2017 ANNUAL REPORT

Australia

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decking: Transcend® in Island Mist

March 22, 2018

Dear Fellow Shareholders:

Highlights from 2017

This was the fifth consecutive year of record results for Trex Company. Over the last five years, our net sales have grown at an average annual rate of 13%, and our fully diluted earnings per share, excluding 2012 non-recurring charges related to warranty and certain SG&A charges, has grown at an average annual rate of 33%. This positive momentum underscores the strength of the Trex® brand which is driving our market growth – both in composite decking and railing and within the broader outdoor living category.

In 2017, total sales increased 18%, reaching $565 million, of which 13% represented growth within our legacy business, Trex Residential Products. The remaining 5% growth reflects the results of our 2017 acquisition of SC Company. We were able to expand our gross profit margin by 410 basis points through continued manufacturing cost savings, lower input costs and higher capacity utilization. As a result, Trex delivered $3.22 of diluted earnings per share in 2017, a 41% increase over 2016, which considerably outpaced sales growth.

Launch of Trex Commercial Products

In July 2017, we entered the growing commercial and multi-family markets with our acquisition of SC Company, a leading manufacturer and supplier of custom architectural railings and staging solutions, which we re-branded as Trex Commercial Products. This transaction is emblematic of the acquisition strategy that we have developed to complement Trex's substantial organic growth. We are now able to compete in the growing commercial and multi-family markets with the leading designs in glass, cable and mesh railings.

Additionally, this acquisition provides our traditional business, Trex Residential Products, with specialized engineering capabilities that enable us to significantly improve the time it takes to bring new railing products to market. Homeowners increasingly recognize the role of railings, not only as a functional frame for their space, but also as a visually prominent design element. We see proof of that in the market as over two thirds of the decks sold in the United States today are fitted with railings. Our contractors are seeing more homeowners inspired by outdoor spaces they find in commercial settings, such as hotels and urban rooftops, and wanting to replicate those looks in their homes. A prime example of this commercial-to-residential trend is the growing popularity of horizontal railings such as rod rail, a new product that we presented at the International Builders Show in 2018, which combines a view-enhancing design with a trendy industrial style. The rod rail offering represents our first launch in a multi-product line that is in development at Trex.

Growth Strategies

Our future plans include further investments in building the Trex brand, research and development, new and innovative decking and railing products, introduction of new manufacturing technologies, driving further operational improvements and continued focus on the use of low cost recycled raw material streams.

Gaining market share from wood will be a key driver of organic growth. We have grown over the last five years at a rate greater than the average market and we expect to continue to expand our share within composites and against wood as we go forward. Based on market research by Principia Partners, the composite segment of the decking industry is predicted to grow at a faster rate than traditional wood. Trex is well positioned to take advantage of this shift away from wood.

Related to manufacturing improvements, we completed testing of the first phase of numerous improvements to our decking lines that will provide a step-change in the manufacturing process and will significantly improve our line throughput. In the first quarter of 2018, we began to implement production line enhancements and we expect to complete this phase by the end of the year. This retrofit not only provides a material expansion to our decking capacity, but also drives cost savings beginning in the second half of 2018. This is the type of high-return, high-impact initiative that our operations and research and development teams are focused on to propel our business forward.

Capital Allocation

Trex has generated $208 million of free cash flow over the last five years. Cash flow is expected to further expand with our growth and due to the recently enacted corporate tax rate reductions. Our capital allocation priorities, however, are unchanged: First — investments in internal growth opportunities, second — acquisitions which fit our long term products growth strategy, as we continue to evaluate opportunities that would be a good strategic fit for Trex, and third — return of capital to shareholders. As for the latter, our Board of Directors recently approved a new share buyback program under which the Company may repurchase up to 2.9 million shares of the Company's outstanding common stock.

In summary, Trex continues to lead the outdoor living market with our global brand. The combination of Trex Residential Products and Trex Commercial Products creates a powerhouse with a market leading product line-up that provides extensive design flexibility for the residential and commercial consumer. Looking ahead to 2018, our goals are to drive Trex Residential Products growth through conversion from the wood market, new product introductions, and expanding share within composites, as well as to expand Trex Commercial Products sales while continuing to expand margins.

Sincerely,

James E. Cline
President and Chief Executive Officer

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, 2017

☐ **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)**	**54-1910453** **(I.R.S. Employer Identification No.)**
160 Exeter Drive, Winchester, Virginia **(Address of principal executive offices)**	**22603-8605** **(Zip Code)**

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

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

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $0.01 per share	**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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posed pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting Company)	Smaller reporting company ☐
	Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell Company (as defined 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, 2017, which was the last business day of the registrant's most recently completed second fiscal quarter, was approximately $2.0 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 February 6, 2018 was 29,428,555.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Part of 10-K into which incorporated
Proxy Statement relating to Registrant's 2018 Annual Meeting of Stockholders	Part III

TABLE OF CONTENTS

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.

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 wood-alternative decking and railing products, which are marketed under the brand name Trex® and manufactured in the United States, and a leading national provider of custom-engineered railing systems and one of the leading suppliers of staging equipment. 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: Trex Company, Inc. currently operates in two reportable segments: Trex Residential Products and Trex Commercial Products.

Trex Residential Products is the world's largest manufacturer of high-performance 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, trim, steel deck framing, and outdoor lighting categories. A majority of the products are eco-friendly and made in a proprietary process that combines reclaimed wood fibers and recycled polyethylene film. Trex Residential products are sold to distributors and two national retailers who, in turn, sell primarily to the residential market.

Trex offers the following Trex Residential products:

Decking	Our principal decking products are Trex Transcend®, Trex Enhance® and Trex Select®. Our decking products are comprised of a blend of 95 percent recycled wood and recycled plastic film and feature a protective polymer shell for enhanced protection against fading, staining, mold and scratching. We also offer Trex Hideaway®, a hidden fastening system for grooved boards.
Railing	Our railing products are Trex Transcend Railing, Trex Select Railing, and Trex Signature™ aluminum railing. Trex Transcend Railing is available in the colors of Trex Transcend decking and finishes that make it appropriate for use with Trex decking products as well as other decking materials, which we believe enhances the sales prospects of our railing products. Trex Select Railing is ideal for consumers who desire a simple clean finished look for their deck. Trex Signature™ aluminum railing is available in three colors and designed for consumers who want a sleek, contemporary look.
Fencing	Our Trex Seclusions® fencing product is offered through two specialty distributors. This product consists of structural posts, bottom rail, pickets, top rail and decorative post caps.
Steel Deck Framing	Our triple-coated steel deck framing system called Trex Elevations® leverages the strength and dimensional stability of steel to create a flat surface for our decking. Trex Elevations provides consistency and reliability that wood does not and is fire resistant.
Outdoor Lighting	Our outdoor lighting systems are Trex DeckLighting™ and Trex LandscapeLighting™. Trex DeckLighting is a line of energy-efficient LED dimmable deck lighting, which is designed for use on posts, floors and steps. The line includes a post cap light, deck rail light, riser light and a recessed deck light. The Trex LandscapeLighting line includes an energy-efficient well light, path light, multifunction light and spotlight.

Trex 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. Trex decking products do not have the tensile strength of wood and, as a result, are not used as primary structural members in posts, beams or columns used in a deck's substructure. However, Trex does offer the Trex Elevations steel deck framing system.

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.

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:

Trex Outdoor Furniture™	A line of outdoor furniture products manufactured and sold by PolyWood, Inc.
Trex RainEscape®	An above joist deck drainage system manufactured and sold by DriDeck Enterprises, LLC.
Trex CustomCurve®	A system manufactured and sold by Curvelt, LLC that allows contractors to heat and bend Trex Products while on the job site.
Trex Pergola™	Pergolas made from low maintenance cellular PVC product, manufactured by Home & Leisure, Inc. dba Structureworks Fabrication.
Trex Latticeworks™	Outdoor lattice boards manufactured and sold by Rhea Products, Inc. dba Acurio Latticeworks.
Trex Cornhole™ Boards	Cornhole boards manufactured and sold by IPC Global Marketing LLC.
Diablo® Trex Blade	A specialty saw blade for wood-plastic composite decking manufactured and sold by Freud America, Inc.
Trex SpiralStairs™ and Structural Steel Posts	An ultimate 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.
Trex Outdoor Kitchens, Cabinetry and Storage™	Outdoor kitchens, cabinetry and storage manufactured and sold by NatureKast Products, LLC.

Trex Commercial Products is a leading national provider of custom-engineered railing systems and one of the leading suppliers of staging equipment. Trex Commercial Products 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 markets. With a team of devoted engineers, and industry-leading reputation for quality and dedication to customer service, Trex Commercial Products are sold through architects, specifiers, and contractors.

