addition, the operating results for Trex Commercial have not historically varied from quarter to quarter as a result of seasonality, but are driven by the timing of individual projects, which may vary significantly each period.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 2 to our Consolidated Financial Statements appearing elsewhere in this report. Our critical accounting estimates include the areas where we have made what

[Table of Contents](#)

we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly affect our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As a result, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Product Warranty. We warrant that our Trex Residential products will be free from material defects in workmanship and materials. Generally, this warranty period is 25 years for residential use and 10 years for commercial use, excluding Trex Signature® Railing, which has a warranty period of 25 years for both residential and commercial use. We further warrant that Trex Transcend, Trex Enhance, Trex Select and Universal Fascia products will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold, provided the stain is cleaned within seven days of appearance. This warranty extends for a period of 25 years for residential use and 10 years for commercial use. If there is a breach of such warranties, we have an obligation either to replace the defective product or refund the purchase price. Depending on the product and its use, the Company also warrants its Trex Commercial products will be free of manufacturing defects for 1 to 3 years.

We continue to receive and settle claims for Trex Residential 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. 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 surface flaking claims to be settled with payment, we utilize 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.

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 year are received during the summer outdoor season, which spans the second and third quarters. It has been our 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 year ended December 31, 2020 was higher than the number of claims received in the year ended December 31, 2019 and exceeded our expectations for 2020. Prior to 2020, the number of incoming claims received declined each year since 2009. After evaluating the rise in incoming claims in our actuarial analysis, we increased our estimate of the number of future claims to be settled with payment. Average cost per claim experienced in the year ended December 31, 2020 was lower than that experienced in the year ended December 31, 2019, but slightly higher than our expectations for 2020. We estimate that average cost per claim will increase in future years, primarily due to inflation.

As a result of the increase in estimated future claims and expected rise in future average cost per claim, in the three-month period ended September 30, 2020, we recorded a provision of \$6.5 million to our warranty reserve for the future settlement of surface flaking claims. We believe the reserve at December 31, 2020 is sufficient to cover future surface flaking obligations.

Our 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

[Table of Contents](#)

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. We estimate 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. We estimate that a 10% change in the expected number of remaining claims to be settled with payment or the expected cost to settle claims may result in approximately a \$2.1 million change in the surface flaking warranty reserve.

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

	Year Ended December 31,		
	2020	2019	2018
Claims unresolved beginning of period	1,724	2,021	2,306
Claims received (1)	1,441	1,394	1,481
Claims resolved (2)	(1,366)	(1,691)	(1,766)
Claims unresolved end of period	1,799	1,724	2,021
Average cost per claim (3)	\$ 3,390	\$ 3,447	\$ 2,631

(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.

For additional information about product warranties, see Notes 2 and 18 to the Consolidated Financial Statements appearing elsewhere in this report.

Goodwill. We evaluate the recoverability of goodwill in accordance with Accounting Standard Codification Topic 350, “Intangibles—Goodwill and Other,” annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. We evaluate the recoverability of goodwill at the reporting unit level. Goodwill is considered impaired when the carrying amount of a reporting unit exceeds its fair value, and an impairment loss is recognized in an amount equal to that excess but limited to the total amount of goodwill allocated to that reporting unit. We first assesses qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. Qualitative factors we consider include events and circumstances such as macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, and other relevant Company-specific events. We evaluate, based on the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Weighing the effect of various positive and negative factors is challenging and requires the use of significant judgment. The weight we place on each factor depends on certain conditions, including uncertainty about future events. If different conditions exist in future periods, future impairment charges could result.

If the qualitative assessment indicates that the carrying amount of the reporting unit exceeds its fair value, including goodwill, we are then required to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date.

Table of Contents

We measure the fair value of a reporting unit based on the present value of future cash flows and a market valuation approach using relevant data available through and as of the impairment testing date. The assumptions we use are consistent with those we believe a market participant would use and are evaluated and updated as appropriate. If other assumptions and estimates had been used, an impairment charge could have resulted, or if different conditions exist in future periods, future impairment charges could result.

At December 31, 2020 and December 31, 2019, the Company had goodwill of \$68.5 million. We perform the annual impairment testing of goodwill as of October 31 of each year. For the years ended December 31, 2020, 2019, and 2018, we completed our annual impairment test of goodwill utilizing the qualitative assessment and concluded it was not more likely than not that the fair value of the reporting units was less than the carrying amounts.

Revenue Recognition

Effective January 1, 2018, we adopted the requirements of Financial Accounting Standards Board Accounting Standards Update 2014-09, “*Revenue from Contracts with Customers*” (Topic 606). We determined the appropriate revenue recognition for our contracts with customers by analyzing the type, terms and conditions of our contracts with our 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. Adoption of Topic 606 did not have an impact on the Company’s financial condition or results of operations. The following provides additional information about our contracts with customers.

Trex Residential Products

Trex Residential principally generates revenue from the manufacture and sale of its high-performance, low-maintenance, eco-friendly outdoor living products, consisting of composite decking and railing products, hidden fasteners, and a broad offering of outdoor living accessories. Substantially all of its revenues are from contracts with customers, which are individual customer purchase orders of short-term duration of less than one year. 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 and is included in “Accrued expenses and other liabilities”.

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 payment discounts. It estimates the payment discount that it believes will be taken by the customer based on prior history using the most-likely-amount method of estimation.

[Table of Contents](#)

Trex Commercial Products

Trex Commercial generates revenue from the manufacture and sale of its custom, 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 are 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 year ended December 31, 2020, no adjustment to any one contract was material to the Company's Consolidated Financial Statements and no material impairment loss on any contract was recorded.

RESULTS OF OPERATIONS

Below we have included a discussion of our operating results and material changes in our operating results for the year ended December 31, 2020 compared to the year ended December 31, 2019.

Year Ended December 31, 2020 Compared To Year Ended December 31, 2019

Net Sales

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Total net sales	\$ 880,831	\$ 745,347	\$ 135,484	18.2%
Trex Residential net sales	\$ 827,792	\$ 694,267	\$ 133,525	19.2%
Trex Commercial net sales	\$ 53,039	\$ 51,080	\$ 1,959	3.8%

The 18.2% increase in total net sales in 2020 compared to 2019 was due to an increase in net sales of 19.2% at Trex Residential and a 3.8% increase in Trex Commercial net sales. The increase in Trex Residential net sales was substantially all due to volume growth, resulting from the strong broad-based demand for our outdoor living products, positive momentum in the residential repair and remodeling sector and our initiatives to expand our addressable market and accelerate conversion from wood primarily through the growth of our newer Enhance product line. In addition, through the first quarter of 2019, and to a much lesser extent in the second and third quarters of 2019, Trex Residential net sales were constrained due to supply issues primarily caused by new product startup inefficiencies related to our new Enhance decking product. These inefficiencies resulted in lower throughput than was needed to support market demand in 2019. As a result of our capacity expansion program at our Trex Residential manufacturing facilities in Virginia and Nevada, in 2020 we utilized capacity gains from incremental lines to address demand. The production lines at our new Virginia facility will start coming online in the first quarter of 2021 and continue to ramp up through the second quarter. Trex Commercial net sales increased reflecting the underlying growth in the commercial segment.

[Table of Contents](#)

Gross Profit

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Cost of sales	\$521,374	\$438,844	\$82,530	18.8%
% of total net sales	59.2%	58.9%		
Gross profit	\$359,457	\$306,503	\$52,954	17.3%
Gross margin	40.8%	41.1%		

Gross profit as a percentage of net sales, gross margin, was 40.8% in 2020 compared to 41.1% in 2019. Gross margin for Trex Residential and Trex Commercial products in 2020 totaled 41.6% and 29.2%, respectively, compared to 42.4% and 23.5%, respectively, in 2019. Gross margin in 2020 at Trex Residential was impacted by hiring and training costs in advance of capacity ramp up at both our Virginia and Nevada facilities, initial startup costs, COVID-19 management costs, depreciation due to capital expansion expenditures and higher inflation, partially offset by the non-recurrence of Enhance startup costs experienced in 2019 and by reducing the material usage in our Enhance decking profile to the original design target weight. To offset these additional costs, we recently announced a mid single-digit price increase at Trex Residential on multiple products across our decking and railing portfolio set to take effect at the beginning of 2021. Excluding a \$6.5 million provision to the Trex Residential warranty, consolidated gross margin in 2020 was 41.5% and Trex Residential gross margin was 42.3%. This charge related to the legacy surface flaking issue that affected a portion of products produced at our Nevada facility prior to 2007. Gross margin at Trex Commercial increased primarily due to the non-recurrence of legacy low margin contracts coupled with a mix of higher margin contracts, and manufacturing cost improvements.

Selling, General and Administrative Expenses

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Selling, general and administrative expenses	\$125,822	\$118,304	\$ 7,518	6.4%
% of total net sales	14.3%	15.9%		

Selling, general and administrative expenses increased \$7.5 million in 2020 compared to 2019. The increase was due to an increase in personnel related expenses, including higher incentive compensation, of \$8.5 million and a net increase in other operating expenses of \$5.3 million. The increase was offset by a \$4.0 million decrease in branding and advertising expense driven by disciplined spending as the impacts of COVID-19 played out during the second and third quarters of 2020, and by a \$2.2 million decrease in travel and entertainment and other expenses.

Provision for Income Taxes

	Year Ended December 31,		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Provision for income taxes	\$ 59,003	\$ 44,964	\$14,039	31.2%
Effective tax rate	25.2%	23.7%		

The effective tax rate for 2020 increased by 1.5% compared to the effective tax rate for 2019 primarily due to a decrease in 2020 in excess tax benefits from the exercise of share-based payments.

[Table of Contents](#)

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

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

<u>Year Ended December 31</u>	2020	2020	2020
	Trex Residential	Trex Commercial	Trex Consolidated
Net income	\$ 171,197	\$ 4,434	\$ 175,631
Interest income, net	(999)	—	(999)
Income tax expense	57,488	1,515	59,003
Depreciation and amortization	17,131	809	17,940
EBITDA	\$ 244,817	\$ 6,758	\$ 251,575

<u>Year Ended December 31</u>	2019	2019	2019
	Trex Residential	Trex Commercial	Trex Consolidated
Net income	\$ 142,811	\$ 1,927	\$ 144,738
Interest income, net	(1,496)	(7)	(1,503)
Income tax expense	44,292	672	44,964
Depreciation and amortization	13,413	618	14,031
EBITDA	\$ 199,020	\$ 3,210	\$ 202,230

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

	<u>Year Ended December 31,</u>		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Total EBITDA	\$ 251,575	\$ 202,230	\$ 49,345	24.4%
Trex Residential EBITDA	\$ 244,817	\$ 199,020	\$ 45,797	23.0%
Trex Commercial EBITDA	\$ 6,758	\$ 3,210	\$ 3,548	110.5%

The Company uses EBITDA to assess performance as it believes EBITDA facilitates performance comparison between the Company and its competitors and between its reportable segments by eliminating interest, income taxes, and depreciation and amortization charges to income. Total EBITDA increased 24.4%, or \$49.3 million, to \$251.6 million for 2020 compared to \$202.2 million for 2019. The increase was primarily driven by a \$45.8 million increase in Trex Residential EBITDA driven by the increase in net sales.

Year Ended December 31, 2019 Compared To Year Ended December 31, 2018

The Company hereby incorporates by reference the financial results from fiscal year 2018 and the comparison of financial results from fiscal year 2019 to fiscal year 2018 as set forth in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operation in the [Annual Report on Form 10-K](#) for the year ended December 31, 2019 and filed with the U.S. Securities and Exchange Commission on February 24, 2020.

LIQUIDITY AND CAPITAL RESOURCES

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

Sources and Uses of Cash. The following table summarizes our cash flows from operating, investing and financing activities for the years ended December 31, 2020, 2019, and 2018 (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Net cash provided by operating activities	\$ 187,294	\$ 156,352	\$ 138,121
Net cash used in investing activities	(170,658)	(67,244)	(33,733)
Net cash used in financing activities	(43,768)	(45,974)	(29,203)
Net (decrease) increase in cash and cash equivalents	<u>\$ (27,132)</u>	<u>\$ 43,134</u>	<u>\$ 75,185</u>

Operating Activities

Cash provided by operating activities increased \$30.9 million in 2020 compared to 2019 primarily due to the increase in gross profit and related \$30.9 million increase in net income resulting from the increase in net sales volume growth at Trex Residential, partially offset by a decrease in working capital investment of \$8.9 million.

Investing Activities

Investing activities in 2020 consisted of \$172.8 million in capital expenditures, including \$162.9 million related to capacity expansion and general plant cost reduction initiatives, \$6.2 million for other production improvements and \$1.1 million for general support initiatives.

Financing Activities

Net cash used in financing activities in 2020 decreased \$2.2 million compared to 2019 primarily due to the decrease in stock repurchase activity in 2020 of \$1.7 million.

Amendment of Restated Certificate of Incorporation. At the annual meeting of stockholders of the Company held on April 29, 2020, the Company's stockholders approved an amendment of the Company's Restated Certificate of Incorporation (Amendment), effective as of April 29, 2020. The Company's Board of Directors unanimously approved the Amendment on February 19, 2020, subject to stockholder approval. The Amendment increases the number of shares of common stock, par value \$0.01 per share, that the Company is authorized to issue from 120 million shares to 180 million shares. The Amendment was filed with the Delaware Secretary of State on April 29, 2020.

Stock Repurchase Program. On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 11.6 million shares of the Company's outstanding common stock (Stock Repurchase Program). As of December 31, 2020, the Company has repurchased 2.8 million shares under the Stock Repurchase Program.

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

[Table of Contents](#)

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 significant increases in the levels of inventory in the distribution channels at December 31, 2020 compared to inventory levels at December 31, 2019.

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

Indebtedness. Our Fourth Amended and Restated Credit Agreement (Fourth Amended Credit Agreement) provides us with revolving loan capacity in a collective maximum principal amount of \$250 million from January 1 through June 30 of each year, and a maximum principal amount of \$200 million from July 1 through December 31 of each year throughout the term, which ends November 5, 2024. At December 31, 2020, we had no outstanding indebtedness under the revolving credit facilities and borrowing capacity under the facilities of \$300 million.

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

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

Compliance with Debt Covenants and Restrictions. Pursuant to the terms of the Fourth Amended Credit Agreement, the Company, is subject to certain loan compliance covenants. The Company was in compliance with all covenants at December 31, 2020. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

[Table of Contents](#)

Contractual Obligations. The following table summarizes our contractual obligations, which consist primarily of purchase commitments and operating leases, as of December 31, 2020 (in thousands):

Contractual Obligations Payments Due by Period

	<u>Total</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>After 5 years</u>
Purchase obligations (1)	\$ 71,323	\$33,570	\$30,577	\$ 7,176	\$ —
Operating leases, including imputed interest (2)	39,132	7,835	13,953	10,745	6,599
Total contractual obligations	\$110,455	\$41,405	\$44,530	\$ 17,921	\$ 6,599

- (1) Purchase obligations represent supply contracts with raw material vendors and service contracts for hauling raw materials. Open purchase orders written in the normal course of business for goods or services that are provided on demand have been excluded as the timing of which is not certain.
- (2) Operating leases represent office space, storage warehouses, manufacturing facilities and certain office and plant equipment under various operating leases, and include operating leases accounted for under Financial Accounting Standards Board Accounting Standards Codification Topic 842 and short-term leases.

Off-Balance Sheet Arrangements. We do not have off-balance sheet financing arrangements.

Capital and Other Cash Requirements. In June 2019, we announced a new capital expenditure program to increase production capacity at our Trex Residential facilities in Virginia and Nevada. The new multi-year capital expenditure program is projected at approximately \$200 million through 2021 and involves the construction of a new decking facility at the existing Virginia site and the installation of additional production lines at the Nevada site. The investment will allow us to increase production output for future projected growth related to our strategy of converting wood demand to Trex Residential wood-alternative composite decking. When completed these investments will increase our Trex Residential production capacity by approximately 70 percent. In addition to the above, our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, upgrading equipment, and acquisitions which fit our long-term growth strategy as we continue to evaluate opportunities that would be a good strategic fit for Trex, and return of capital to shareholders.

We believe that cash on hand, cash flows from operations and borrowings expected to be available under our revolving credit facility will provide sufficient funds to enable us to fund planned capital expenditures, make scheduled principal and interest payments, fund the warranty reserve, meet other cash requirements and maintain compliance with terms of our debt agreements for at least the next 12 months. We currently expect to fund future capital expenditures from operations and borrowings under the revolving credit facility. 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. Our ability to meet our cash needs during the next 12 months and thereafter could be adversely affected by various circumstances, including increases in raw materials and product replacement costs, quality control problems, higher than expected product warranty claims, service disruptions and lower than expected collections of accounts receivable. In addition, any failure to negotiate amendments to our existing debt agreements to resolve any future noncompliance with financial covenants could adversely affect our liquidity by reducing access to revolving credit borrowings needed primarily to fund seasonal borrowing needs. We may determine that it is necessary or desirable to obtain financing through bank borrowings or the issuance of debt or equity securities to address such contingencies or changes to our business plan. Debt financing would increase our level of indebtedness, while equity financing would dilute the ownership of our stockholders. There can be no assurance as to whether, or as to the terms on which, we would be able to obtain such financing, which would be restricted by covenants contained in our existing debt agreements.

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

NEW ACCOUNTING STANDARDS

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

In December 2019, the FASB issued ASU No. 2019-12, "*Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes*". The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company does not intend to early adopt the standard and does not expect the standard to have a material effect on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks from changing interest rates associated with our borrowings. To meet our seasonal working capital needs, we borrow periodically on our variable rate revolving line of credit. At December 31, 2020, we had no debt outstanding under our revolving line of credit. While variable rate debt obligations expose us to the risk of rising interest rates, an increase of 1% in interest rates would not have a material adverse effect on our overall financial position, results of operations or liquidity.

In certain instances, we may use interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt instruments are always reflected at fair value. We had no interest rate swap agreements outstanding as of December 31, 2020.

Item 8. Financial Statements and Supplementary Data

The financial statements listed in Item 15 and appearing on pages F-2 through F-33 are incorporated by reference in this Item 8 and are filed as part of this report.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its President and Chief Executive Officer, who is the Company's principal executive officer, and its Senior Vice President and Chief Financial Officer, who is the Company's principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2020. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Trex Company, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Trex Company, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Trex Company, Inc., (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2020 consolidated financial statements of the Company and our report dated February 22, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

[Table of Contents](#)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Richmond, Virginia
February 22, 2021

Item 9B. Other Information

Amendment of Amended and Restated 1999 Incentive Plan for Outside Directors

On February 17, 2021, the Board of Directors approved an amendment to the Amended and Restated 1999 Incentive Plan for Outside Directors (Outside Directors Plan), effective February 17, 2021, as follows:

- The annual cash retainer for service on the Board was increased from \$65,000 to \$73,750.
- The annual equity award for service on the Board was increased from \$100,000 to \$110,000.
- The annual committee fee for members of the Audit Committee was increased from \$8,750 to \$10,000.
- The annual committee fee for members of the Compensation Committee was increased from \$7,500 to \$10,000.
- The annual committee fee for members of the Nominating and Corporate Governance Committee was increased from \$6,250 to \$10,000.
- The annual committee fee for the chairman of the Audit Committee was increased from \$17,500 to \$20,000.
- The annual committee fee for the chairman of the Compensation Committee was increased from \$15,000 to \$20,000.
- The annual committee fee for the chairman of the Nominating/Corporate Governance Committee was increased from \$12,500 to \$20,000.
- The additional compensation for the Lead Independent Director was increased from \$20,000 to \$25,000.
- The additional compensation for a non-executive Chairman of the Board was increased from \$80,000 to \$85,000.
- The additional compensation for a non-executive Vice Chairman of the Board was increased from \$50,000 to \$55,000.

The Nominating and Corporate Governance Committee and the Board of Directors of the Company amended the Outside Directors Plan as described above based upon a Board of Directors compensation study undertaken by Korn Ferry Hay Group, which is the Company's independent compensation consultant.

The foregoing description of the amendment to the Outside Directors Plan is qualified in its entirety by reference to the full text of the Outside Directors Plan, which is filed as [Exhibit 10.3 to this Form 10-K](#).

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information responsive to this Item 10 is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2020 fiscal year-end.

We have adopted a Code of Conduct and Ethics, which is applicable to all directors, officers and employees, including our Chief Executive Officer and Chief Financial Officer. The code is available on our corporate web site and in print to any stockholder who requests a copy. We also make available on our web site, at www.trex.com/our-company/corporate-governance, and in print to any stockholder who requests them, copies of our corporate governance principles and the charters of each standing committee of our board of directors. Requests for copies of these documents should be directed to Corporate Secretary, Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605. To the extent required by SEC rules, we intend to disclose any amendments to our code of conduct and ethics, and any waiver of a provision of the code with respect to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our web site referred to above within four business days following any such amendment or waiver, or within any other period that may be required under SEC rules from time to time.

Item 11. Executive Compensation

Information responsive to this Item 11 is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2020 fiscal year-end.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information responsive to this Item 12 is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2020 fiscal year-end.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information responsive to this Item 13 is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2020 fiscal year-end.

Item 14. Principal Accounting Fees and Services

Information responsive to this Item 14 is incorporated herein by reference to our definitive proxy statement for our 2021 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2020 fiscal year-end.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following Consolidated Financial Statements of the Company appear on pages F-2 through F-33 of this report and are incorporated by reference in Part II, Item 8:

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Statements of Comprehensive Income for the three years ended December 31, 2020	F-4
Consolidated Balance Sheets as of December 31, 2020 and 2019	F-5
Consolidated Statements of Changes in Stockholders' Equity for the three years ended December 31, 2020	F-6
Consolidated Statements of Cash Flows for the three years ended December 31, 2020	F-7
Notes to Consolidated Financial Statements	F-8

(a)(2) The following financial statement schedule is filed as part of this report:

Schedule II—Valuation and Qualifying Accounts and Reserves	F-34
--	------

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable or not material and, therefore, have been omitted.

(a)(3) See Exhibit Index at the end of the Annual Report on Form 10-K for the information required by this Item.

[Table of Contents](#)

TREX COMPANY, INC.

Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Statements of Comprehensive Income for the three years ended December 31, 2020	F-4
Consolidated Balance Sheets as of December 31, 2020 and 2019	F-5
Consolidated Statements of Changes in Stockholders' Equity for the three years ended December 31, 2020	F-6
Consolidated Statements of Cash Flows for the three years ended December 31, 2020	F-7
Notes to Consolidated Financial Statements	F-8

(2): The following Consolidated Financial Statement Schedule of the Registrant is filed as part of this Report as required to be included in Item 15(a)

	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts and Reserves	F-34

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Trex Company, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Trex Company, Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Surface Flaking Warranty

Description of the Matter

At December 31, 2020, the Company's surface flaking warranty reserve was \$21.3 million. As discussed in Note 18 of the consolidated financial statements, the Company continues to receive and settle claims for decking 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. The Company's warranty reserve is based on an actuarial analysis of the number of claims to be settled and management's estimate of the average cost to settle each claim. The actuarial analysis utilized determines a reasonably possible range of claims to be received and the percentage of those claims that will ultimately require payment.

Auditing the surface flaking warranty reserve is complex and required the involvement of specialists due to the highly judgmental nature of the actuarially determined number of claims. Auditing the reserve is also complex due to the judgmental nature of the significant assumptions made by management (e.g., the size of the affected decks, the availability and type of replacement material used, the cost of production of replacement material and the method of claim settlement) and used in the measurement process. These determinations, assumptions and judgments have a significant effect on the surface flaking reserve.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over the Company's measurement and valuation of the surface flaking warranty reserve. For example, we tested controls over the appropriateness of the assumptions used and the completeness and accuracy of the underlying data.

To test the surface flaking warranty reserve, our audit procedures included, among others, evaluating the methodologies and the significant assumptions used. For example, we involved an actuarial specialist to assist us in independently calculating a range of the expected number of claims and compared that to the Company's range. We also performed sensitivity analyses to evaluate changes in the liability that would result from changes in significant assumptions. In addition, we assessed the historical accuracy of management's estimates to identify potential changes in the measurement and valuation of the surface flaking reserve. We performed audit procedures on the completeness and accuracy of the underlying data used by the Company in its analysis.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1995.
Richmond, Virginia
February 22, 2021

TREX COMPANY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except share and per share data)		
Net sales	\$ 880,831	\$ 745,347	\$ 684,250
Cost of sales	521,374	438,844	389,356
Gross profit	359,457	306,503	294,894
Selling, general and administrative expenses	125,822	118,304	118,225
Income from operations	233,635	188,199	176,669
Interest (income) expense, net	(999)	(1,503)	(192)
Income before income taxes	234,634	189,702	176,861
Provision for income taxes	59,003	44,964	42,289
Net income	\$ 175,631	\$ 144,738	\$ 134,572
Basic earnings per common share	\$ 1.52	\$ 1.24	\$ 1.15
Basic weighted average common shares outstanding	115,888,859	116,861,194	117,479,340
Diluted earnings per common share	\$ 1.51	\$ 1.24	\$ 1.14
Diluted weighted average common shares outstanding	116,252,866	117,315,498	118,134,604
Comprehensive income	\$ 175,631	\$ 144,738	\$ 134,572

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>(In thousands)</u>	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 121,701	\$ 148,833
Accounts receivable, net	106,748	78,462
Inventories	68,238	56,106
Prepaid expenses and other assets	25,310	19,803
Total current assets	<u>321,997</u>	<u>303,204</u>
Property, plant and equipment, net	336,537	171,300
Goodwill and other intangible assets, net	73,665	74,084
Operating lease assets	34,382	40,049
Other assets	3,911	3,602
Total Assets	<u>\$ 770,492</u>	<u>\$ 592,239</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 38,622	\$ 15,227
Accrued expenses and other liabilities	62,331	58,265
Accrued warranty	5,400	5,178
Total current liabilities	<u>106,353</u>	<u>78,670</u>
Operating lease liabilities	28,579	34,242
Non-current accrued warranty	24,073	20,317
Deferred income taxes	22,956	9,831
Other long-term liabilities	—	4
Total Liabilities	<u>181,961</u>	<u>143,064</u>
Commitments and contingencies	—	—
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value, 180,000,000 shares authorized; 140,577,005 and 140,374,926 shares issued and 115,799,503 and 116,481,442 shares outstanding at December 31, 2020 and 2019, respectively	1,406	1,404
Additional paid-in capital	126,087	123,294
Retained earnings	737,311	561,680
Treasury stock, at cost, 24,777,502 and 23,893,484 shares at December 31, 2020 and 2019, respectively	<u>(276,273)</u>	<u>(237,203)</u>
Total Stockholders' Equity	<u>588,531</u>	<u>449,175</u>
Total Liabilities and Stockholders' Equity	<u>\$ 770,492</u>	<u>\$ 592,239</u>

See Notes to Consolidated Financial Statements.