Trex offers the following Trex Commercial products:

Architectural Railing Systems	Our architectural railing systems are pre-engineered guardrails with options to accommodate styles ranging from classic and elegant wood top rail combined with sleek stainless components and glass infill, to modern and minimalist stainless cable and rod infill choices.
Aluminum Railing Systems	Our aluminum railings 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. They are often used in sports stadiums and arenas, office buildings, and high-rise condominium and resort projects and offer safety and durability to stairs, public walkways and balconies. They are available in picket or glass infills with a selection of top cap styles, color finishes and mounting capabilities.
Custom Railing Options	Trex Commercial can design, engineer and manufacture custom railing systems tailored to the customer's specific material, style and finish. Many railing styles are achievable, including glass, mesh, perforated railing and cable railing.
Portable Stage Platforms	Our advanced modular, lightweight custom staging systems include portable platforms, 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 equipment requires no tools, making it easy and efficient for set-up and take-down, and our staging products are designed to withstand the harshest of weather conditions. Our modular stages are designed to appear seamless, feel permanent, and maximize the functionality of the space.

Customers and Distribution

Trex Residential Products: Wholesale Distributors/Retail Lumber Dealers. We generate most of our sales for our wood-alternative decking and railing products through our wholesale distribution network by selling Trex 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 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 are able to 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 on a non-exclusive basis to distribute Trex products within a specified area. The distributor purchases our products at prices in effect at the time we ship the product to the distributor. Sales to two of our distributors, Boise Cascade Company and U.S. Lumber Group, LLC, each exceeded 10% of gross sales in 2017.

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.

Trex Commercial Products: We sell our modular and architectural railing systems and solutions for the commercial and multifamily markets and our staging, acoustical and seating systems for 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.

Manufacturing Process

Products manufactured at our Winchester, Virginia and Fernley, Nevada manufacturing facilities 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 manufacturing process. Products manufactured at our Minnesota manufacturing facility 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 projects that are important to our success.

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

The Company's purchasing department is responsible for ensuring that purchases are made from sources that operate with ethical and responsible business practices. 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 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, 2017, we purchased substantially all of our reclaimed wood fiber requirements under purchase orders, which do not involve long-term supply commitments. All of our polyethylene purchases are under short-term 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 each year. 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 staging and railing 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.

Research and Development and Training

We maintain research and development operations in the Trex Technical Center in Winchester, Virginia and at our Minnesota location. Our research and development efforts focus on innovation and developing new products, lowering the cost of manufacturing our existing products and redesigning existing product lines to increase efficiency and enhance performance. For the years ended December 31, 2017, 2016 and 2015, research and development costs were $3.8 million, $3.7 million, and $1.5 million, respectively, and have been included in "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Comprehensive Income.

During 2016, we launched Trex University, our state-of-the-art training facility located near our Winchester manufacturing plant. Trex University is designed to educate and train retailers, contractors and other partners on the benefits of Trex aesthetically pleasing, high performance and low maintenance outdoor living products.

Growth Strategies

Our long-term goal is to perpetuate our position as the leading producer of branded superior wood-alternative outdoor living products by increasing our market share and expanding into new product categories and geographic markets through the design, creation and marketing of high-performance outdoor living products that offer superior aesthetics and quality. Also, we will explore opportunities that leverage our manufacturing and extrusion expertise and are tied to our recycling heritage. To attain these goals, we intend to employ the following long-term strategies:

- *Innovation*: Bring to the market 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.
- *Brand*: Expand preference and commitment for the Trex brand with both the consumer and trade professional. Deliver on the brand's promise of superior quality, functionality, pleasing aesthetics and overall performance in outdoor living products. Leverage online efforts to extend the Trex brand digital 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, thereby making our products available wherever our customers choose to purchase their decking, railing, steel deck framing and outdoor lighting products.
- *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 products. Investments in plastic recycling capabilities will allow us to expand our ability to use a wider breadth of waste materials thereby lowering our raw material costs. We plan to

continue to achieve significant improvements in manufacturing productivity by reducing waste and improving our production process, from raw materials preparation through extrusion into finishing and packaging.

- *Customer Service*: Through our commitment to superior customer service, continually deliver consistently outstanding, personalized service to all of our customers and prospects in all target segments.

Competition

Our primary competition for our wood-alternative decking and residential railing products consists of wood products, which constitutes 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 many 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 Advanced Environmental Recycling Technologies, Inc., The Azek Company, and Fiberon, LLC.

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.

Our primary competition for our staging and railing products in the commercial and multi-family markets consists of companies that provide components to assemble guard rails, including C.R. Laurence Co., Inc., a CRH Group company, regional railing and metal fabrication, and Wenger Corporation. Our ability to compete depends on our product design advantages, relationships with architects and general contractors, and competitive manufacturing costs.

Seasonality

Our operating results have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for our products to a later period. As part of our normal business practice and consistent with industry practice, we have historically offered incentive programs to our distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of our product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs.

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, Minnesota and South Carolina. 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.

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 Application for decking technology and five U.S. Patents, as well as two pending U.S. Patent Applications, 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.

Employees and Corporate Governance

At December 31, 2017, we had approximately 1,120 full-time employees, approximately 815 of whom were employed in our manufacturing operations. Our employees are not covered by collective bargaining agreements. We believe that our relationships with our employees are favorable. The Company has internal standards related to hiring practices that encourage diversity, formal programs to provide skill development for our employees, and anti-discrimination standards. The Company has not had any serious complaints or claims over the last three years.

Information related to the Company's governance and related activities and programs may be found in the Company's Proxy Statement filed on March 23, 2017 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. 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-blowing 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 recycled materials, the Company is able to improve its use of resources, its greenhouse gas emissions, and its waste streams. 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 Chief Financial Officer, the Vice President Operations, and the General Counsel.

Trex's eco-friendly composite decking products consist of a blend of 95 percent recycled wood and recycled plastic film. Trex uses locally sourced reclaimed wood that would otherwise end up in a landfill. An average 500-square foot composite Trex deck contains 140,000 recycled plastic bags, which makes Trex one of the largest plastic bag recyclers in the U.S. In addition, Trex's proprietary, eco-friendly processing method eliminates the use of smoke stacks 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's goal to provide eco-friendly products for the architectural railing market and promote an effort for design innovation that decreases the environmental footprint.

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. We ensure that all of our 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 2016, Trex was honored as Environmental Vendor of the Year by The Home Depot. For the past 10 years Trex has won awards in the *BUILDER trade magazine's* Brand Use Study across numerous award categories. For the past 5 years, Trex has been an award recipient in the Green Builder trade magazine across numerous categories.

Our 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.

Occupational Safety

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;
- 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, each manufacturing operation has an Employee Health and Safety Manager who is a Certified Occupational Safety Specialist and Certified Occupational Safety Manager.

In addition, 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*. 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.

Item A. Risk Factors

Our business is subject to a number of risks, including the following:

We may not be able to grow unless we increase market acceptance of our products, compete effectively and develop new products and applications.

Our primary competition consists of wood products, which constitute a substantial majority of decking, railing, fencing, and deck framing sales. Since wood-alternative products were introduced to the market in the late 1980s, their market acceptance has increased. Our ability to grow will depend, in part, on our success in continuing to convert demand for wood products into demand for wood-alternative Trex products. To increase our market share, we must overcome:

- lack of awareness of the enhanced value of wood-alternative products in general and Trex brand products in particular;
- resistance of many consumers and contractors to change from well-established wood products;
- consumer lack of awareness that the greater initial expense of Trex products compared to wood is a one-time cost that is reduced over time as Trex 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 wood-alternative products; and
- competition from other wood-alternative manufacturers.

Our failure to compete successfully in such markets could have a material adverse effect on our ability to replace wood or increase our market share amongst wood-alternatives. Many of the conventional lumber suppliers with which we compete have established ties to the building and construction industry and have well-accepted products. 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.

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.

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.

In order to expand our net sales and sustain profitable operations we must maintain the quality and performance of our products. 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. We continue to receive and settle claims and maintain a warranty reserve related to residential 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 lessens our exposure to provide replacement product and 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. Future increases to the warranty reserve could have a material adverse effect on our profitability and cash flows.

A number of class action lawsuits alleging defects in our products have been brought against us, all of which have been settled. In the event future lawsuits relating to alleged product quality issues are brought against us, 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.

Our business is subject to risks in obtaining the raw materials we use at acceptable prices.

The manufacture of our wood-alternative 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 reclaimed wood fibers and scrap polyethylene. Our ability to obtain adequate supplies of reclaimed wood fibers 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.

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.

Certain of our 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.

A limited number of our customers account for a significant percentage of our sales. Specifically, sales through our 15 largest customers accounted for approximately 90.0% of gross sales during fiscal years 2017 and 2016, and 89% during fiscal year 2015.

We expect that a significant portion of our 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. The loss of a significant customer could have a significant negative impact on our business, results of operations and financial condition.

We have limited ability to control or project inventory build-ups in our distribution channel that can negatively affect our sales in subsequent periods.

The seasonal nature of, and changing conditions in, our industry can result in substantial fluctuations in inventory levels of Trex products carried in our two-step distribution channel. We have limited ability to control or precisely project inventory build-ups, which can adversely affect our net sales levels in subsequent periods. We make the substantial majority of our sales to wholesale distributors, who, in turn, sell our products to local dealers. 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 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.

The demand for our products is negatively affected by adverse weather conditions.

Our 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. Adverse weather conditions may interfere with ordinary construction, delay projects or lead to cessation of construction involving our products. These interferences may shift sales to subsequent reporting periods or decrease overall sales, given the limited decking season in many locations. Prolonged adverse weather conditions could have a negative impact on our results of operations and liquidity.

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.

Our business depends on the transportation of both finished goods to our distributors and the transportation of raw materials to us. We rely on third parties for transportation of these items. 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.

If the required supply of transportation services is unavailable when needed, we may be 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.

The demand for our products is influenced by general economic conditions and could be adversely affected by economic downturns.

The demand for our wood-alternative 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, consumer confidence and spending habits, employment, interest rates, inflation and general economic conditions. Devaluation in home equity values can adversely affect the availability of home equity withdrawals and result in decreased home improvement spending. We cannot predict general economic conditions or the home remodeling and new home construction environments. Any economic downturn could reduce consumer income or equity capital available for spending on discretionary items, which could adversely affect the demand for our products. The demand for our commercial staging and railing products is influenced by 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.

We have significant capital invested in assets that may become obsolete or impaired and result in a charge to our earnings.

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. We have also 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 may also result in the recognition of goodwill, which 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. 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.

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.

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.

At certain periods during the year, we 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 could have important consequences. For example, it may:

- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our ability to borrow additional funds to alleviate liquidity constraints, as a result of financial and other restrictive covenants in our indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage relative to companies that have less indebtedness; and
- limit our ability to refinance our principal secured indebtedness.

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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters in Winchester, Virginia, which consists of approximately 36,000 square feet of office space, under a lease that expires in March 2020. In addition, we lease 55,047 square feet of office and storage space in Dulles, Virginia, that we do not occupy. We have sublet all of the office space in Dulles, Virginia, for the remainder of the term of the lease obligation, which expires in mid-2019.

We own approximately 92 acres of land in Winchester, Virginia and the buildings on this land. The site includes our research and development technical facility and manufacturing facility, which contains approximately 465,000 square feet of space, and outside open storage. We own approximately 37 acres of land in Fernley, Nevada and the buildings on this land. The site includes our manufacturing facility, which contains approximately 240,000 square feet of space, and outside open storage. These facilities provide adequate capacity for current and anticipated future consumer demand.

In September 2007, we suspended operations at our Olive Branch, Mississippi facility (Olive Branch facility) and consolidated all of our manufacturing operations into our Winchester and Fernley sites. In January 2016, we sold a portion of the Olive Branch facility that contained the buildings. As of the date of this report, we continue to own approximately 62 acres of undeveloped land at the Olive Branch facility.

We lease a total of approximately 1.6 million square feet of warehouse and facility space under leases with expiration dates ranging from 2018 to 2026. For information about these leases, see Note 13 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 forklift equipment at our facilities under operating leases.

We regularly evaluate our various facilities and equipment and make capital investments where necessary. In 2017, we spent a total of $15.0 million on capital expenditures, primarily related to general plant cost reduction initiatives, and equipment and new product development. We estimate that our capital expenditures in 2018 will be approximately $20 million to $25 million. We expect to use these expenditures principally to support cost reduction initiatives, new product launches in current and adjacent categories and general business support.

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 "TREX". The table below shows the reported high and low sale prices of our common stock for each quarter during 2017 and 2016 as reported by the NYSE.

2017	High	Low
First Quarter	$ 78.16	$64.19
Second Quarter	76.49	61.57
Third Quarter	90.09	67.01
Fourth Quarter	118.65	83.63

2016	High	Low
First Quarter	$ 48.14	$31.11
Second Quarter	50.62	39.74
Third Quarter	64.36	44.38
Fourth Quarter	72.21	50.81

Dividend Policy

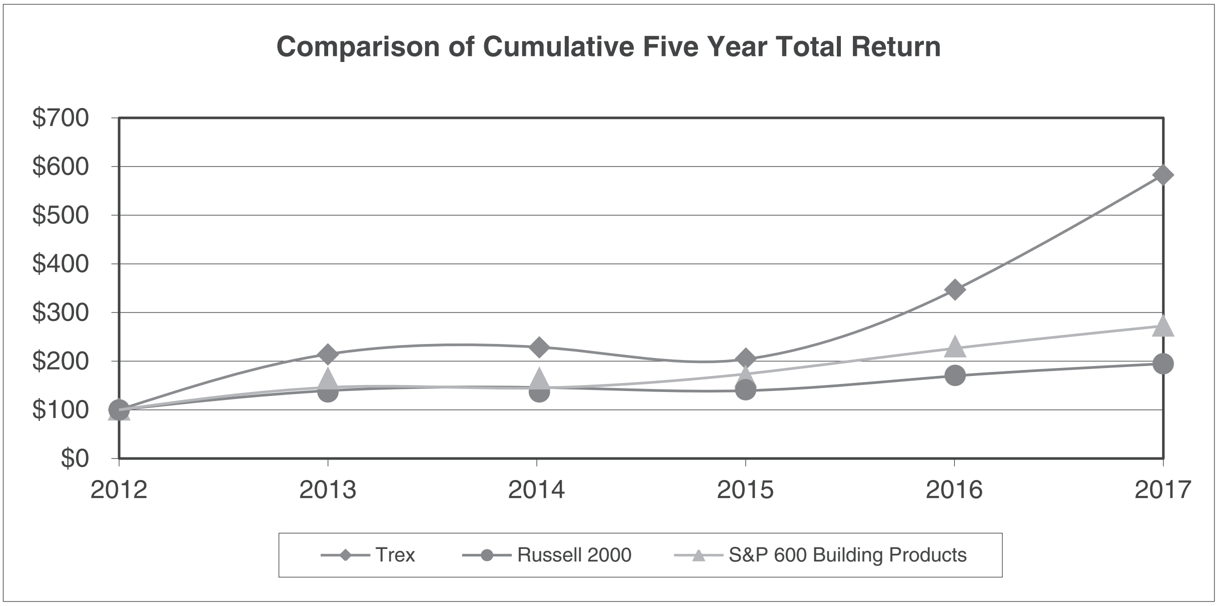
We have never paid cash dividends on our common stock and our credit agreement places limitations on our ability to pay cash dividends. We intend to retain future earnings to finance the development and expansion of our business or the repurchase of our common shares and, therefore, have no current intention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

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, 2012 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, 2013, 2014, 2015, 2016 and 2017.

Comparison of Cumulative Total Return

Among Trex Company, Inc., Russell 2000 Index, and S&P 600 Building Products Index



	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Trex Company, Inc.	$100.00	$213.65	$228.80	$204.41	$346.05	$582.43
Russell 2000 Index	$100.00	$138.82	$145.61	$139.19	$168.85	$193.58
S&P 600 Building Products	$100.00	$145.78	$145.43	$174.47	$226.43	$272.22

Other Stockholder Matters

As of February 6, 2018, there were approximately 174 holders of record of our common stock.

In 2017, 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, 2017, 2016, 2015, 2014, and 2013 for each year in the five-year period ended December 31, 2017.

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)				
	2017 (2)	2016 (3)	2015 (4)	2014	2013 (5)
	(In thousands, except share and per share data)				
Statement of Comprehensive Income Data:					
Net sales	$ 565,153	$ 479,616	$ 440,804	$ 391,660	$ 342,511
Cost of sales	321,780	292,521	285,935	251,464	243,893
Gross profit	243,373	187,095	154,869	140,196	98,618
Selling, general and administrative expenses	100,993	83,140	77,463	72,370	73,967
Income from operations	142,380	103,955	77,406	67,826	24,651
Interest expense, net	461	1,125	619	878	602
Income before income taxes	141,919	102,830	76,787	66,948	24,049
Provision (benefit) for income taxes	46,791	34,983	28,689	25,427	(10,549)
Net income	$ 95,128	$ 67,847	$ 48,098	$ 41,521	$ 34,598
Basic earnings per share	$ 3.24	$ 2.31	$ 1.53	$ 1.28	$ 1.03
Basic weighted average shares outstanding	29,392,559	29,394,559	31,350,542	32,319,649	33,589,682
Diluted earnings per share	$ 3.22	$ 2.29	$ 1.52	$ 1.27	$ 1.01
Diluted weighted average shares outstanding	29,575,460	29,612,669	31,682,509	32,751,074	34,273,502
Cash Flow Data:					
Cash provided by operating activities	$ 101,865	$ 85,293	$ 62,634	$ 58,642	$ 45,208
Cash used in investing activities	(86,789)	(10,202)	(23,329)	(12,873)	(12,697)
Cash used in financing activities	(3,226)	(62,422)	(42,854)	(39,997)	(30,898)
Other Data (unaudited):					
EBITDA (non-GAAP) (6)	$ 159,110	$ 118,136	$ 91,701	$ 82,653	$ 40,597
Balance Sheet Data:					
Cash and cash equivalents and restricted cash	$ 30,514	$ 18,664	$ 5,995	$ 9,544	$ 3,772
Working capital	86,289	54,264	38,581	35,787	28,994
Total assets	326,227	221,430	211,998	195,824	188,157
Total debt	—	—	7,000	—	—
Total stockholder's equity	$ 231,250	$ 134,161	$ 116,463	$ 113,385	$ 106,616

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 May 7, 2014 to stockholders of record at the close of business on April 7, 2014.