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

(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2017	117,713,720	\$ 1,396	\$ 120,996	\$ 282,370	21,974,724	\$ (173,512)	\$ 231,250
Net income	—	—	—	134,572	—	—	134,572
Employee stock plans	126,896	2	880	—	—	—	882
Shares withheld for taxes on awards	(26,056)	—	(4,695)	—	—	—	(4,695)
Stock-based compensation	207,388	2	6,343	—	—	—	6,345
Repurchases of common stock	(918,642)	—	—	—	918,642	(25,391)	(25,391)
Balance, December 31, 2018	117,103,306	1,400	123,524	416,942	22,893,366	(198,903)	342,963
Net income	—	—	—	144,738	—	—	144,738
Employee stock plans	154,282	2	1,087	—	—	—	1,089
Shares withheld for taxes on awards	(216,756)	—	(8,245)	—	—	—	(8,245)
Stock-based compensation	440,728	2	6,928	—	—	—	6,930
Repurchases of common stock	(1,000,118)	—	—	—	1,000,118	(38,300)	(38,300)
Balance, December 31, 2019	116,481,442	1,404	123,294	561,680	23,893,484	(237,203)	449,175
Net income	—	—	—	175,631	—	—	175,631
Employee stock plans	68,061	—	1,446	—	—	—	1,446
Shares withheld for taxes on awards	(111,433)	—	(5,784)	—	—	—	(5,784)
Stock-based compensation	245,451	2	7,131	—	—	—	7,133
Repurchases of common stock	(884,018)	—	—	—	884,018	(39,070)	(39,070)
Balance, December 31, 2020	115,799,503	\$ 1,406	\$ 126,087	\$ 737,311	24,777,502	\$ (276,273)	\$ 588,531

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Operating Activities			
Net income	\$ 175,631	\$ 144,738	\$ 134,572
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,939	14,031	16,597
Deferred income taxes	13,125	7,706	1,037
Stock-based compensation	7,131	6,930	6,344
(Gain) loss on disposal of property, plant and equipment	(56)	285	47
Other non-cash adjustments	51	(218)	(406)
Changes in operating assets and liabilities:			
Accounts receivable	(28,286)	12,701	(24,281)
Inventories	(12,132)	1,695	(23,276)
Prepaid expenses and other assets	(358)	(1,652)	(613)
Accounts payable	11,353	(16,666)	21,131
Accrued expenses and other liabilities	7,655	(10,823)	5,040
Income taxes receivable/payable	(4,759)	(2,375)	1,929
Net cash provided by operating activities	<u>187,294</u>	<u>156,352</u>	<u>138,121</u>
Investing Activities			
Expenditures for property, plant and equipment and intangibles	(172,823)	(67,265)	(33,816)
Proceeds from sales of property, plant and equipment	2,165	21	83
Net cash used in investing activities	<u>(170,658)</u>	<u>(67,244)</u>	<u>(33,733)</u>
Financing Activities			
Borrowings under line of credit	276,000	89,500	172,250
Principal payments under line of credit	(276,000)	(89,500)	(172,250)
Repurchases of common stock	(44,854)	(46,545)	(30,085)
Proceeds from employee stock purchase and option plans	1,446	1,089	882
Financing costs	(360)	(518)	—
Net cash used in financing activities	<u>(43,768)</u>	<u>(45,974)</u>	<u>(29,203)</u>
Net (decrease) increase in cash and cash equivalents	(27,132)	43,134	75,185
Cash and cash equivalents at beginning of year	148,833	105,699	30,514
Cash and cash equivalents at end of year	<u>\$ 121,701</u>	<u>\$ 148,833</u>	<u>\$ 105,699</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 187	\$ 321	\$ 662
Cash paid for income taxes, net	\$ 50,744	\$ 39,612	\$ 48,238

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (together with its wholly-owned subsidiary, the Company), a Delaware corporation, was incorporated on September 4, 1998. The Company operates in two reportable segments, Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial). The Company's principal business based on net sales is the manufacture and distribution of Trex Residential wood and plastic composite products, as well as related accessories, primarily for residential decking and railing applications. 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. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Trex Commercial Products, Inc. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Concentrations and Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company from time to time may have bank deposits in excess of insurance limits of the Federal Deposit Insurance Corporation. As of December 31, 2020, substantially all deposits are maintained in one financial institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

The Company routinely assesses the financial strength of its customers and believes that its trade receivables credit risk exposure is limited. Trade receivables are recognized at the amount of revenue recognized on each shipment for Trex Residential products and for satisfied performance obligations for Trex Commercial products as the Company has an unconditional right to consideration from the customer and payment is due based solely on the passage of time. An estimate of expected credit losses is recognized as a valuation allowance and adjusted each reporting period. The estimate is based on the current expected credit loss model and is determined using an aging schedule, including past events, current conditions and reasonable and supportable forecasts about the future. There was no material valuation allowance recorded as of December 31, 2020 and December 31, 2019.

Table of Contents

In the years ended December 31, 2020, 2019, and 2018 sales to certain customers of Trex Residential accounted for 10% or more of the Company's total net sales. For the year ended December 31, 2020, three customers represented approximately 56% of the Company's total net sales. For the year ended December 31, 2019, three customers of Trex Residential represented approximately 57% of the Company's total net sales. For the year ended December 31, 2018, two customers of Trex Residential represented approximately 42% of the Company's total net sales. At December 31, 2020 two customers represented 27% and 15%, respectively, of the Company's accounts receivable balance. At December 31, 2019 three customers represented 30%, 24% and 10%, respectively, of the Company's total accounts receivable balance.

For each year ended December 31, 2020, 2019, and 2018, approximately 28%, 27%, and 33%, respectively, of the Company's materials purchases at Trex Residential were purchased from its four largest suppliers.

Inventories

Inventories for the Company's composite decking and railing products are valued at the lower of cost (last-in, first-out, or LIFO, method) and market as this method results in a better matching of costs and revenues. The Company periodically reviews its inventory for slow moving or obsolete items and writes down the related products to estimated realizable value. The Company's reserves for estimated slow moving products or obsolescence are not material. At December 31, 2020, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately \$16.8 million. Due to the nature of the LIFO valuation methodology, liquidations of inventories will result in a portion of the Company's cost of sales being based on historical rather than current year costs.

A majority of the Company's products at Trex Residential are made in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. The Company grinds up scrap materials generated from its manufacturing process and inventories deemed no longer salable and reintroduces the reclaimed material into the manufacturing process as a substitute for raw materials. The reclaimed material is valued at the costs of the raw material components of the material.

Inventories for the Company's railing and staging products at Trex Commercial for the commercial and multi-family market are valued at the lower of cost (first-in, first-out or FIFO method), using actual cost, and net realizable value. Work-in process includes estimated production costs.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost. The costs of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Unpaid liabilities related to property, plant and equipment are included in accounts payable and were \$12.9 million and \$0.8 million at December 31, 2020 and December 31, 2019, respectively. Cash flows for capital expenditures as reported in cash flows from investing activities in the Consolidated Statements of Cash Flows are adjusted to exclude unpaid amounts accrued at period end. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings	40 years
Machinery and equipment	3-11 years
Furniture and equipment	10 years
Forklifts and tractors	5 years
Computer equipment and software	5 years

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

[Table of Contents](#)

The Company reviews its long-lived assets, including property, plant and equipment, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Company evaluates the probability that future estimated undiscounted net cash flows will be less than the carrying amount of the long-lived assets. If the estimated cash flows are less than the carrying amount of the long-lived assets, the assets are written down to their fair value. The Company's estimates of anticipated cash flows and the remaining estimated useful lives of long-lived assets could be reduced in the future. As a result, the carrying amount of long-lived assets could be reduced in the future. Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell.

Leases

The Company leases office space, storage warehouses and certain plant equipment under various operating leases. At inception of an arrangement, the Company evaluates, among other things, whether it has the right to control the use of an identified asset in order to determine if the arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (ROU) assets, accrued expenses and other current liabilities, and operating lease liabilities in the consolidated balance sheets. Operating leases with an initial term of 12 months or less are not included in the 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. Certain events, such as a modification to the arrangement or a change in the lease term, are assessed by the Company to determine if it is required to reassess estimates and judgments and remeasure the lease liability and ROU asset. The Company reviews its ROU asset for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. The carrying amount of the ROU asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is measured as the amount by which the carrying amount of the ROU asset exceeds its fair value. The Company's operating leases have remaining lease terms of 1 year to 8 years. Lease terms may include options to extend or terminate the lease when the Company determines that it is reasonably certain it will exercise the option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for separately. Consideration for non-lease components is stated on a stand-alone basis in the applicable agreements.

Fair Value Measurement

Assets and liabilities measured at fair value are measured at the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and classified into one of the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Goodwill

Goodwill represents the excess of cost over net assets acquired resulting from the Company's 1996 purchase of the Mobil Composite Products Division, the 2011 purchase of the assets of the Iron Deck Corporation, and the 2017 purchase of certain assets and the assumption of certain liabilities of SC Company. The Company evaluates the recoverability of goodwill in accordance with Accounting Standard Codification Topic 350, "*Intangibles – Goodwill and Other*," annually or more frequently if an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of the asset below its carrying amount. Goodwill is considered to be impaired when the net book value of the reporting unit exceeds its estimated fair value.

The Company assigned its goodwill to reporting units and tests each reporting unit's goodwill for impairment at least on an annual basis, or more frequently if an event occurs or circumstances change in the interim that indicate the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill. The Company identified its reporting units based on the way it manages its operating segments. Each reporting unit constitutes a business with discrete financial information and operating segment management, at a level below the Company's chief operating decision maker, regularly reviews the operating results of the reporting unit. The Company assigned goodwill to the reporting units based on the excess of the fair values acquired over the fair value of the sum of the individual assets acquired and liabilities assumed that were assigned to the reporting units.

In testing for goodwill impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If the qualitative assessment indicates that the carrying amount of the reporting unit exceeds its fair value, including goodwill, the Company is then required to perform a quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

The Company measures fair value of the reporting units based on a present value of future cash flows (discounted cash flows model) and a market valuation approach. The discounted cash flows model indicates the fair value of the reporting unit based on the present value of the cash flows that the reporting unit is expected to generate in the future. Significant estimates in the discounted cash flows model include: the weighted average cost of capital; long-term rate of growth and profitability of the business; and working capital effects. The market valuation approach indicates the fair value of the business based on a comparison of the Company against certain market information. Significant estimates in the market approach model include identifying appropriate market multiples and assessing earnings before interest, income taxes, depreciation and amortization (EBITDA) in estimating the fair value of the reporting unit.

For the years ended December 31, 2020, 2019, and 2018, the Company completed its annual impairment test of goodwill utilizing the qualitative assessment and concluded it was not more likely than not that the fair value of the reporting units was less than the carrying amounts. The Company performs the annual impairment testing of its goodwill as of October 31 of each year. However, actual results could differ from the Company's estimates and projections, which would affect the assessment of impairment. As of December 31, 2020, the Company had goodwill of \$68.5 million that is reviewed annually for impairment.

Product Warranty

The Company warrants that its Trex Residential decking products will be free from material defects in workmanship and materials. This warranty generally extends for a period of 25 years for residential use and

[Table of Contents](#)

10 years for commercial use. With respect to Trex Signature® Railing, the warranty period is 25 years for both residential and commercial use. With respect to the Company's Transcend®, Enhance®, Select® and Universal Fascia product, the Company further warrants that the product will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold, provided the stain is cleaned within seven days of appearance. This warranty extends for a period of 25 years for residential use and 10 years for commercial use. If there is a breach of such warranties, the Company has an obligation either to replace the defective product or refund the purchase price. Depending on the product and its use, the Company also warrants its Trex Commercial products will be free of manufacturing defects for one to three years. The Company establishes warranty reserves to provide for estimated future expenses as a result of product defects that result in claims. Reserve estimates are based on management's judgment, considering such factors as cost per claim, historical experience, anticipated rates of claims, and other available information. Management reviews and adjusts these estimates, if necessary, based on the differences between actual experience and historical estimates.

Treasury Stock

The Company records the repurchase of shares of its common stock at cost. These shares are considered treasury stock, which is a reduction to stockholders' equity. Treasury stock is included in authorized and issued shares but excluded from outstanding shares.