2) 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 Company's consolidated results of operations for the year ended December 31, 2017 include the operating results of the acquired business from the date of acquisition through December 31, 2017. The Company's consolidated balance sheet at December 31, 2017 includes the assets acquired and any liabilities assumed. 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 are expected to reverse after the Act's effective date of January 1, 2018 have been 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 continue to analyze certain aspects of the Act and refine our calculation, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts.

3) 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 Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2015-17, "*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*," and ASU No. 2016-09, "*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*."

   Because the Company applied ASU No. 2015-17 prospectively in the quarterly period ended December 31, 2016, prior periods have not been adjusted. As a result, in 2016 deferred tax assets are now reported net of deferred tax liabilities, included as either a non-current asset or liability, and are no longer a component of working capital. Deferred tax assets or liabilities of prior fiscal years that were previously included in current assets or current liabilities continue to be reported as a component of working capital.

   Adoption of ASU No. 2016-09 did not have a material impact on the Company's results of operations and financial condition or cash flows for prior periods. Note 2 to our Consolidated Financial Statements appearing elsewhere in this report discusses the method used to apply each provision of ASU No. 2016-09.

4) Year ended December 31, 2015 was materially affected by a pre-tax increase of $7.8 million to the warranty reserve, the majority of which related to surface flaking.

5) Year ended December 31, 2013 was materially affected by a pre-tax increase of $20.0 million to the warranty reserve and a $19.9 million income tax benefit resulting from a significant reversal of our valuation allowance, $10.9 million of which was a direct result of the Company's decision to exit a full valuation allowance.

6) 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.

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,				
	2017	2016	2015	2014	2013
	(In thousands)				
Net income	$ 95,128	$ 67,847	$48,098	$41,521	$ 34,598
Plus interest expense, net	461	1,125	619	878	602
Plus income tax provision (benefit)	46,791	34,983	28,689	25,427	(10,549)
Plus depreciation and amortization	16,730	14,181	14,295	14,827	15,946
EBITDA (non-GAAP)	$159,110	$118,136	$91,701	$82,653	$ 40,597

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 level of expenses associated with product replacement and consumer relations expenses related to product quality; and the highly competitive markets in which the Company operates.

OVERVIEW

General. Trex Company, Inc. is the world's largest manufacturer of wood-alternative decking and railing products marketed under the brand name Trex® and manufactured in the United States. We offer a comprehensive set of aesthetically pleasing, high performance, low maintenance products in the decking, railing, fencing, steel deck framing 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 wood-alternative decking and railing products:

Decking	Trex Transcend® Trex Enhance® Trex Select®
Railing	Trex Transcend Railing Trex Signature™ aluminum railing Trex Select Railing
Fencing	Trex Seclusions®
Steel Deck Framing System	Trex Elevations®
Outdoor Lighting Systems	Trex DeckLighting™ Trex LandscapeLighting™
Hidden Fastening System for Specially Grooved Boards	Trex Hideaway®

In addition, we offer modular and architectural railing systems and solutions for the commercial and multifamily markets and provide staging, acoustical and seating systems for commercial markets, including sports stadiums and performing arts venues.

Highlights related to the twelve months ended December 31, 2017 include:

- The acquisition of certain assets and the assumption of certain liabilities of Stadium Concepts Acquisition, LLC (SC Company) on July 31, 2017, by the Company's newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc.
- Increase in net sales of 17.8%, or $85.5 million, to $565.1 million in the twelve months ended December 31, 2017 compared to $479.6 million in the twelve months ended December 31, 2016. Net sales in 2017 were the highest of any year in our history.
- Increase in gross profit of 30.1%, or $56.3 million, to $243.4 million for the twelve months ended December 31, 2017 compared to $187.1 million for the twelve months ended December 31, 2016. Gross profit in 2017 was the highest of any year in our history.
- Net income of $95.1 million also reflects the highest of any year in our history.
- Cash flows from operating activities were $101.9 million in the twelve months ended 2017 compared to $85.3 million in the twelve months ended 2016 and were the highest of any year in our history.

Business Acquisition. On July 31, 2017, through our wholly-owned subsidiary, Trex Commercial Products, Inc., we entered into a definitive agreement with SC Company and on that date acquired certain assets and liabilities of SC Company for $71.8 million in cash. We used cash on hand and $30.0 million from our existing revolving credit facility to acquire the business. The acquisition provides us with the opportunity to offer full service railing systems in the growing commercial and multi-family markets, access to a complementary product category with a track record of substantial revenue growth, the ability to achieve economies of scale around raw material procurement, and an increase in the range of products the Company may offer its core customers. The Consolidated Financial Statements include the accounts of Trex Commercial Products from the date of acquisition through December 31, 2017.

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 wood-alternative decking and railing products. Our branding and product performance enables us to command premium prices over wood products. Our operating results have historically varied from quarter to quarter, often due to seasonal trends in the demand for 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 net sales to a later period.

As part of our normal business practice and consistent with industry practices, we have historically provided our distributors and dealers of our wood-alternative decking and railing products incentives to build inventory levels before the start of the prime deck-building season to ensure adequate availability of 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 significantly impact sales, receivables and inventory levels during the offering period. However, the timing and terms of the majority of our programs are generally consistent from year to year.

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 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.

Surface Flaking Warranty. We warrant that our 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.

We continue to receive and settle claims for 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 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 number of claims received has declined each year since peaking in 2009. 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 claims received in the year ended December 31, 2017 was lower than claims received in the year ended December 31, 2016, and consistent with our expectations for 2017. Also, the average settlement cost per claim experienced in the year ended December 31, 2017 was lower than the average settlement cost per claim experienced during the year ended December 31, 2016 and consistent with our expectation for 2017. Based on the facts and circumstances at December 31, 2017, we believe our reserve 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 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 $2.8 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,		
	2017	**2016**	**2015**
Claims unresolved beginning of period	2,755	2,500	2,872
Claims received (1)	2,250	2,615	2,968
Claims resolved (2)	(2,699)	(2,360)	(3,340)
Claims unresolved end of period	2,306	2,755	2,500
Average cost per claim (3)	$ 2,546	$ 2,639	$ 2,521

(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.

Inventories. We account for inventories of our wood-alternative decking and railing products at the lower of cost (last-in, first-out, or LIFO) or market value. At December 31, 2017, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately $20.1 million. Inventories for our staging and commercial railing products are accounted for at the lower of cost (first-in, first-out method) and net realizable value. We believe that our current inventory of finished goods will be saleable in the ordinary course of business and, accordingly, have not established significant reserves for estimated slow moving products or obsolescence.

Goodwill. 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 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 to determine if it should proceed with the evaluation of goodwill for impairment. If the Company proceeds with the two-step impairment test, the Company first compares the fair value of the reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise. The Company measures fair value of the reporting unit based on a present value of future discounted cash flows and a market valuation approach.

Income Taxes. We recognize deferred tax assets and liabilities based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect during the year in which it is expected that the differences reverse. We assess the likelihood that our 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. On December 22, 2017, 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. The Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. 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. We continue to analyze certain aspects of the Act and refine our calculation, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. As of December 31, 2017, we have a valuation allowance of $3.1 million against the deferred tax assets related to state tax credits we estimate will expire before they are realized. We will analyze our position in subsequent reporting periods, considering all available positive and negative evidence, in determining the expected realization of our deferred tax assets.

Stock-Based Compensation. The fair value of each stock-based award to officers, directors and certain key employees is established on the date of the grant. We calculate the grant date fair value of stock options and stock appreciation rights using the Black-Scholes valuation model. Determining the fair value of these awards is judgmental in nature and involves the use of significant estimates and assumptions, including the term of the share-based awards, risk-free interest rates over the vesting period, expected dividend rates, and the price volatility of our shares. The Company uses the historical volatility over the average expected term of the options granted as the expected volatility. The Company recognizes forfeitures as they occur. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. Actual future results may differ from those estimates.

We grant performance-based restricted stock units, the vesting of which is subject to holder's continuing employment and our achievement of certain performance measures. At each reporting period, we assess actual performance versus the predetermined performance measures, and adjust the stock-based compensation expense to reflect the relative performance achievement. Actual distributed shares are calculated upon conclusion of the service and performance periods.

RESULTS OF OPERATIONS

Below we have included a discussion of our operating results and material changes in our operating results for the years ended December 31, 2017 compared to December 31, 2016, and December 31, 2016 compared to December 31, 2015.

Year Ended December 31, 2017 Compared To Year Ended December 31, 2016

Net Sales

	Year Ended December 31,			
	2017	2016	$ Change	% Change
	(dollars in thousands)			
Total net sales	$565,153	$479,616	$85,537	17.8%
Residential net sales	$543,346	$479,616	$63,730	13.3%
Commercial net sales	$ 21,807	$ —	$21,807	—

The 17.8% increase in net sales in the year ended 2017 compared to the year ended 2016 was due primarily to the $63.7 million increase in net sales of our Trex branded decking and railing products. This increase in Residential net sales was positively impacted by continued strength in the remodeling sector, our marketing programs aimed at taking market share from wood, and the healthy demand across our full suite of outdoor living products with decking and railing products as the major growth contributors. The remaining increase resulted

from the $21.8 million in net sales contributed by our recently acquired commercial products operation for the period from the date of acquisition of July 31, 2017 through year end.

Gross Profit

	Year Ended December 31,			
	2017	2016	$ Change	% Change
		(dollars in thousands)		
Cost of sales	$321,780	$292,521	$29,259	10.0%
% of net sales	56.9%	61.0%		
Gross profit	$243,373	$187,095	$56,278	30.1%
Gross margin	43.1%	39.0%		

Gross profit as a percentage of net sales, gross margin, increased to 43.1% in the year ended 2017 from 39.0% in the year ended 2016, an improvement of 4.1%. Gross profit in the year ended 2016 included a $9.8 million increase to the warranty reserve related to surface flaking of our residential product. Excluding this charge, the gross margin for the year ended 2017 increased by 2.0%, reflecting cost reduction initiatives, lower cost raw materials, and increased capacity utilization at our Trex branded decking and railing plants.

Selling, General and Administrative Expenses

	Year Ended December 31,			
	2017	2016	$ Change	% Change
		(dollars in thousands)		
Selling, general and administrative expenses	$100,993	$83,140	$17,853	21.5%
% of net sales	17.9%	17.3%		

The $17.9 million increase in selling, general and administrative expenses in the year ended 2017 compared to the year ended 2016 resulted primarily from a $6.4 million increase in personnel related expenses resulting from the SC Company acquisition and an increase in incentive compensation, a $6.2 million increase in branding and advertising spend in support of our market growth strategies, and a $2.0 million increase in amortization expense related to the intangible assets of our commercial operation that was acquired during 2017. As a percentage of net sales, total selling, general and administrative expenses increased a minimal 0.6% in the year ended 2017 compared to the year ended 2016.

Provision for Income Taxes

	Year Ended December 31,			
	2017	2016	$ Change	% Change
		(dollars in thousands)		
Provision for income taxes	$46,791	$34,983	$11,808	33.8%
Effective tax rate	33.0%	34.0%		

We have recognized the tax effects of the Tax Cuts and Jobs 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 are expected to reverse after the Act's effective date of January 1, 2018 have been adjusted to reflect the new Federal statutory tax rate of 21%. The effect of the change in tax rate on the deferred tax assets and deferred tax liabilities resulted in a tax benefit of $1.9 million for the year ended December 31, 2017, which was allocated to continuing operations. We continue to analyze certain aspects of the Act and refine our calculation, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. The effective tax rate for the year ended 2017 decreased by 1.0% compared to the effective tax rate for the year ended

2016 primarily due to enactment of the Tax cuts and Jobs Act and the resulting revaluation of deferred tax assets and liabilities. The Company expects its effective tax rate will decrease in future periods primarily due to the tax effects of the lower Federal statutory rate of 21%, which may be offset by and other changes in the Tax Cuts and Jobs Act, such as the elimination of the domestic manufacturing deduction.

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

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

Year Ended December 31	2017 Residential	2017 Commercial	2017 Consolidated	2016 Consolidated
Net income	$ 97,412	$(2,284)	$ 95,128	$ 67,847
Interest	461	—	461	1,125
Taxes	47,911	(1,120)	46,791	34,983
Depreciation and amortization	14,598	2,132	16,730	14,181
EBITDA	$160,382	$(1,272)	$159,110	$118,136

	Year Ended December 31, 2017	2016	$ Change	% Change
	(dollars in thousands)			
Total EBITDA	$159,110	$118,136	$40,974	34.7%
Residential EBITDA	$160,382	$118,136	$42,246	35.8%
Commercial EBITDA	$ (1,272)	$ —	$ (1,272)	—

The Company uses EBITDA to assess performance as it believes EBITDA facilitates performance comparison between its reportable segments by eliminating interest, taxes, and depreciation and amortization charges to income. Total EBITDA increased 34.7% to $159.1 million for the year ended 2017 compared to $118.1 million for the year ended 2016. The increase in total EBITDA resulted primarily from the increase in Trex Residential EBITDA. The increase in Trex Residential EBITDA was driven by increased net sales resulting primarily from volume growth of our Trex branded decking and railing products. The slight decrease in total EBITDA resulted from Trex Commercial EBITDA, our recently acquired commercial products operation, for the period from the date of acquisition of July 31, 2017 through December 31, 2017, which resulted primarily from the effects of lower margins on certain legacy contracts and $0.5 million in acquisition related expenses.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Net Sales

	Year Ended December 31, 2016	2015	$ Change	% Change
	(dollars in thousands)			
Net sales	$479,616	$440,804	$38,812	8.8%

[1] EBITDA represents net income before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States (GAAP). We have included data with respect to EBITDA because management evaluates the performance of the reportable segments using net sales and EBITDA. Management considers EBITDA to be an important supplemental indicator of segment core operating performance because it eliminates interest, taxes, and depreciation and amortization charges to net income or loss. For these reasons, management believes that EBITDA provides important supplemental information regarding the operating performance of each reportable segment. Total EBITDA may be considered a non-GAAP measure and should be considered in addition to, not as a substitute for, net income.

The $38.8 million increase in net sales in 2016 compared to 2015 was due primarily to a $53.2 million increase in sales volume growth of our core Trex branded decking and railing products. Sales volume growth also benefited from the execution of our market growth strategies that we launched in the second quarter of this year to highlight the aesthetics, performance and sustainability benefits of Trex composite decking and railing products versus wood. The rollout of our programs in 2016 that aimed to strengthen our brand relationships with consumers and the trade facilitated growth. Such programs include our online tools that assist the consumer throughout the sales process from design to installation, and the launch of our state-of-the-art training facility, Trex University, that educates retailers, contractors and other Trex partners on the benefits of Trex outdoor living products. The increase in sales volume growth was offset by $6.8 million due to the impact of mix and sales discounts, and by a $7.6 million decrease in poly film sales. These sales were curtailed early in 2016 reflecting a change in management's procurement strategy for scrap poly film purchases.

Gross Profit

	Year Ended December 31, 2016	Year Ended December 31, 2015	$ Change	% Change
	(dollars in thousands)			
Cost of sales	$292,521	$285,935	$ 6,586	2.3%
% of net sales	61.0%	64.9%		
Gross profit	$187,095	$154,869	$32,226	20.8%
Gross margin	39.0%	35.1%		

The increase in gross profit in 2016 compared to 2015 was primarily due to reduced raw materials cost, execution of our manufacturing cost improvement initiatives, and increased sales. The drivers for the increase in gross margin, or gross profit as a percentage of net sales, were lower raw materials cost mainly resulting from our revised procurement strategy, other cost saving initiatives designed to ensure we meet increased market demand more efficiently and effectively, and from an increase in capacity utilization in order to achieve appropriate inventory levels to support growth, and other operating efficiencies. The increase in gross profit was partially offset by a $9.8 million increase to the legacy warranty reserve related to the surface flaking issue that affected a portion of products produced at our Nevada plant before 2007 compared to a $5.4 million adjustment in 2015 that related to surface flaking.

Selling, General and Administrative Expenses

	Year Ended December 31, 2016	Year Ended December 31, 2015	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative expenses	$83,140	$77,463	$5,677	7.3%
% of net sales	17.3%	17.6%		

The increase in selling, general and administrative expenses in 2016 compared to 2015 was attributable to a $2.2 million increase in personnel related expenses of salaries and benefits and incentive compensation due to improved performance against targets, $2.2 million increase in research and development expenses, and a $1.4 million increase in advertising and branding activities in support of our market growth strategies.

Provision for Income Taxes

	Year Ended December 31, 2016	Year Ended December 31, 2015	$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	$34,983	$28,689	$6,294	21.9%
Effective tax rate	34.0%	37.4%		

During 2016 and 2015, our income tax expense consisted of statutory federal and state taxes, permanent book to tax differences, federal tax credits, and other miscellaneous tax items. The effective tax rate in 2016 decreased 340 basis points compared to the effective tax rate during 2015 due to nondeductible compensation expense recognized in the prior year and the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 2016-09, "*Compensation – Stock Compensation (Topic718): Improvements to Employee Share-Based Payment Accounting*." As of January 1, 2016, the Company prospectively applied the guidance related to excess tax benefits and recorded a $1.7 million benefit within income tax expense. Excess tax benefits for 2015 were recorded as an increase to additional paid-in capital.

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, 2017, 2016, and 2015 (in thousands):

	Year Ended December 31,		
	2017	**2016**	**2015**
Net cash provided by operating activities	$101,865	$ 85,293	$ 62,634
Net cash used in investing activities	(86,789)	(10,202)	(23,329)
Net cash used in financing activities	(3,226)	(62,422)	(42,854)
Net increase (decrease) in cash and cash equivalents	$ 11,850	$ 12,669	$ (3,549)

Operating Activities

Net cash provided by operating activities increased by $16.6 million in 2017 compared to 2016 primarily due to the $23.2 million, or 17.8%, increase in net sales during in 2017 coupled with the 4.1% increase in gross margin. The increase was primarily offset by the increase in accounts receivable at December 31, 2017 of $10.5 million.