Revenue Recognition

Effective January 1, 2018, the Company retrospectively adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" (Topic 606). The Company determined the appropriate revenue recognition for its contracts with customers by analyzing the type, terms and conditions of the 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. Adoption of Topic 606 did not have an impact on the Company's financial condition or results of operations. The following provides additional information about the Company's contracts with customers.

Trex Residential Products. Trex Residential principally generates revenue from the manufacture and sale of its high-performance, low-maintenance, eco-friendly composite decking and railing products and accessories. Substantially all of its revenues are from contracts with customers, which are individual customer purchase orders of short-term duration of less than one year. 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.

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.

[Table of Contents](#)

Trex Commercial satisfies its performance obligation over time as work progresses because control is transferred continuously to its customers. Revenue and estimated profit are 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 year ended December 31, 2020, no adjustment to any one contract was material to the Company's Consolidated Financial Statements and no material impairment loss on any contract was recorded.

Stock-Based Compensation

The Company measures stock-based compensation at the grant date of the award based on the fair value. For stock options, stock appreciation rights and time-based restricted stock and time-based restricted stock units, stock-based compensation is recognized on a straight-line basis over the vesting periods of the award. The Company recognizes forfeitures as they occur. 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 probable to be paid out based on the achievement of predetermined performance measures. Stock-based compensation expense is included in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. The Company assesses the likelihood that its deferred tax assets will be realized. Deferred tax assets are reduced by a valuation allowance when, after considering all available positive and negative evidence, it is determined that it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. As of December 31, 2020, the Company has a valuation allowance of \$2.8 million against these deferred tax assets. The Company analyzes its position in subsequent reporting periods, considering all available positive and negative evidence, in determining the expected realization of its deferred tax assets.

Research and Development Costs

Research and development costs are expensed as incurred. For the years ended December 31, 2020, 2019, and 2018, research and development costs were \$3.4 million, \$4.5 million, and \$4.2 million, respectively, and have been included in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income.

Advertising Costs

The Company expenses its branding and advertising communication costs as incurred. Production costs are deferred and recognized as expense in the period that the related advertisement is first used. At December 31, 2020 and December 31, 2019 \$0.01 million and \$0.5 million was included in prepaid expenses for production costs, respectively.

For the years ended December 31, 2020, 2019, and 2018, branding expenses, including advertising expenses as described above, were \$31.7 million, \$35.7 million, and \$35.0 million, respectively.

[Table of Contents](#)

Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities, and debt to approximate the fair value of the respective assets and liabilities on the Consolidated Balance Sheets at December 31, 2020 and 2019.

Recently Adopted Accounting Standards

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Entities can adopt the new guidance either prospectively to eligible costs incurred on or after the date the guidance is first applied or retrospectively. The Company adopted the guidance prospectively on January 1, 2020. Adoption did not have a material impact on its consolidated 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 was applied prospectively and was effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted the guidance on January 1, 2020. Adoption did not have a material impact on its consolidated 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*,” as amended. 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 was 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 adopted the guidance on January 1, 2020. Adoption did not have a material impact on its consolidated financial condition or results of operations.

New Accounting Standards Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, “*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*”. The guidance provides temporary optional expedients and exceptions related to contract modifications and hedge accounting to ease entities’ financial

[Table of Contents](#)

reporting burdens as the market transitions from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. The new guidance allows entities to elect not to apply certain modification accounting requirements, if certain criteria are met, to contracts affected by what the guidance calls reference rate reform. An entity that makes this election would consider changes in reference rates and other contract modifications related to reference rate reform to be events that do not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The ASU notes that changes in contract terms that are made to affect the reference rate reform transition are considered related to the replacement of a reference rate if they are not the result of a business decision that is separate from or in addition to changes to the terms of a contract to affect that transition. The guidance is effective upon issuance and generally can be applied as of March 12, 2020 through December 31, 2022. The Company does not expect adoption of the guidance to have a material effect on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *“Income Taxes (Topic 740), Simplifying the Accounting for Income Taxes”*. The guidance eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company does not intend to early adopt the standard and does not expect the standard to have a material effect on its consolidated financial statements.

3. INVENTORIES

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

	<u>2020</u>	<u>2019</u>
Finished goods	\$ 39,048	\$ 42,281
Raw materials	44,475	31,686
Total FIFO inventories	83,523	73,967
Reserve to adjust inventories to LIFO value	(16,821)	(19,062)
Total LIFO inventories	<u>\$ 66,702</u>	<u>\$ 54,905</u>

Inventory related to Trex Residential composite decking and railing products is stated at the lower of LIFO cost or market. The Company periodically reviews its inventory for slow moving or obsolete items and writes down the related products to estimated market.

Under the LIFO method, reductions in inventory cause a portion of the Company’s cost of sales to be based on historical costs rather than current year costs. There was no material inventory reduction during 2020 or 2019.

Inventories valued at lower of cost (FIFO method) and net realizable value as of December 31, 2020 and December 31, 2019, were \$1.5 million and \$1.2 million, respectively, consisting primarily of raw materials. The Company utilizes the FIFO method of accounting related to its Trex Commercial products.

4. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following as of December 31 (in thousands):

	<u>2020</u>	<u>2019</u>
Prepaid expenses	\$ 7,285	\$ 8,282
Revenues in excess of billings	6,612	6,664
Contract retainage	2,267	1,832
Income tax receivable	7,823	2,675
Other	1,323	350
Total prepaid expenses and other assets	<u>\$ 25,310</u>	<u>\$ 19,803</u>

5. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The carrying amount of goodwill by reportable segment at December 31, 2020 and 2019 was \$14.2 million for Trex Residential and \$54.3 million for Trex Commercial.

The Company's intangible assets consist of domain names purchased in May 2018. At December 31, 2020 and 2019, intangible assets were \$6.3 million, and accumulated amortization was \$1.1 million and \$0.7 million, respectively. Intangible asset amounts were determined based on the estimated economics of the asset and are amortized over the estimated useful lives on a straight-line basis over 15 years, which approximates the pattern in which the economic benefits are expected to be received. The Company evaluates the recoverability of intangible assets periodically and considers events or circumstances that may warrant revised estimates of useful lives or that may indicate an impairment. Intangible asset amortization expense for the years ended December 31, 2020, December 31, 2019 and December 31, 2018, was \$0.4 million, \$0.4 million and \$3.1 million, respectively. Intangible asset amortization expense for the year ended December 31, 2018 included amortization expense for customer backlog and trade names and trademarks, which were fully amortized as of December 31, 2018.

6. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Machinery and equipment	\$ 312,870	\$ 248,633
Building and improvements	61,860	51,547
Forklifts and tractors	16,003	10,870
Computer equipment	11,948	10,647
Furniture and fixtures	1,534	1,441
Construction in process	157,465	59,257
Land	11,351	11,417
Total property, plant and equipment	573,031	393,812
Accumulated depreciation	(236,494)	(222,512)
Total property, plant and equipment, net	<u>\$ 336,537</u>	<u>\$ 171,300</u>

The Company had construction in process as of December 31, 2020 of approximately \$157.5 million. The Company expects that the construction in process will be completed and put into service in the year ending December 31, 2021.

Depreciation expense for the years ended December 31, 2020, 2019, and 2018, totaled \$17.5 million, \$13.6 million, and \$13.4 million, respectively.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following as of December 31 (in thousands):

	2020	2019
Sales and marketing	\$22,938	\$ 28,402
Compensation and benefits	21,156	13,475
Operating lease liabilities	6,708	7,079
Manufacturing costs	3,641	2,564
Customer deposits	1,174	2,905
Billings in excess of revenues	1,244	816
Other	5,470	3,024
Total accrued expenses	<u>\$62,331</u>	<u>\$ 58,265</u>

8. DEBT

The Company's debt consists of a revolving credit facility. At December 31, 2020 and 2019, the Company had no outstanding indebtedness. Available borrowing capacity at December 31, 2020, was \$300 million.

Revolving Credit Facility

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

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

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

[Table of Contents](#)

The Notes and interest rates for the Revolving A Commitments remained unchanged and are the same as previously disclosed. The Notes for Revolving A Commitments and Revolving B Commitments provide the Company, in the aggregate, the ability to borrow an amount up to the respective Revolving A Loan Limit and Revolving B Loan Limit during the respective Revolving A Term and Revolving B Term. The Company is not obligated to borrow any amount under either the Revolving A Loan or the Revolving B Loan. Within either the Revolving A Loan or the Revolving B Loan, the Company may borrow, repay and reborrow at any time or from time to time while the respective Revolving A Loan or Revolving B Loan remains in effect.

Base Rate Loans (as defined in the Fourth Amended Credit Agreement) under the Revolving Loans and the Swing Line Loans accrue interest at the Base Rate plus the Applicable Rate (as defined in the Fourth Amended Credit Agreement) and Eurodollar Rate Loans for the Revolving Loans and Swing Line Loans accrue interest at the Adjusted London InterBank Offered Rate plus the Applicable Rate (as defined in the Fourth Amended Credit Agreement).

The Base Rate for any day is a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus 0.50%, (b) the rate of interest in effect for such day as publicly announced from time to time by BOA as its prime rate, and (c) the Eurodollar Rate plus 1.0%.

The Applicable Rate for Revolving B Commitments means the following percentages per annum, based upon the Consolidated Debt to Consolidated EBITDA Ratio as set forth in the most recent Compliance Certificate received by BOA as the Administrative Agent and as set forth in the New Credit Agreement:

<u>Pricing Tier</u>	<u>Consolidated Debt to Consolidated EBITDA Ratio</u>	<u>Eurodollar Rate Loans / LIBOR Index Rate</u>	<u>Base Rate Loans</u>	<u>Revolving B Commitment Fee</u>
1	> 2.50:1.00	2.75%	1.75%	0.60%
2	< 2.50:1.00 but > 2.00:1.00	2.50%	1.50%	0.55%
3	< 2.00:1.00 but > 1.50:1.00	2.25%	1.25%	0.50%
4	< 1.50:1.00	1.80%	0.80%	0.45%

Compliance with Debt Covenants and Restrictions

Pursuant to the terms of the Fourth Amended Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of December 31, 2020. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

9. LEASES

For the years ended December 31, 2020 and December 31, 2019, total operating lease cost was \$8.5 million and \$8.4 million, respectively. The weighted average remaining lease term at December 31, 2020 and December 31, 2019 was 5.6 years and 6.5 years, respectively. The weighted average discount rate at December 31, 2020 and December 31, 2020 was 3.47% and 3.66%, respectively.

[Table of Contents](#)

The following table includes supplemental cash flow information for the years ended December 31, 2020 and December 31, 2019 and supplemental balance sheet information at December 31, 2020 and December 31, 2019 related to operating leases:

<u>Supplemental Cash Flow Information</u>	<u>For the Year Ended</u> <u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 8,736	\$ 8,479
Operating ROU assets obtained in exchange for lease liabilities	\$ 1,427	\$ 1,319

<u>Supplemental Balance Sheet Information</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
Operating lease ROU assets	\$ 34,382	\$ 40,049
Operating lease liabilities:		
Accrued expenses and other current liabilities	\$ 6,708	\$ 7,079
Operating lease liabilities	28,579	34,242
Total operating lease liabilities	\$ 35,287	\$ 41,321

The following table summarizes maturities of operating lease liabilities at December 31, 2020 (in thousands):

<u>Maturities of operating lease liabilities</u>	
2021	\$ 7,835
2022	7,345
2023	6,608
2024	6,265
2025	4,480
Thereafter	6,599
Total lease payments	39,132
Less imputed interest	(3,845)
Total operating liabilities	<u>\$35,287</u>

10. FINANCIAL INSTRUMENTS

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities, and debt to approximate the fair value of the respective assets and liabilities on the Consolidated Balance Sheets at December 31, 2020 and 2019.

11. 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):

	Year Ended December 31,		
	2020	2019	2018
Numerator:			
Net income	\$ 175,631	\$ 144,738	\$ 134,572
Denominator:			
Basic weighted average shares outstanding	115,888,859	116,861,194	117,479,340
Effect of dilutive securities:			
Stock appreciation rights	192,579	248,850	353,400
Restricted stock	171,428	205,454	301,864
Diluted weighted average shares outstanding	116,252,866	117,315,498	118,134,604
Basic earnings per share	\$ 1.52	\$ 1.24	\$ 1.15
Diluted earnings per share	\$ 1.51	\$ 1.24	\$ 1.14

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:

	Year Ended December 31,		
	2020	2019	2018
Restricted stock	—	—	428
Stock appreciation rights	14,697	41,540	26,694

Stock Repurchase Program

On February 16, 2018, the Board of Directors adopted a stock repurchase program of up to 11.6 million shares of the Company's outstanding common stock (Stock Repurchase Program). On March 12, 2020, the Company suspended repurchases of its common stock under the Stock Repurchase Program due to the volatility and uncertainty in the stock market associated with the COVID-19 pandemic. On October 30, 2020, the Company lifted the suspension of repurchases of its common stock under the Stock Repurchase Program. As of December 31, 2020, the Company has repurchased 2.8 million shares of the Company's outstanding common stock under the Stock Repurchase Program.

Amendment of Restated Certificate of Incorporation

At the annual meeting of stockholders of the Company held on April 29, 2020, the Company's stockholders approved an amendment of the Company's Restated Certificate of Incorporation (Amendment), effective as of April 29, 2020. The Company's Board of Directors unanimously approved the Amendment on February 19, 2020, subject to stockholder approval. The Amendment increases the number of shares of common stock, par value \$0.01 per share, that the Company is authorized to issue from 120 million shares to 180 million shares.

Stock Split

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

12. 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, eco-friendly wood-alternative composite decking and residential railing products and accessories. Substantially all of its revenues are from contracts with customers, which are purchase orders of short-term duration of less than one year. Its customers, in turn, sell primarily to the residential market, which includes replacement, remodeling and new construction related to outdoor living products. Trex Residential satisfies its performance obligations at a point in time. The shipment of each product is a separate performance obligation as the customer is able to derive benefit from each product shipped and no performance obligation remains after shipment. Upon shipment of the product, the customer obtains control over the distinct product and Trex Residential satisfies its performance obligation. Any performance obligation that remains unsatisfied at the end of a reporting period is part of a contract that has an original expected duration of one year or less. Any variable consideration related to the unsatisfied performance obligation is allocated wholly to the unsatisfied performance obligation 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 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 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 payment discounts. It estimates the payment discount that it believes will be taken by the customer based on prior history using the most-likely-amount method of estimation.

Table of Contents

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 year ended December 31, 2020, no adjustment to any one contract was material to the Company's Consolidated Financial Statements. 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 \$65.8 million as of December 31, 2020. The Company will recognize this revenue as performance obligations are satisfied, which is expected to occur within the next 18 months.

The Company recognizes an account receivable 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 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). 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, respectively, were not material as of and for the year ended December 31, 2020.

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.

Table of Contents

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

<u>Year Ended December 31, 2020</u>	<u>Reportable Segment</u>		
	<u>Trex Residential</u>	<u>Trex Commercial</u>	<u>Total</u>
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	\$827,792	\$ —	\$827,792
Products transferred over time and fixed price contracts	—	53,039	53,039
	<u>\$827,792</u>	<u>\$ 53,039</u>	<u>\$880,831</u>

<u>Year Ended December 31, 2019</u>	<u>Reportable Segment</u>		
	<u>Trex Residential</u>	<u>Trex Commercial</u>	<u>Total</u>
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	\$694,267	\$ —	\$694,267
Products transferred over time and fixed price contracts	—	51,080	51,080
	<u>\$694,267</u>	<u>\$ 51,080</u>	<u>\$745,347</u>

<u>Year Ended December 31, 2018</u>	<u>Reportable Segment</u>		
	<u>Trex Residential</u>	<u>Trex Commercial</u>	<u>Total</u>
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	\$613,229	\$ —	\$613,229
Products transferred over time and fixed price contracts	—	71,021	71,021
	<u>\$613,229</u>	<u>\$ 71,021</u>	<u>\$684,250</u>

13. STOCK-BASED COMPENSATION

On April 30, 2014, the Company's stockholders approved the Trex Company, Inc. 2014 Stock Incentive Plan (Plan), which was previously approved by the Board of Directors on February 19, 2014. The Plan amended and restated in its entirety the Trex Company, Inc. 2005 Stock Incentive Plan, as previously disclosed. The Plan is administered by the Compensation Committee of the Company's Board of Directors. Stock-based compensation is granted to officers, directors and certain key employees in accordance with the provisions of the Plan. The Plan provides for grants of stock options, restricted stock, restricted stock units, stock appreciation rights (SARs), and unrestricted stock. The total aggregate number of shares of the Company's common stock that may be issued under the Plan is 25,680,000 and as of December 31, 2020, the total number of shares available for future issuance was 11,253,930.

The Company recognizes stock-based compensation expense ratably over the period from 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

[Table of Contents](#)

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 probable 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. The following table summarizes the Company's stock-based compensation expense (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Time-based restricted stock and restricted stock units	\$3,219	\$3,676	\$2,687
Performance-based restricted stock and restricted stock units	2,881	2,399	3,144
Stock appreciation rights	648	662	370
Employee stock purchase plan	383	193	143
Total stock-based compensation	<u>\$7,131</u>	<u>\$6,930</u>	<u>\$6,344</u>

Stock-based compensation expense is included in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income.

Time-Based Restricted Stock and Time-Based Restricted Stock Units

The fair value of time-based restricted stock and time-based restricted stock units is determined based on the closing price of the Company's shares on the grant date. Time-based restricted stock and time-based restricted stock units vest based on the terms of the awards. Unvested time-based restricted stock and unvested time-based restricted stock units are generally forfeitable upon the resignation of employment or termination of employment with cause. The total fair value of vested time-based restricted shares and vested time-based restricted stock units for the years ended December 31, 2020, 2019 and 2018 was \$6.1 million, \$6.0 million and \$5.1 million, respectively. At December 31, 2020, there was \$2.9 million of total compensation expense related to unvested time-based restricted stock and unvested time-based restricted stock units remaining to be recognized over a weighted-average period of approximately 1.7 years.

Time-based restricted stock and restricted stock unit activity under the Plan and all predecessor stock incentive plans is as follows:

	Time-based Restricted Stock and Restricted Stock Unit	Weighted-Average Grant Price Per Share
Nonvested at December 31, 2017	306,236	\$ 13.45
Granted	174,528	\$ 27.36
Vested	(169,100)	\$ 13.33
Forfeited	(568)	\$ 17.53
Nonvested at December 31, 2018	311,096	\$ 21.34
Granted	71,300	\$ 38.12
Vested	(162,650)	\$ 18.67
Forfeited	(1,280)	\$ 31.17
Nonvested at December 31, 2019	218,466	\$ 28.75
Granted	54,406	\$ 53.97
Vested	(111,036)	\$ 30.94
Forfeited	(1,114)	\$ 40.34
Nonvested at December 31, 2020	<u>160,722</u>	\$ 35.68

Table of Contents

Performance-based Restricted Stock and Performance-Based Restricted Stock Units

The fair value of performance-based restricted stock and performance-based restricted stock units is determined based on the closing price of the Company's shares on the grant date. Unvested performance-based restricted stock and unvested performance-based restricted stock units are generally forfeitable upon the resignation of employment or termination of employment with cause. The performance-based restricted shares and performance-based restricted stock units have a three-year vesting period, vesting one-third each year based on target earnings before interest, taxes, depreciation and amortization (EBITDA) for 1 year, cumulative 2 years and cumulative 3 years, respectively. The number of shares that will vest, with respect to each vesting, will be between 0% and 200% of the target number of shares. At December 31, 2020, 2019 and 2018 there was \$1.7 million, \$0.8 million and \$1.6 million, respectively, of total compensation expense related to unvested performance-based restricted stock and unvested performance-based restricted stock units remaining to be recognized over a weighted-average period of approximately two years.

Performance-based restricted stock activity under the Plan is as follows:

	Performance-based Restricted Stock and Performance-based Restricted Stock Units	Weighted- Average Grant Price Per Share
Nonvested at December 31, 2017	233,316	\$ 12.93
Granted	161,140	\$ 17.63
Vested	(212,044)	\$ 11.76
Forfeited	—	\$ —
Nonvested at December 31, 2018	182,412	\$ 18.43
Granted	164,270	\$ 23.82
Vested	(222,004)	\$ 15.55
Forfeited	(1,022)	\$ 29.23
Nonvested at December 31, 2019	123,656	\$ 30.67
Granted	78,404	\$ 39.60
Vested	(128,762)	\$ 28.87
Forfeited	(728)	\$ 41.12
Nonvested at December 31, 2020	72,570	\$ 43.42

Stock Appreciation Rights

SARs are granted with a grant price equal to the closing market price of the Company's common stock on the date of grant. These awards expire ten years after the date of grant and vest based on the terms of the individual awards. The SARs are generally forfeitable upon the resignation of employment or termination of employment with cause. The Company recognizes forfeitures as they occur. The Company recognizes compensation cost on a straight-line basis over the vesting period for the award.

As of December 31, 2020, there was \$0.6 million of unrecognized compensation cost related to SARs. The fair value of each SAR is estimated on the date of grant using a Black-Scholes option-pricing model. For SARs issued in the years ended December 31, 2020, December 31, 2019 and December 31, 2018, respectively, the assumptions shown in the following table were used:

	Year Ended December 31,		
	2020	2019	2018
Dividend yield	0%	0%	0%
Average risk-free interest rate	1.3%	2.5%	2.7%
Expected term (years)	5	5	5
Expected volatility	38.3%	39.1%	40.5%

[Table of Contents](#)

Dividend Yield. The Company has never paid cash dividends on its common stock.

Average Risk-Free Interest Rate. The Company uses the U.S. Treasury rate having a term that most closely resembles the expected term of the option.

Expected Term. The expected term is the period of time that the SARs granted are expected to remain unexercised. SARs granted during the years ended December 31, 2020, December 31, 2019 and December 31, 2018 had a maximum term of ten years. The Company used historical exercise behavior with further consideration given to the class of employees to whom the equity awards were granted to estimate the expected term of the SAR.

Expected Volatility. Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company has used the historical volatility over the average expected term of the options granted as the expected volatility.

The weighted-average grant date fair value of SARs granted during the years ended December 31, 2020, December 31, 2019 and December 31, 2018 was \$17.81, \$14.78 and \$11.05, respectively.

SAR activity under the Plan and all predecessor stock incentive plans is as follows:

	<u>SARs</u>	<u>Weighted-Average Grant Price Per Share</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value as of December 31, 2020</u>
Outstanding at December 31, 2017	556,232	\$ 6.73		
Granted	42,520	\$ 28.30		
Exercised	(121,800)	\$ 2.64		
Canceled	—	\$ —		
Outstanding at December 31, 2018	476,952	\$ 9.63		
Granted	49,072	\$ 38.85		
Exercised	(217,528)	\$ 6.95		
Canceled	(4,458)	\$ 38.85		
Outstanding at December 31, 2019	304,038	\$ 15.79		
Granted	43,830	\$ 50.39		
Exercised	(54,592)	\$ 9.41		
Canceled	—	\$ —		
Outstanding at December 31, 2020	293,276	\$ 22.15	5.4	\$18,058,138
Vested at December 31, 2020	237,323	\$ 17.05	4.7	\$15,821,712
Exercisable at December 31, 2020	237,323	\$ 17.05	4.7	\$15,821,712

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (ESPP) that permits eligible employees to purchase shares of common stock of the Company at a purchase price which is the lesser of 85% of the market price on either the first day of the calendar quarter or the last day of the calendar quarter. Eligible employees may elect to

[Table of Contents](#)

participate in the plan by authorizing payroll deductions of up to 15% of gross compensation for each payroll period. On the last day of each quarter, each participant's contribution account is used to purchase the maximum number of whole shares of common stock determined by dividing the contribution account balance by the purchase price. The aggregate number of shares of common stock that may be purchased under the plan is 2,400,000. Through December 31, 2020, employees had purchased approximately 1,811,165 shares under the plan.

14. EMPLOYEE BENEFIT PLANS

The Company has two 401(k) Profit Sharing Plans for the benefit of its employees who meet certain eligibility requirements and it matches qualifying employee contributions. The Company's contributions to the plans totaled \$5.7 million, \$4.6 million and \$4.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

15. INCOME TAXES

Income tax provision (benefit) consists of the following (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Current income tax provision:			
Federal	\$35,423	\$30,306	\$33,578
State	10,455	6,952	7,674
	<u>45,878</u>	<u>37,258</u>	<u>41,252</u>
Deferred income tax provision:			
Federal	12,603	6,928	988
State	522	778	49
	<u>13,125</u>	<u>7,706</u>	<u>1,037</u>
Total income tax provision	<u>\$59,003</u>	<u>\$44,964</u>	<u>\$42,289</u>

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

	Year Ended December 31,		
	2020	2019	2018
U.S. Federal statutory taxes	\$49,273	\$39,838	\$37,141
State and local taxes, net of U.S. Federal benefit	10,641	8,412	7,716
Permanent items	1,198	1,266	470
Excess tax benefits from vesting or settlement of stock compensation awards	(1,635)	(3,540)	(2,368)
Federal credits	(565)	(654)	(662)
Other	91	(358)	(8)
Total income tax provision	<u>\$59,003</u>	<u>\$44,964</u>	<u>\$42,289</u>

[Table of Contents](#)

Deferred tax assets and liabilities consist of the following (in thousands):

	As of December 31,	
	2020	2019
Deferred tax assets:		
Net operating losses	\$ 43	\$ 88
Residential product warranty reserve	7,532	6,486
Stock-based compensation	1,071	1,055
Accruals not currently deductible and other	2,041	2,245
Inventories	5,548	5,780
Operating lease liability	9,081	10,618
State tax credit carryforwards	3,345	3,461
Gross deferred tax assets, before valuation allowance	28,661	29,733
Valuation allowance	(2,775)	(2,988)
Gross deferred tax assets, after valuation allowance	25,886	26,745
Deferred tax liabilities:		
Depreciation	(29,792)	(17,267)
Operating lease right-of-use asset	(8,755)	(10,162)
Goodwill amortization	(5,775)	(4,782)
Inventories and other	(4,520)	(4,365)
Gross deferred tax liabilities	(48,842)	(36,576)
Net deferred tax liability	<u>\$ (22,956)</u>	<u>\$ (9,831)</u>

The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. In accordance with accounting standards, the Company assesses the likelihood that its deferred tax assets will be realized. Deferred tax assets are reduced by a valuation allowance when, after considering all available positive and negative evidence, it is determined that it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. As of December 31, 2020, the Company had a valuation allowance of \$2.8 million against deferred tax assets it estimates will not be realized. The Company will analyze its position in subsequent reporting periods, considering all available positive and negative evidence, in determining the expected realization of its deferred tax assets.