Net cash provided by operating activities increased $22.7 million in 2016 compared to 2015 primarily due to higher cash receipts from the 8.8% increase in net sales during 2016 compared to 2015 coupled with the 390 basis point increase in gross margin, and a $4.4 million increase due to the timing of income tax payments.

Investing Activities

On July 31, 2017, through its newly-formed, wholly-owned subsidiary, Trex Commercial Products, the Company acquired certain assets and assumed certain liabilities of SC Company for $71.8 million in cash. The Company used cash on hand and $30 million of funding from its existing revolving credit facility to acquire the assets.

Additional investing activities consisted principally of capital expenditures directed to new product development and to quick return cost investments to capture manufacturing cost savings. These investments allow us to meet the market's increased demand and corresponding volume requirements resulting in greater profitability and cash flow. Capital expenditures in 2017 were $15.0 million consisting primarily of $10.8 million for general plant cost reduction initiatives and $3.0 million for equipment and new product development.

Capital expenditures in 2016 were $14.6 million consisting primarily of $5.6 million for the purchase of, land adjacent to our Winchester, Virginia manufacturing facility, and Trex University (our state-of-the-art training facility), $5.6 million for investments to capture plant cost reduction initiatives, and $2.7 million for process and productivity improvement. Also, in January 2016, the Company sold a portion of the Olive Branch facility that contained the buildings for $4.2 million and, as of December 31, 2017, continues to own approximately 62 acres of undeveloped land adjacent to the sold properties.

Financing Activities

Net cash used in financing activities in 2017 decreased $59.2 million compared to 2016 primarily due to the $55.2 million in stock repurchase activity in 2016.

In January 2016, we increased our borrowing capacity in order to repurchase shares of our common stock and to support our seasonal working capital needs. Net cash used in financing activities was $62.4 million in 2016 compared to net cash used in financing activities of $42.9 million in 2015. The increase was primarily due to payments on outstanding debt balances earlier and at a higher level in 2016 compared to 2015 due to higher sales and reduced manufacturing costs.

Stock Repurchase Programs.

On October 23, 2014, our Board of Directors authorized a common stock repurchase program of up to 2.0 million shares of our outstanding common stock (October 2014 Stock Repurchase Program). This authorization had no expiration date. During the three months ended September 30, 2015, we repurchased 1,134,300 shares for $45.2 million under the October 2014 Stock Repurchase Program.

On October 22, 2015, our Board of Directors terminated the October 2014 Stock Repurchase Program and adopted a new stock repurchase program of up to 3.15 million shares of our outstanding common stock (October 2015 Stock Repurchase Program). In 2016, we repurchased 1,578,952 shares for $53.3 million under the October 2015 Stock Repurchase Program. This authorization terminated on December 31, 2016.

On February 16, 2017, the Board of Directors authorized a common stock repurchase program of up to 2.961 million shares of our outstanding common stock (February 2017 Stock Repurchase Program). The Company made no repurchases under the February 2017 Stock Repurchase Program. On February 16, 2018, the Board of Directors terminated the February 2017 Stock Repurchase Program and adopted a new stock repurchase program of up to 2.9 million shares of the Company’s outstanding common stock (February 2018 Stock Repurchase Program). As of the date of this report, the Company has made no repurchases under the February 2018 Stock Repurchase Program.

Inventory in Distribution Channels. We sell our 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 changes in the levels of inventory in the distribution channels at December 31, 2017 compared to inventory levels at December 31, 2016. On occasion, we may need to replace a distributor. Historically, we have had little difficulty replacing a distributor and have experienced little or no disruption to operations or liquidity. We believe that in the event we need to replace a distributor, it would not have an adverse effect on our profitability or liquidity.

Surface Flaking Warranty. We continue to receive and settle claims related to residential product produced at our Nevada facility prior to 2007 that exhibits surface flaking, which has had a material adverse effect on cash flow from operations, and regularly monitor the adequacy of the warranty reserve. During the year ended December 31, 2017, we paid approximately $5.7 million to settle surface flaking claims against the warranty reserve consistent with the $5.7 million paid in 2016. We estimate that the 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 settlement 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.

Business Acquisition. On July 31, 2017, through our wholly-owned subsidiary, Trex Commercial Products, Inc., we entered into a definitive agreement with SC Company and on that date acquired certain assets and liabilities of SC Company for $71.8 million in cash. We used cash on hand and $30.0 million from our existing revolving credit facility to acquire the business.

Seasonality. Our operating results have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for our products to a later period. As part of our normal business practice and consistent with industry practice, we have historically offered incentive programs to our distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of our product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs.

Indebtedness. On January 12, 2016, the Company entered into a Third Amended and Restated Credit Agreement and also the First Amendment to the Third Amended and Restated Credit Agreement (together, the Third Amended Credit Agreement) with Bank of America, N.A. (BOA) as Lender, Administrative Agent, Swing Line Lender and Letter of Credit Issuer; and certain other lenders including Citibank, N.A., Capital One, N.A., and SunTrust Bank (collectively, Lenders) arranged by Bank of America Merrill Lynch as Sole Lead Arranger and Sole Bookrunner. The Third Amended Credit Agreement amended and restated the Second Amended Credit Agreement.

Under the Third Amended Credit Agreement, the Lenders agree to provide the Company with one or more revolving loans in a collective maximum principal amount of $250 million from January 1 through June 30 of each year and a maximum principal amount of $200 million from July 1 through December 31 of each year throughout the term, which ends January 12, 2021. Included within the revolving loan limit are sublimits for a letter of credit facility in an amount not to exceed $15 million and swing line loans in an aggregate principal amount at any time outstanding not to exceed $5 million. The revolving loans, the letter of credit facility and the swing line loans are for the purpose of funding working capital needs and supporting general business operations.

The Company has the option to select interest rates for each loan request at the Base Rate or Eurodollar Rate. Base rate loans under the revolving loans and the swing line loans accrue interest at the Base Rate plus the Applicable Rate. Eurodollar Rate Loans for the revolving loans and swing line loans accrue interest at the Adjusted London InterBank Offered Rate plus the Applicable Rate. 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%.

Repayment of all then outstanding principal, interest, fees and costs is due on January 12, 2021.

The Company will reimburse BOA for all amounts payable, including interest, under a letter of credit at the earlier of (i) the date set forth in the application, or (ii) one business day after the payment under such letter of credit by BOA.

The Third Amended Credit Agreement is secured by property with respect to which liens in favor of the Administrative Agent, for the benefit of itself and the other holders of the obligations, are purported to be granted pursuant to and in accordance with the terms of the collateral documents as referenced in the Third Amended Credit Agreement.

At December 31, 2017, the Company had no outstanding borrowings under the Third Amended Credit Agreement and $200 million of available borrowing capacity.

Compliance with Debt Covenants and Restrictions. Our ability to make scheduled principal and interest payments, borrow and repay amounts under any outstanding revolving credit facility and continue to comply with any loan covenants depends primarily on our ability to generate sufficient cash flow from operations. To remain in compliance with financial covenants, we are required to maintain specified financial ratios based on levels of debt, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of the business, some of which are discussed in this report under "Risk Factors." We were in compliance with all covenants contained in the Third Amended Credit Agreement at December 31, 2017. Failure to comply with the financial covenants could be considered a default of our repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

Contractual Obligations. The following tables show, as of December 31, 2017, our contractual obligations and commercial commitments, which consist primarily of purchase commitments and operating leases (in thousands):

Contractual Obligations
Payments Due by Period

	Total	1 year	2-3 years	4-5 years	After 5 years
Purchase commitments (1)	$ 62,624	$47,229	$15,395	$ —	$ —
Operating leases	52,798	10,627	16,566	11,559	14,046
Total contractual cash obligations	$115,422	$57,856	$31,961	$11,559	$14,046

(1) Purchase commitments represent supply contracts with raw material vendors. 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.

Off-Balance Sheet Arrangements. We do not have off-balance sheet financing arrangements other than operating leases.

Capital and Other Cash Requirements. We currently estimate that capital expenditures in 2018 will be approximately $20 million to $25 million. Our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, acquisitions which fit our long-term outdoor products 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 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.