The Company recognizes interest and penalties related to tax matters as a component of "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income. As of December 31, 2020, the Company has identified no uncertain tax position and, accordingly, has not recorded any unrecognized tax benefits or associated interest and penalties.

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 has accrued a liability when it believes that it is not more likely than not that it will realize the benefits of tax positions that it has taken or for the amount of any tax benefit that exceeds the cumulative probability threshold in accordance with accounting standards. As of December 31, 2020, for certain tax jurisdictions, tax years 2016 through 2019 remain subject to examination. The Company's returns filed with the state of Utah for the tax years 2014 through 2018 are currently under examination. No material adjustments are expected as a result of the audit. The Company believes that adequate provisions have been made for all tax returns subject to examination. Sales made to foreign distributors are not taxable in any foreign jurisdictions as the Company does not have a taxable presence.

16. SEGMENT INFORMATION

The Company operates in two reportable segments:

- Trex Residential manufactures composite decking and railing and related products marketed under the brand name Trex®. The products are sold to its distributors and two national retailers who, in turn, sell primarily to the residential market, which includes replacement, remodeling and new construction related to outdoor living products.
- Trex Commercial designs, engineers, and markets modular and architectural railing and staging systems for commercial and multi-family market, including sports stadiums and performing arts venues. The segment's products are sold through architects, specifiers, contractors, and others doing business within the segment's commercial market.

The Company's reportable segments have been determined in accordance with its internal management structure, which is organized based on residential and commercial operations. 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.

Segment Data (in thousands):

	<u>Net Sales</u>	<u>Net Income</u>	<u>EBITDA</u>	<u>Depreciation and Amortization</u>	<u>Income Tax Expense</u>	<u>Capital Expenditures</u>	<u>Total Assets</u>
December 31, 2020							
<i>Trex Residential</i>	\$827,792	\$ 171,197	\$244,817	\$ 17,131	\$ 57,488	\$ 171,784	\$ 676,948
<i>Trex Commercial</i>	53,039	4,434	6,758	809	1,515	1,039	93,544
<i>Total</i>	<u>\$880,831</u>	<u>\$ 175,631</u>	<u>\$251,575</u>	<u>\$ 17,940</u>	<u>\$ 59,003</u>	<u>\$ 172,823</u>	<u>\$ 770,492</u>
December 31, 2019							
<i>Trex Residential</i>	\$694,267	\$ 142,811	\$199,020	\$ 13,413	\$ 44,292	\$ 65,399	\$ 503,883
<i>Trex Commercial</i>	51,080	1,927	3,210	618	672	1,866	88,356
<i>Total</i>	<u>\$745,347</u>	<u>\$ 144,738</u>	<u>\$202,230</u>	<u>\$ 14,031</u>	<u>\$ 44,964</u>	<u>\$ 67,265</u>	<u>\$ 592,239</u>
December 31, 2018							
<i>Trex Residential</i>	\$613,229	\$ 131,823	\$186,268	\$ 13,216	\$ 41,421	\$ 31,392	\$ 380,682
<i>Trex Commercial</i>	71,021	2,749	6,868	3,251	868	2,424	84,440
<i>Total</i>	<u>\$684,250</u>	<u>\$ 134,572</u>	<u>\$193,136</u>	<u>\$ 16,467</u>	<u>\$ 42,289</u>	<u>\$ 33,816</u>	<u>\$ 465,122</u>

Reconciliation of Net Income (Loss) to EBITDA (in thousands):

	<u>Net Income</u>	<u>Interest (Income) Expense, Net</u>	<u>Income Tax Expense</u>	<u>Depreciation and Amortization</u>	<u>EBITDA</u>
December 31, 2020					
<i>Trex Residential</i>	\$ 171,197	\$ (999)	\$ 57,488	\$ 17,131	\$244,817
<i>Trex Commercial</i>	4,434	—	1,515	809	6,758
<i>Total</i>	<u>\$ 175,631</u>	<u>\$ (999)</u>	<u>\$ 59,003</u>	<u>\$ 17,940</u>	<u>\$251,575</u>
December 31, 2019					
<i>Trex Residential</i>	\$ 142,811	\$ (1,496)	\$ 44,292	\$ 13,413	\$199,020
<i>Trex Commercial</i>	1,927	(7)	672	618	3,210
<i>Total</i>	<u>\$ 144,738</u>	<u>\$ (1,503)</u>	<u>\$ 44,964</u>	<u>\$ 14,031</u>	<u>\$202,230</u>
December 31, 2018					
<i>Trex Residential</i>	\$ 131,823	\$ (192)	\$ 41,421	\$ 13,216	\$186,268
<i>Trex Commercial</i>	2,749	—	868	3,251	6,868
<i>Total</i>	<u>\$ 134,572</u>	<u>\$ (192)</u>	<u>\$ 42,289</u>	<u>\$ 16,467</u>	<u>\$193,136</u>

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 significantly each period.

18. COMMITMENTS AND CONTINGENCIES
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.

Purchase Commitments

The Company fulfills requirements for raw materials under both purchase orders and supply contracts. In the year ended December 31, 2020, the Company purchased reclaimed wood fiber requirements under purchase orders and long-term supply commitments not exceeding four years. All of the Company's scrap polyethylene, aluminum and stainless-steel purchases are under short-term supply contracts that may average approximately one to two years, for which pricing is negotiated as needed, or under purchase orders that do not involve long-term supply commitments.

The wood and polyethylene supply contracts generally provide that the Company is obligated to purchase all wood or polyethylene a supplier provides, if the wood or polyethylene meets certain specifications. The amount

[Table of Contents](#)

of wood and polyethylene the Company is required to purchase under these contracts varies with the production of its suppliers and, accordingly, is not fixed or determinable. As of December 31, 2020, the Company has purchase commitments under material supply contracts of \$33.6 million and \$15.0 million for the years ending December 31, 2021 and 2022, respectively, and a total of \$22.7 million for the years ending December 31, 2023 and 2024.

Product Warranty

The Company warrants that its Trex Residential products will be free from material defects in workmanship and materials. This warranty generally extends for a period of 25 years for residential use and 10 years for commercial use, excluding Trex Signature[®] Railing, which has a warranty period of 25 years for both residential and commercial use. The Company further warrants that Trex Transcend[®], Trex Enhance[®], Trex Select[®] and Universal Fascia products will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold, provided the stain is cleaned within seven days of appearance. This warranty extends for a period of 25 years for residential use and 10 years for commercial use. If there is a breach of such warranties, the Company has an obligation either to replace the defective product or refund the purchase price. Depending on the product and its use, the Company also warrants its Trex Commercial products will be free of manufacturing defects for one to three years.

The Company continues to receive and settle claims for decking 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 determine a reasonable possible range 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 to determine its best estimate of future claims for which to record a related liability. 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 year ended December 31, 2020 was higher than the number of claims received in the year ended December 31, 2019 and exceeded the Company's expectations for 2020. Prior to 2020, the number of incoming claims received declined each year since 2009. After evaluating the rise in incoming claims in its actuarial analysis, the Company increased its estimate of the number of future claims to be settled with payment. Average cost per claim experienced in the year ended December 31, 2020 was lower than that experienced in the year ended December 31, 2019, but slightly higher than the Company's expectations for 2020. The Company estimates that average cost per claim will increase in future years, primarily due to inflation.

As a result of the increase in estimated future claims and expected rise in future average cost per claim, in the three-month period ended September 30, 2020, the Company recorded a provision of \$6.5 million to its warranty reserve for the future settlement of surface flaking claims. The Company believes its reserve at December 31, 2020 is sufficient to cover future surface flaking obligations.

Table of Contents

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 the actual warranty liabilities to be higher or lower than those projected, which could materially affect the Company's financial condition, results of operations or cash 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 \$2.1 million change in the surface flaking warranty reserve.

The Company also maintains a warranty reserve for the settlement of other residential product warranty claims and records the provision at the time of product sale.

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

	Year Ended December 31, 2020		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	\$19,024	\$ 6,470	\$25,494
Provisions and changes in estimates	6,479	3,382	9,861
Settlements made during the period	(4,178)	(1,704)	(5,882)
Ending balance, December 31	<u>\$21,325</u>	<u>\$ 8,148</u>	<u>\$29,473</u>

	Year Ended December 31, 2019		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	\$23,951	\$ 6,803	\$30,754
Provisions and changes in estimates	—	979	979
Settlements made during the period	(4,927)	(1,312)	(6,239)
Ending balance, December 31	<u>\$19,024</u>	<u>\$ 6,470</u>	<u>\$25,494</u>

19. INTERIM FINANCIAL DATA (Unaudited)

	Three Months Ended							
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
	(In thousands, except share and per share data)							
Net sales	\$ 228,286	\$ 231,502	\$ 220,648	\$ 200,395	\$ 164,772	\$ 194,551	\$ 206,453	\$ 179,571
Gross profit	\$ 92,392	\$ 84,964	\$ 92,405	\$ 89,696	\$ 71,263	\$ 82,431	\$ 83,444	\$ 69,365
Net income	\$ 43,301	\$ 42,710	\$ 47,218	\$ 42,402	\$ 35,497	\$ 41,976	\$ 35,710	\$ 31,555
Basic earnings per common share	\$ 0.37	\$ 0.37	\$ 0.41	\$ 0.37	\$ 0.31	\$ 0.36	\$ 0.31	\$ 0.27
Basic weighted average common shares outstanding	115,791,757	115,773,030	115,733,934	116,259,058	116,591,434	116,800,120	116,972,384	117,086,956
Diluted earnings per common share	\$ 0.37	\$ 0.37	\$ 0.41	\$ 0.37	\$ 0.31	\$ 0.36	\$ 0.31	\$ 0.27
Diluted weighted average common shares outstanding	116,169,754	116,134,623	116,061,988	116,647,442	117,025,466	117,209,206	117,375,080	117,658,354

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

[Table of Contents](#)

and construction activity and can shift demand for its products to a later period. The operating results for Trex Commercial have not historically varied from quarter to quarter as a result of seasonality; however, they are driven by the timing of individual projects, which may vary significantly each period.

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

TREX COMPANY, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In thousands)

<u>Descriptions</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Cost and Expenses</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Year ended December 31, 2020:				
Trex Residential product warranty reserve	\$ 25,494	\$ 9,861	\$ (5,882)	\$29,473
Income tax valuation allowance	\$ 2,988	\$ 1	\$ (214)	\$ 2,775
Year ended December 31, 2019:				
Trex Residential product warranty reserve	\$ 30,754	\$ 979	\$ (6,239)	\$25,494
Income tax valuation allowance	\$ 3,015	\$ —	\$ (27)	\$ 2,988
Year ended December 31, 2018:				
Trex Residential product warranty reserve	\$ 34,999	\$ 1,104	\$ (5,349)	\$30,754
Income tax valuation allowance	\$ 3,096	\$ —	\$ (81)	\$ 3,015

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the “Company”), Filed as Exhibit 3.1 to the Company’s Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.	S-1/A	3.1	March 24, 1999	333-63287
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014. Filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 and incorporated herein by reference.	10-Q	3.2	May 5, 2014	001-14649
3.3	Second Certificate of Amendment to the Restated Certificate of Incorporation of Trex company, Inc. dated May 2, 2018. Filed as Exhibit 3.3 to the Company’s Quarter Report on Form 10-Q for the quarterly period ended March 31, 2018 and incorporated herein by reference.	10-Q	3.3	May 7, 2018	001-14649
3.4	Third Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 1, 2019. Filed as exhibit 3.1 to the Company’s Current Report on form 8-K filed May 1, 2019 and incorporated herein by reference.	8-K	3.1	May 1, 2019	001-14649
3.5	Fourth Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 29, 2020.	10-Q	3.5	May 4, 2020	001-14649
3.6	Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company’s Current Report on Form 8-K filed May 1, 2019 and incorporated herein by reference.	8-K	3.2	May 1, 2019	001-14649
4.1	Specimen certificate representing the Company’s common stock. Filed as Exhibit 4.1 to the Company’s Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.	S-1/A	4.1	March 24, 1999	333-63287
4.2	Third Amended and Restated Credit Agreement dated as of January 12, 2016 between the Company, as borrower; the subsidiaries of the Company as guarantors; Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and Letter of Credit Issuer; and certain other lenders arranged by Bank of America Merrill Lynch as Sole Lead Arranger and Sole Bookrunner. Filed as Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.	8-K	4.1	January 14, 2016	001-14649

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
4.3	<u>Revolver Note dated January 12, 2016 payable by the Company to Bank of America, N.A. in the amount of the lesser of \$110,000,000 or the outstanding revolver advances made by Bank of America, N.A. Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.2	January 14, 2016	001-14649
4.4	<u>Revolver Note dated January 12, 2016 payable by the Company to Citibank, N.A. in the amount of the lesser of \$75,000,000 or the outstanding revolver advances made by Citibank, N.A. Filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.3	January 14, 2016	001-14649
4.5	<u>Revolver Note dated January 12, 2016 payable by the Company to Capital One, N.A. in the amount of the lesser of \$35,000,000 or the outstanding revolver advances made by Capital One, N.A. Filed as Exhibit 4.4 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.4	January 14, 2016	001-14649
4.6	<u>Revolver Note dated January 12, 2016 payable by the Company to SunTrust Bank in the amount of the lesser of \$30,000,000 or the outstanding revolver advances made by SunTrust Bank. Filed as Exhibit 4.5 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.5	January 14, 2016	001-14649
4.7	<u>Third Amended and Restated Security and Pledge Agreement dated as of January 12, 2016 between the Company, as debtor, and Bank of America, N.A. as Administrative Agent (including Notices of Grant of Security Interest in Copyrights and Trademarks). Filed as Exhibit 4.6 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.6	January 14, 2016	001-14649
4.8	<u>Assignment of Amended and Restated Credit Line Deed of Trust, Substitution of Trustee and Amendment, dated as of January 12, 2016, by and among the Company as grantor, PRLAP, INC, as trustee, and Bank of America, N.A., as Administrative Agent for Bank of America, N.A., Citibank, N.A., Capital One, N.A., and SunTrust Bank, as Beneficiaries relating to real property partially located in the County of Frederick, Virginia and partially located in the City of Winchester, Virginia. Filed as Exhibit 4.7 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.7	January 14, 2016	001-14649

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
4.9	<u>Amended and Restated Deed of Trust, dated as of January 12, 2016, by and among the Company as grantor, First American Title Insurance Company, as trustee, and Bank of America, N.A., Citibank, N.A., Capital One, N.A., and SunTrust Bank, as Beneficiaries relating to real property located in the County of Fernley, Nevada. Filed as Exhibit 4.8 to the Company's Current Report on Form 8-K filed on January 14, 2016 and incorporated herein by reference.</u>	8-K	4.8	January 14, 2016	001-14649
4.10	<u>Fourth Amended and Restated Credit Agreement dated as of November 5, 2019 between the Company, as borrower; Trex Commercial Products, Inc., as guarantor, Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, SunTrust Bank, and Branch Banking and Trust Company arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner. Filed as exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.1	November 6, 2019	001-14649
4.11	<u>First Amendment to the Credit Agreement by and among Trex Company, Inc. as borrower; Trex Commercial Products, Inc. as guarantor; Bank of America, N.A. as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent; Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner dated May 26, 2020. Filed May 28, 2020 on Form 8-K, Exhibit 4.1</u>	8-K	4.1	May 28, 2020	001-14649
4.12	<u>Fourth Amended and Restated Credit Agreement between the Company, as borrower; Trex Commercial Products, Inc., as guarantor, Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner, dated May 26, 2020. Filed May 28, 2020 on Form 8-K, Exhibit 4.2.</u>	8-K	4.2	May 28, 2020	001-14649

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
4.13	<u>Note dated November 5, 2019 payable by the Company to Bank of America, N.A. in the amount of the lesser of \$125,000,000 or the outstanding revolver advances made by Bank of America, N.A. Filed as exhibit 4.2 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.2	November 6, 2019	001-14649
4.14	<u>Note dated November 5, 2019 payable by the Company to Wells Fargo Bank, N.A. in the amount of the lesser of \$70,000,000 or the outstanding revolver advances made by Wells Fargo Bank, N.A. Filed as exhibit 4.3 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.3	November 6, 2019	001-14649
4.15	<u>Note dated November 5, 2019 payable by the Company to SunTrust Bank in the amount of the lesser of \$30,000,000 or the outstanding revolver advances made by SunTrust Bank. Filed as exhibit 4.4 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.4	November 6, 2019	001-14649
4.16	<u>Note dated November 5, 2019 payable by the Company to Branch Banking and Trust Company in the amount of the lesser of \$25,000,000 or the outstanding revolver advances made by Branch Banking and Trust Company. Filed as exhibit 4.5 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.5	November 6, 2019	001-14649
4.17	<u>Note dated May 26, 2020 payable by the Company to Regions Bank. Filed May 28, 2020 on form 8-K, Exhibit 4.6.</u>	8-K	4.6	May 28, 2020	001-14649
4.18	<u>Fourth Amended and Restated Security and Pledge Agreement dated as of November 5, 2019 between the Company, as debtor, Trex Commercial Products, Inc., as additional obligor; and Bank of America, N.A. as Administrative Agent (including Notices of Grant of Security Interest in Copyrights and Trademarks). Filed as exhibit 4.6 to the Company's Current Report on Form 8-K filed on November 6, 2019 and incorporated herein by reference.</u>	8-K	4.6	November 6, 2019	001-14649
4.19*	<u>Description of Securities registered pursuant to Section 12 of the Securities Exchange Act of 1934. Filed herewith.</u>				

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
10.1**	Description of Management Compensatory Plans and Arrangements.	10-K	10.1	February 14, 2019	001-14649
10.2**	Trex Company, Inc. Amended and Restated 2014 Stock Incentive Plan. Filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2020 and incorporated herein by reference.	10-Q	10.4	November 2, 2020	001-14649
10.3* / **	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors as amended on February 21, 2020.				
10.4**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Stock Appreciation Rights Agreement. Filed as Exhibit 10.1 on Form 10-Q filed on July 29, 2019 and incorporated herein by reference.	10-Q	10.1	July 29, 2019	001-14649
10.5**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Time-Based Restricted Stock Unit Agreement. Filed as Exhibit 10.2 on Form 10-Q filed July 29, 2019 and incorporated herein by reference.	10-Q	10.2	July 29, 2019	001-14649
10.6**	Form of Trex Company, Inc. 2014 Stock Incentive Plan Performance-Based Restricted Stock Unit Agreement. Filed as Exhibit 10.3 on Form 10-Q filed July 29, 2019 and incorporated herein by reference.**	10-Q	10.3	July 29, 2019	001-14649
10.7**	Form of Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors Restricted Stock Unit Agreement. Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 and incorporated herein by reference.**	10-Q	10.2	August 3, 2015	001-14649
10.8**	Change in Control Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline filed as exhibit 10.1 on Form 8-K on May 8, 2015 and incorporated herein by reference.	8-K	10.1	May 8, 2015	001-14649
10.9**	Change in Control Severance Agreement dated February 21, 2020 by and between Trex Company, Inc. and Bryan H. Fairbanks.**	8-K	10.2	February 25, 2020	001-14649
10.10**	Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline filed as Exhibit 10.2 to Form 8-K filed May 8, 2015.	8-K	10.2	May 8, 2015	001-14649

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Exhibit</u>	<u>Incorporated by reference</u>	
				<u>Filing Date</u>	<u>File No.</u>
10.11**	<u>Amended and Restated Severance Agreement dated February 21, 2020 by and between Trex Company, Inc. and Bryan H. Fairbanks.**</u>	8-K	10.3	February 25, 2020	001-14649
10.12**	<u>Form of Change in Control Severance Agreement between Trex Company, Inc. and Officers other than the Chief Executive Officer. Filed as exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.**</u>	10-K	10.16	February 21, 2017	001-14649
10.13**	<u>Form of Severance Agreement between Trex Company, Inc. and Officers other than the Chief Executive Officer. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 and incorporated herein by reference.**</u>	10-Q	10.1	May 8, 2015	001-14649
10.14**	<u>Form of Retention Agreement for Company Officers dated May 2, 2018. Filed as Exhibit 10.2 to the Company's Quarterly report on Form 10-Q for the quarterly period ended March 31, 2018 and incorporated herein by reference.**</u>	10-Q	10.2	May 7, 2018	001-14649
10.15	<u>Form of Indemnity Agreement for Directors. Filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.</u>	10-K	10.19	March 12, 2009	001-14649
10.16	<u>Form of Indemnity Agreement for Officers. Filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.</u>	10-K	10.20	March 12, 2009	001-14649
10.17	<u>Form of Indemnity Agreement for Director/Officers. Filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.</u>	10-K	10.21	March 12, 2009	001.14649
10.18	<u>Form of Distributor Agreement of Trex Company, Inc. Filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.</u>	10-K	10.23	March 12, 2009	001-14649
10.19	<u>Form of Trex Company, Inc. Fencing Agreement for Installers/Retailers. Filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 and incorporated herein by reference.</u>	10-Q	10.4	November 9, 2006	001-14649

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>		
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>
21*	Subsidiaries of the Company. Filed herewith.			
23*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. Filed herewith.			
31.1*	Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.			
31.2*	Certification of Chief Financial Officer of the Company 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. § 1350). Furnished herewith.			
101.INS*	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH*	Inline XBRL Taxonomy Extension Schema Document. Filed.			
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document. Filed.			
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document. Filed.			
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document. Filed.			
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document. Filed.			
104.1	Cover Page Interactive Data File—The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.			

* Filed herewith.

** Management contract or compensatory plan or agreement.

*** Furnished herewith.

**DESCRIPTION OF SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Trex Company, Inc. has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”): (1) our Common Stock; (2) our Preferred Stock.

Description of Common Stock

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Articles of Incorporation (the “Articles of Incorporation”) and our Amended and Restated Bylaws (the “Bylaws”), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.16 is a part. We encourage you to read our Articles of Incorporation, our Bylaws for additional information.

Authorized Capital Shares

Our authorized capital shares consist of 180,000,000 shares of common stock, \$0.01 par value per share (“Common Stock”), and 3,000,000 shares of series preferred stock, \$0.01 par value per preferred share (“Preferred Stock”). The outstanding shares of our Common Stock are fully paid and nonassessable.

Voting Rights

Holders of Common Stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors. Our Common Stock does not have cumulative voting rights.

Dividend Rights

Subject to the rights of holders of outstanding shares of Preferred Stock, if any, the holders of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors in its discretion out of funds legally available for the payment of dividends.

Liquidation Rights

Subject to any preferential rights of outstanding shares of Preferred Stock, holders of Common Stock will share ratably in all assets legally available for distribution to our stockholders in the event of dissolution.

Other Rights and Preferences

Our Common Stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights. Holders of Common Stock may act by unanimous written consent.

Listing

The Common Stock is traded on the New York Stock Exchange under the trading symbol “TREX.”

DESCRIPTION OF PREFERRED STOCK

The Board of Directors is authorized without further stockholder action to provide for the issuance from time to time of up to 3,000,000 shares of Preferred Stock in one or more series with such powers, designations, preferences and relative, participating, optional or other rights, qualifications, limitations or restrictions as will be set forth in the

resolutions providing for the issuance of such series adopted by the Board of Directors. The holders of Preferred Stock have no preemptive rights (unless otherwise provided in the applicable certificate of designation) and are not subject to future assessments by the Company. Such Preferred Stock may have voting or other rights which could adversely affect the rights of holders of the Common Stock.

TREX COMPANY, INC.

**AMENDED AND RESTATED
1999 INCENTIVE PLAN FOR OUTSIDE DIRECTORS**

TABLE OF CONTENTS

	<u>Page</u>
1. DEFINITIONS	1
2. PURPOSE	2
3. SHARES SUBJECT TO THE PLAN	2
4. ANNUAL DIRECTOR AND COMMITTEE FEES	2
4.1 Annual Director Fee	2
4.3 Election	3
4.4 Proration	3
5. GRANT DATE	4
6. ELECTION TO RECEIVE ADDITIONAL EQUITY	4
6.1 Election Form	4
6.2 Time for Filing Election Form	4
7. ADMINISTRATION	4
7.1 Committee	4
7.2 Rules for Administration	4
7.3 Committee Action	4
7.4 Delegation	5
7.5 Services	5
7.6 Indemnification	5
8. AMENDMENT AND TERMINATION	5
9. GENERAL PROVISIONS	5
9.1 Limitation of Rights	5
9.2 No Rights as Stockholders	5
9.3 Rights as a Non-Employee Director	5
9.4 Assignment, Pledge or Encumbrance	5
9.5 Binding Provisions	5
9.6 Notices	5
9.7 Governing Law	6
9.8 Withholding	6
9.9 Effective Date	6

1. DEFINITIONS

To the extent any capitalized words used in this Plan are not defined, they shall have the definitions stated for them in the Trex Company, Inc. 2014 Stock Incentive Plan.