NEW ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* and issued subsequent amendments to the initial guidance in August 2015 within ASU No. 2015-14, in March 2016 within ASU No. 2016-08, in April 2016 within ASU No. 2016-10, in May 2016 within ASU No. 2016-12, and in December 2016 within ASU No. 2016-20 (collectively, the new standard). The new standard provides a single, comprehensive model for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new standard requires an entity to recognize revenue when it satisfies a performance obligation at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring control of goods or services to a customer. The Company will adopt the new standard in the first quarter of fiscal 2018. The Company intends to use the retrospective application to each reporting period presented, with the option to elect certain practical expedients as defined in the new standard. The Company has completed its evaluation of its Trex Residential segment and determined that adoption of the new standard will not have a significant impact on that segment. The Company continues to evaluate the impacts of adoption on its Trex Commercial segment, which was acquired on July 30, 2017. The Company expects expanded financial statement note disclosure.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The new standard requires lessees to recognize leases on the balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of the lease payments. The asset will be based on the liability, subject to adjustment. For income statement purposes, the leases will continue to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) and finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using the modified retrospective transition method and provides for the option to elect a package of practical expedients upon adoption. The Company is currently assessing the impact of adoption of the new standard on its consolidated financial statements and related note disclosures and has not made any decision on the option to elect adoption of the practical expedients.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*." The guidance is intended to reduce diversity in practice across all industries in how certain transactions are classified in the statement of cash flows. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The guidance requires application using a retrospective transition method. The Company is assessing the impact of adoption of the new standard on its consolidated financial statements and related note disclosures.

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, 2017, 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, 2017.

Item 8. Financial Statements and Supplementary Data

The financial statements listed in Item 15 and appearing on pages F-2 through F-30 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 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, 2017. We have excluded Trex Commercial Products, Inc., our wholly-owned subsidiary which is included in our Consolidated Financial Statements, from our assessment of internal control over financial reporting as of December 31, 2017, because it was formed to acquire certain assets and assume certain liabilities of Staging Concepts Acquisition, LLC and Stadium Consolidation, LLC in a business combination on July 31, 2017. Based on this evaluation, the President and Chief Executive Officer and the Vice President and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective.

Item 9B. Other Information

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

Retirement of Frank H. Merlotti, Jr.

On February 16, 2018, Frank H. Merlotti, Jr., whose current term of service on the Company’s Board of Directors (Board) expires on the date of the Company’s annual meeting of stockholders on May 2, 2018, informed the Board of his decision not to stand for re-election. Mr. Merlotti serves on the Board’s Compensation Committee and Nominating / Corporate Governance Committee.

Management's Report on Internal Control Over Financial Reporting

We, as members of management of Trex Company, Inc. (the "Company"), are responsible for establishing and maintaining adequate internal control over financial reporting. The 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. 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.

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 and procedures may deteriorate.

We assessed the Company's internal control over financial reporting as of December 31, 2017, based on criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). We have excluded Trex Commercial Products, Inc. (Trex Commercial), our wholly-owned subsidiary which is included in our Consolidated Financial Statements, from our assessment of internal control over financial reporting as of December 31, 2017, because it was formed to acquire certain assets and assume certain liabilities of Staging Concepts Acquisition, LLC and Stadium Consolidation, LLC in a business combination on July 31, 2017. Total assets and net sales of Trex Commercial as of and for the year ended December 31, 2017, were 24% and 4%, respectively, of the Company's total assets and net sales. Based on this assessment, we concluded that, as of December 31, 2017, our internal control over financial reporting was effective, based on the COSO Framework.

The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which follows hereafter.

TREX COMPANY, INC.

February 21, 2018

By: /s/ JAMES E. CLINE

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

February 21, 2018

By: /s/ BRYAN H. FAIRBANKS

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

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation described above in "Management's Report on Internal Control Over Financial Reporting" that occurred during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2017, 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, 2017, 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 consolidated balance sheets of the Company as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule and our report dated February 21, 2018 expressed an unqualified opinion thereon.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Trex Commercial Products, Inc., which is included in the 2017 consolidated financial statements of the Company and constituted 24% and 30% of total and net assets, respectively, as of December 31, 2017 and 4% and (2)% of net sales and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Trex Commercial Products, Inc.

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.

Definitions 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.

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 21, 2018

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 2018 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2017 fiscal year-end.

We have adopted a code of conduct and ethics, which is applicable to all of our 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*, 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 2018 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2017 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 2018 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2017 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 2018 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2017 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 2018 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2017 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-30 of this report and are incorporated by reference in Part II, Item 8:

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

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) The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. The Company's Securities Exchange Act file number is 001-14649.

Exhibit Number	Exhibit Description
2.1	Asset Purchase Agreement by and among Trex Commercial Products, Inc., Staging Concepts Acquisition, LLC and Stadium Consolidation, LLC. Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 31, 2017 and incorporated herein by reference.
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the "Company"). Filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014. Filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 and incorporated herein by reference.
3.3	Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed May 7, 2008 and incorporated herein by reference.
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.
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.

Exhibit Number	Exhibit Description
4.3	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.
4.4	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.
4.5	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.
4.6	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.
4.7	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.
4.8	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.
4.9	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.
10.1	Description of Management Compensatory Plans and Arrangements. Filed herewith. **
10.2	Trex Company, Inc. 2014 Stock Incentive Plan. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 and incorporated herein by reference. **
10.3	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 and incorporated herein by reference. **
10.4	Form of Trex Company, Inc. 2014 Stock Incentive Plan Time-Based Restricted Stock Agreement. Filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and incorporated herein by reference. **

Exhibit Number	Exhibit Description
10.5	Form of Trex Company, Inc. 2014 Stock Incentive Plan Performance-Based Restricted Stock Agreement. Filed as Exhibit 10.8 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and incorporated herein by reference. **
10.6	Form of Trex Company, Inc. 2014 Stock Incentive Plan Stock Appreciation Rights Agreement. Filed as Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 and incorporated herein by reference. **
10.7	Form of Trex Company, Inc. 2014 Stock Incentive Plan Time-Based Restricted Stock Unit Agreement. Filed as Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 and incorporated herein by reference. **
10.8	Form of Trex Company, Inc. 2014 Stock Incentive Plan Performance-Based Restricted Stock Unit Agreement. Filed as Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 and incorporated herein by reference. **
10.9	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. **
10.10	Change in Control Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline. Filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed May 8, 2015 and incorporated herein by reference. **
10.11	Severance Agreement dated May 6, 2015 by and between Trex Company, Inc. and James E. Cline. Filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed May 8, 2015 and incorporated herein by reference. **
10.12	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. **
10.13	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. **
10.14	Retention Agreement, dated as of July 24, 2012, between Trex Company, Inc. and James E. Cline. Filed as Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 and incorporated herein by reference. **
10.15	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.
10.16	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.
10.17	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.
10.18	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.

Exhibit Number	Exhibit Description
10.19	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.
10.20	Deed of Lease, dated June 15, 2000, between Trex Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
10.21	Amendment, dated February 22, 2010, of Deed of Lease dated as of June 15, 2000, between Trex Company, Inc., as successor by merger to Trex Company, LLC, and TC.V.LLC, as successor to Space, LLC. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 and incorporated herein by reference.
10.22	Amendment, dated November 2, 2016, of Deed of Lease dated as of June 15, 2000, between Trex Company, Inc., as successor by merger to Trex Company, LLC, and TC.V.LLC as successor to Space, LLC. Filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
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	XBRL Instance Document. Filed.
101.SCH	XBRL Taxonomy Extension Schema Document. Filed.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. Filed.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. Filed.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. Filed.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. Filed.

** Management contract or compensatory plan or agreement.

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TREX COMPANY, INC.

Index to Consolidated Financial Statements

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)(2):

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, 2017 and 2016, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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 21, 2018 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.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1995.
Richmond, Virginia
February 21, 2018

TREX COMPANY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2017	2016	2015
	(In thousands, except share and per share data)		
Net sales	$ 565,153	$ 479,616	$ 440,804
Cost of sales	321,780	292,521	285,935
Gross profit	243,373	187,095	154,869
Selling, general and administrative expenses	100,993	83,140	77,463
Income from operations	142,380	103,955	77,406
Interest expense, net	461	1,125	619
Income before income taxes	141,919	102,830	76,787
Provision for income taxes	46,791	34,983	28,689
Net income	$ 95,128	$ 67,847	$ 48,098
Basic earnings per common share	$ 3.24	$ 2.31	$ 1.53
Basic weighted average common shares outstanding	29,392,559	29,394,559	31,350,542
Diluted earnings per common share	$ 3.22	$ 2.29	$ 1.52
Diluted weighted average common shares outstanding	29,575,460	29,612,669	31,682,509
Comprehensive income	$ 95,128	$ 67,847	$ 48,098

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 30,514	$ 18,664
Accounts receivable, net	66,882	48,039
Inventories	34,524	28,546
Prepaid expenses and other assets	16,878	10,400
Total current assets	148,798	105,649
Property, plant and equipment, net	103,110	103,286
Goodwill and other intangibles	71,319	10,523
Other assets	3,000	1,972
Total Assets	$ 326,227	$ 221,430
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 9,953	$ 10,767
Accrued expenses and other liabilities	46,266	34,693
Accrued warranty	6,290	5,925
Line of Credit	—	—
Total current liabilities	62,509	51,385
Deferred income taxes	1,286	894
Non-current accrued warranty	28,709	31,767
Other long-term liabilities	2,473	3,223
Total Liabilities	94,977	87,269
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, 80,000,000 shares authorized; 34,922,111 and 34,894,233 shares issued and 29,428,430 and 29,400,552 shares outstanding at December 31, 2017 and 2016, respectively	349	349
Additional paid-in capital	122,043	120,082
Retained earnings	282,370	187,242
Treasury stock, at cost, 5,493,681 shares at December 31, 2017 and 2016, respectively	(173,512)	(173,512)
Total Stockholders' Equity	231,250	134,161
Total Liabilities and Stockholders' Equity	$ 326,227	$ 221,430