- 1.1 "Annual Director Fee" means an annual fee earned by an Eligible Director for service on the Board of Directors.
- 1.2 "Annual Committee Fee" means an annual fee earned by an Eligible Director for service on various committees of the Board of Directors.
- 1.3 "Board of Directors" or "Board" means the Board of Directors of the Company.
- 1.4 "Cash Portion of the Annual Director Fee" means the portion of the Annual Director Fee to be received in cash, or if elected by the Eligible Director, in Equity, as provided in Sections 4.3 and 6 hereof.
- 1.5 "Committee" means the Nominating/Corporate Governance Committee which administers the Plan.
- 1.6 "Common Stock" means the common stock, par value \$0.01 per share, of the Company.
- 1.7 "Company" means Trex Company, Inc., a Delaware corporation, or any successor thereto.
- 1.8 "Election Form" means the form used by an Eligible Director to elect to receive all or a portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee for a Plan Year in the form of Equity.
- 1.9 "Eligible Director" for each Plan Year means a member of the Board of Directors who is not an employee of the Company or any Subsidiary.
- 1.10 "Equity" means Options, Restricted Stock, Restricted Stock Units or SARs, or any combination thereof, as designated by the Committee from time to time, as provided in Section 4.6.
- 1.11 "Equity Portion of the Annual Director Fee" means the portion of the Annual Director Fee to be received in Equity, as provided in Section 4.1.2 hereof.
- 1.12 "Fair Market Value" means the closing price of a share of Common Stock reported on the New York Stock Exchange (the "NYSE") on the date Fair Market Value is being determined, provided that if there is no closing price reported on such date, the Fair Market Value of a share of Common Stock on such date shall be deemed equal to the closing price as reported by the NYSE for the last preceding date on which sales of shares of Common Stock were reported. Notwithstanding the foregoing, in the event that the shares of Common Stock are listed upon more than one established stock exchange, "Fair Market Value" means the closing price of the shares of Common Stock reported on the exchange that trades the largest volume of shares of Common Stock on the date Fair Market Value is being determined. If the Common Stock is not at the time listed or admitted to trading on a stock exchange, Fair Market Value means the mean between the lowest reported bid price and highest reported asked price of the Common Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Board and regularly reporting the market price of Common Stock in such market. If the Common Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, Fair Market Value shall be as determined in good faith by the Board.
- 1.13 "Grant Date" has the meaning set forth in Section 5 hereof.
- 1.14 "Option" means a non-qualified Option granted pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan as may be amended from time to time.
- 1.15 "Option Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the Option.
- 1.16 "Option Price" means the purchase price for each share of Common Stock subject to an Option.
- 1.17 "Participant" for any Plan Year means an Eligible Director who participates in the Plan for that Plan Year in accordance with Section 6.1 hereof.

- 1.18 "Plan" means the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors as set forth herein and as amended from time to time.
- 1.19 "Plan Year" means the twelve-month period beginning on July 1 and ending on June 30.
- 1.20 "Restricted Stock" means shares of Common Stock, issued pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan as may be amended from time to time.
- 1.21 "Restricted Stock Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the Restricted Stock.
- 1.22 "Restricted Stock Unit" means restricted stock units issued pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan as may be amended from time to time.
- 1.23 "Restricted Stock Unit Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the Restricted Stock Unit.
- 1.24 "SAR Agreement" means the written agreement between the Company and the Participant that evidences and sets out the terms and conditions of the SARs.
- 1.25 "Stock Appreciation Right" or "SAR" means a right granted pursuant to, and in accordance with the terms of, the Trex Company, Inc. 2014 Stock Incentive Plan to receive, upon exercise thereof, the excess of (x) the Fair Market Value of one share of Common Stock on the date of exercise over (y) the grant price of the SAR, determined pursuant to Section 4.6.2 hereof.
- 1.26 "SAR Price" means the grant price of the SAR.
- 1.27 "Subsidiary" means any "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended.

2. PURPOSE

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

3. SHARES SUBJECT TO THE PLAN

The shares of Common Stock issuable under the Plan shall be issued pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan.

4. ANNUAL DIRECTOR AND COMMITTEE FEES

4.1 Annual Director Fee

Each Eligible Director shall be entitled to an Annual Director Fee, which may be adjusted by the Board from time to time, as follows:

4.1.1 Cash Portion of the Annual Director Fee. Each Eligible Director shall receive the amount of seventy three thousand seven hundred and fifty dollars (\$73,750) (the "Cash Portion of the Annual Director Fee"). The Cash Portion of the Annual Director Fee (after reduction pursuant to Section 4.3 hereof, if any) shall be paid to an Eligible Director in four equal quarterly installments in arrears on the first business day following the end of each quarter of the Plan Year in which the Eligible Director provided services to the Company. Notwithstanding the foregoing, (a) any Eligible Director who serves as Chairman of the Board shall receive the amount of eighty five thousand dollars (\$85,000) in addition to the \$73,750 payment referred to above, (b) any Eligible Director who serves as Vice Chairman of the Board shall receive the amount of fifty five thousand dollars (\$55,000) in addition to the \$73,750 payment referred to above, and (c) any Eligible Director that serves as Lead Independent Director shall receive the amount of twenty five thousand dollars (\$25,000) in addition to the \$73,750 payment referred to above, with all other provisions of this subsection being applicable to such Eligible Director(s).

4.1.2 Equity Portion of the Annual Director Fee. Each Eligible Director shall receive Equity valued at one hundred and ten thousand dollars (\$110,000) (the "Equity Portion of the Annual Director Fee"). The Equity Portion of the Annual Director Fee shall be paid in arrears as provided in Section 5 below.

4.2 Annual Committee Fee

Each Eligible Director shall be entitled to an Annual Committee Fee, which may be adjusted by the Board from time to time, for each Committee they serve on, in the amount of ten thousand dollars (\$10,000) for a Committee member (other than the Chairman) and twenty thousand dollars (\$20,000) for a Committee Chairman. The Annual Committee Fee shall be paid to an Eligible Director in four equal quarterly installments in arrears on the first business day following each quarter of the Plan Year in which the Eligible Director served on the applicable committee(s).

4.3 Election

Pursuant to Section 6 hereof, an Eligible Director may elect to receive all or a portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee in the form of Equity.

4.4 Proration

The Cash Portion of the Annual Director Fee, the Equity Portion of the Annual Director Fee and the Annual Committee Fee shall be prorated for any partial periods served.

4.5 Initial Grant upon Election to Board

Upon initial election to the Board (but not subsequent re-elections), each Eligible Director shall receive Equity valued at fifty five thousand dollars (\$55,000).

4.6 Equity

4.6.1 Form of Equity. Whenever Equity is to be granted to Eligible Directors hereunder, the Committee shall, prior to such grant, determine whether such Equity shall be in the form of Options, Restricted Stock, Restricted Stock Units or SARs, or any combination thereof.

4.6.2 Options and SARs. If Options or SARs are granted, the number of Options or SARs granted shall be determined by dividing the dollar amount of the grant by the value of each Option or SAR on the Grant Date as determined pursuant to the methodology then in use by the Company's Finance Department to value Options and SARs granted pursuant to the Trex Company, Inc. 2014 Stock Incentive Plan. The Option Price or SAR Price of Common Stock covered by each SAR or Option, as the case may be, granted under the Plan shall be the Fair Market Value of such Common Stock on the Grant Date. Each Option or SAR, as the case may be, granted hereunder shall be exercisable in respect of 100 percent (100%) of the number of shares covered by the grant on the date of the grant of such Option or SAR. Any limitation on the exercise of an Option or SAR contained in any Option or SAR Agreement may be rescinded, modified or waived by the Committee, in its sole discretion, at any time and from time to time after the date of grant of such Option or SAR. The Option or SAR, as the case may be, shall be exercisable, in whole or in part, at any time and from time to time, prior to the termination of the Option or SAR; provided, that no single exercise of the Option or SAR shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option or SAR. Each Option or SAR, as the case may be, granted under the Plan shall terminate, and all rights to purchase shares of Common Stock thereunder shall cease, upon the expiration of ten years (eleven years if the service of the Participant as a director of the Company shall terminate due to death in the tenth year of the Option or SAR term) from the date such Option or SAR is granted. Except as otherwise provided in the Option or SAR Agreement, upon the termination of service (a "Service Termination") of the Participant as a director of the Company for any reason, the Participant shall have the right, at any time within five years after the date of such Participant's Service Termination and prior to termination of the Option or SAR, to exercise any Option or SAR held by such Participant at the date of such Participant's Service Termination. After the termination of the Option or SAR, the Participant shall have no further right to purchase shares of Common Stock pursuant to such Option or SAR.

4.6.3 Restricted Stock and Restricted Stock Units. If Restricted Stock or Restricted Stock Units are granted, the number of shares of Restricted Stock or Restricted Stock Units shall be determined by dividing the dollar amount of the grant by the Fair Market Value of a share of Common Stock on the Grant Date. Except as otherwise provided in the Restricted Stock Agreement or Restricted Stock Unit Agreement, each share of Restricted Stock or each Restricted Stock Unit will vest on the first anniversary of the grant, provided that such Restricted Stock or Restricted Stock Unit has not been forfeited, as provided below. Except as otherwise provided in the Restricted Stock Agreement or Restricted Stock Unit Agreement, (a) in the event of a Service Termination of a Participant due to death, “permanent and total disability” (within the meaning of Section 22(e)(3) of the Code), or retirement, any unvested Restricted Stock or Restricted Stock Units held by such Participant shall immediately vest, and (b) in the event of a Service Termination for any other reason, any unvested Restricted Stock or Restricted Stock Unit held by such Participant shall immediately be deemed forfeited.

5. GRANT DATE

The date of grant for the Equity Portion of the Annual Director Fee shall be the date of the first regularly scheduled Board of Directors’ Meeting following the end of each Plan Year in which the Eligible Director provided services to the Company, and the date of grant for Equity issued in lieu of the Cash Portion of the Annual Director Fee and the Annual Committee Fee, as provided in Section 8 hereof, shall be the date such Fees would otherwise be due (each of such dates being referred to as the “Grant Date”).

6. ELECTION TO RECEIVE ADDITIONAL EQUITY

6.1 Election Form

A Participant who wishes to receive all or any portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee in the form of Equity shall file an Election Form with the Company, in the form and manner prescribed by the Committee. Filing of a completed Election Form will authorize the Company to issue Equity to the Participant in lieu of all or any portion of the Cash Portion of the Annual Director Fee and the Annual Committee Fee, in accordance with the Participant’s instructions on the Election Form.

6.2 Time for Filing Election Form

An Election Form shall be completed and filed by each newly elected Eligible Director within thirty (30) days after the Participant’s election to the Board, and elections under the Plan made by a newly elected Eligible Director shall apply to the Participant’s Annual Director Fee and Annual Committee Fee for the remainder of the Plan Year and subsequent Plan Years unless and until a new Election Form is submitted by an Eligible Director to the Corporate Secretary. Notwithstanding the foregoing, a new Election Form may be submitted by each Eligible Director no more than once each Plan Year, and any new election shall not be effective until the start of the next calendar year.

7. ADMINISTRATION

7.1 Committee

The general administration of the Plan and the responsibility for carrying out its provisions shall be placed in the Nominating/Corporate Governance Committee.

7.2 Rules for Administration

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

7.3 Committee Action

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

7.4 Delegation

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

7.5 Services

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

7.6 Indemnification

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

8. AMENDMENT AND TERMINATION

The Company, by action of the Board of Directors or the Committee, may at any time or from time to time modify or amend any or all of the provisions of the Plan, or may at any time terminate the Plan. No such action shall adversely affect the accrued rights of any Participant hereunder without the Participant's consent thereto.

9. GENERAL PROVISIONS

9.1 Limitation of Rights

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

9.2 No Rights as Stockholders

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

9.3 Rights as a Non-Employee Director

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

9.4 Assignment, Pledge or Encumbrance

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

9.5 Binding Provisions

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

9.6 Notices

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

9.7 Governing Law

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

9.8 Withholding

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

9.9 Effective Date

This Plan shall be effective as of March 12, 1999. The Plan was amended and restated effective May 14, 2002, October 24, 2003, July 27, 2004, February 10, 2005, July 21, 2005, February 8, 2006, July 20, 2006 and November 12, 2007. The Plan was amended on May 5, 2010, July 20, 2010, July 24, 2012, April 30, 2014, February 18, 2015, July 27, 2015, October 21, 2015, October 24, 2018, February 21, 2020 and February 17, 2021.

Subsidiaries of Trex Company, Inc.

<u>Name of the Subsidiary</u>	<u>Jurisdiction of Formation</u>
Trex Commercial Products, Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

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

- Registration Statements (Form S-8, No. 333-76847, 333-83998, 333-124685, and 333-150690) pertaining to the amended and restated 1999 Stock Option and Incentive Plan (now 2005 Stock Incentive Plan) of Trex Company, Inc., and
- Registration Statement (Form S-3, No. 333-161732) of Trex Company, Inc.;

of our reports dated February 22, 2021, with respect to the consolidated financial statements and schedule of Trex Company, Inc. and the effectiveness of internal control over financial reporting of Trex Company, Inc. included in this Annual Report (Form 10-K) of Trex Company, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Richmond, Virginia

February 22, 2021

CERTIFICATION

I, Bryan H. Fairbanks, certify that:

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

Date: February 22, 2021

/s/ BRYAN H. FAIRBANKS

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

CERTIFICATION

I, Dennis C. Schemm, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 22, 2021

/s/ DENNIS C. SCHEMM

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

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

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

(a) the Annual Report on Form 10-K of the Company for the Period Ended December 31, 2020 filed on the date hereof with the U. S. Securities and Exchange Commission (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: February 22, 2021

/s/ BRYAN H. FAIRBANKS

**Bryan H. Fairbanks
President and Chief Executive Officer**

Date: February 22, 2021

/s/ DENNIS C. SCHEMM

**Dennis C. Schemm
Senior Vice President and Chief Financial Officer**