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 (Deficit)	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2014	32,020,123	$348	$116,740	$ 71,297	2,780,429	$ (75,000)	$113,385
Net income	—	—	—	48,098	—	—	48,098
Employee stock purchase and option plans	113,996	1	314	—	—	—	315
Shares withheld for taxes on share-based payment awards	(115,453)	(1)	(8,085)	—	—	—	(8,086)
Stock-based compensation	20,164	—	4,861	—	—	—	4,861
Excess tax benefits from stock compensation	—	—	3,117	—	—	—	3,117
Shares repurchased under our publicly announced share repurchase programs	(1,134,300)	—	—	—	1,134,300	(45,227)	(45,227)
Balance, December 31, 2015	30,904,530	348	116,947	119,395	3,914,729	(120,227)	116,463
Net income	—	—	—	67,847	—	—	67,847
Employee stock purchase and option plans	79,175	1	279	—	—	—	280
Shares withheld for taxes on share-based payment awards	(13,193)	(1)	(1,932)	—	—	—	(1,933)
Stock-based compensation	8,992	1	4,788	—	—	—	4,789
Shares repurchased under our publicly announced share repurchase programs	(1,578,952)	—	—	—	1,578,952	(53,285)	(53,285)
Balance, December 31, 2016	29,400,552	349	120,082	187,242	5,493,681	(173,512)	134,161
Net income	—	—	—	95,128	—	—	95,128
Employee stock purchase and option plans	16,614	1	391	—	—	—	392
Shares withheld for taxes on share-based payment awards	(29,235)	(1)	(3,617)	—	—	—	(3,618)
Stock-based compensation	40,499	—	5,187	—	—	—	5,187
Balance, December 31, 2017	29,428,430	$349	$122,043	$282,370	5,493,681	$(173,512)	$231,250

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2017	2016	2015
		(In thousands)	
Operating Activities			
Net income	$ 95,128	$ 67,847	$ 48,098
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,860	14,498	14,384
Deferred income taxes	194	5,433	1,024
Stock-based compensation	5,187	4,788	4,861
Loss (Gain) on disposal of property, plant and equipment	1,738	(185)	649
Excess tax benefits from stock compensation	—	—	(3,147)
Other non-cash adjustments	(406)	(284)	(271)
Changes in operating assets and liabilities:			
Accounts receivable	(10,486)	(653)	(10,995)
Inventories	(3,635)	(5,442)	643
Prepaid expenses and other assets	(2,194)	(4,256)	905
Accounts payable	(4,804)	(6,966)	(2,317)
Accrued expenses and other liabilities	2,488	9,403	7,554
Income taxes receivable/payable	1,795	1,110	1,246
Net cash provided by operating activities	101,865	85,293	62,634
Investing Activities			
Expenditures for property, plant and equipment	(15,040)	(14,551)	(23,333)
Proceeds from sales of property, plant and equipment	55	4,349	35
Acquisition of business, net of cash acquired	(71,804)	—	(31)
Net cash used in investing activities	(86,789)	(10,202)	(23,329)
Financing Activities			
Financing costs	—	(485)	(3)
Borrowings under line of credit	201,000	242,700	225,500
Principal payments under line of credit	(201,000)	(249,700)	(218,500)
Repurchases of common stock	(3,617)	(55,216)	(53,313)
Proceeds from employee stock purchase and option plans	391	279	315
Excess tax benefits from stock compensation	—	—	3,147
Net cash used in financing activities	(3,226)	(62,422)	(42,854)
Net increase (decrease) in cash and cash equivalents	11,850	12,669	(3,549)
Cash and cash equivalents at beginning of year	18,664	5,995	9,544
Cash and cash equivalents at end of year	$ 30,514	$ 18,664	$ 5,995
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 418	$ 852	$ 625
Cash paid for income taxes, net	$ 44,802	$ 28,626	$ 26,327

See Notes to Consolidated Financial Statements.

TREX COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (together with its subsidiaries, the Company), a Delaware corporation, was incorporated on September 4, 1998. The Company's principal business based on net sales is the manufacture and distribution of wood/plastic composite products, as well as related accessories, primarily for residential and commercial decking and railing applications. A majority of its products are manufactured in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. On July 31, 2017, through its newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc., the Company acquired certain assets and assumed certain liabilities of Staging Concepts Acquisition, LLC (SC Company) and thus expanded its markets to include the design, engineering and marketing of modular and architectural railing systems and solutions for the commercial and multifamily markets, and a provider of staging, acoustical and seating systems for commercial markets, including sports stadiums and performing arts venues. Additional information on the acquisition of SC Company is presented in Note 3. The principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and the telephone number at that address is (540) 542-6300. Subsequent to the acquisition, the Company operates in two reportable segments, Trex Residential Products and Trex Commercial Products.

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, its wholly-owned subsidiary, Trex Wood-Polymer Espana, S.L. (TWPE) for all years presented, and its newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc. (Trex Commercial Products), from July 31, 2017 through December 31, 2017. Intercompany accounts and transactions have been eliminated in consolidation.

TWPE was formed to hold the Company's 35% equity interest in Denplax, S.A. (Denplax), a venture with a Spanish company responsible for public environmental programs in southern Spain and with an Italian equipment manufacturer. The venture was formed to recycle polyethylene at a facility in El Ejido, Spain. The Company's investment in Denplax is accounted for using the equity method. During 2010, the Company determined that its investment in Denplax and a related note receivable were no longer recoverable and recorded a $2.4 million charge to earnings to fully reserve the equity investment and note. Both the equity investment and note remain fully reserved as of December 31, 2017.

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, 2017, 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 carried at the original invoice amount less an estimate made for payment discounts and doubtful accounts. A valuation allowance is provided for known and anticipated credit losses and disputed amounts, as determined by management in the course of regularly evaluating individual customer receivables. This evaluation takes into consideration a customer's financial condition and credit history, as well as current economic conditions. There was no material valuation allowance recorded as of December 31, 2017 and 2016.

In the years ended December 31, 2017, 2016 and 2015, sales to certain customers accounted for 10% or more of the Company's total net sales. For the year ended December 31, 2017, two customers of the Company represented approximately 41% of the Company's net sales. For the year ended December 31, 2016, two customers of the Company represented approximately 39% of the Company's net sales. For the year ended December 31, 2015, one customer of the Company represented approximately 27% of the Company's net sales. At December 31, 2017, three customers represented 29%, 14%, and 11%, respectively, of the Company's accounts receivable balance.

Approximately 33%, 33%, and 35% of the Company's materials purchases for the years ended December 31, 2017, 2016 and 2015, respectively, were purchased from its four largest suppliers.

Inventories

Inventories for the Company's wood-alternative decking and railing products are stated at the lower of cost (last-in, first-out, or LIFO, method) and net realizable value. 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, 2017, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately $20.1 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 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 staging and railing products for the commercial and multi-family markets are stated 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. 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.

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.

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 first assesses qualitative factors to determine if it is more likely than not that the fair value of the reporting units is less than the carrying amount to determine if it should proceed with the evaluation of goodwill for impairment. 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 a separate operation manager at a level below the Company's chief operating decision maker. 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. If the Company proceeds with the two-step impairment test, the Company first compares the fair value of the reporting unit to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the goodwill of that reporting unit is potentially impaired and step two of the impairment analysis is performed. In step two of the analysis, an impairment loss is recorded equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

The Company measures fair value of the reporting units based on a present value of future discounted cash flows 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, 2017, 2016 and 2015, 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 are 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, 2017, the Company had goodwill of $68.5 million that is reviewed annually for impairment.

Product Warranty

The Company warrants that its 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 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. 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, on a quarterly basis 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

For Trex Residential Products, the Company recognizes revenue when title is transferred to customers, which is generally upon shipment of the product to the customer. The Company does not grant contractual product return rights to customers other than pursuant to its residential product warranty. The Company does not expect future product returns to be material and, consequently, does not maintain an allowance for product returns.

The Company records all shipping and handling fees in sales and records all of the related costs in cost of sales. The Company offers sales incentive programs to dealers and distributors, including rebates, pricing discounts, favorable payment terms and cooperative advertising, many of which result in cash consideration made to dealers and distributors. The Company accounts for consideration made pursuant to these programs in accordance with accounting guidance that governs consideration given by a vendor to a customer. With the exception of cooperative advertising, the Company classifies sales incentives as a reduction in revenue in “Net sales.” Sales incentives are recorded in the period in which they are earned by customers. The Company’s cooperative advertising program meets the requirements for exclusion from net sales and the costs are recorded as expenses in “Selling, general and administrative expenses” in the accompanying Consolidated Statements of Comprehensive Income. Cooperative advertising costs are expensed as incurred.

For Trex Commercial Products, the Company recognizes revenue using the percentage of completion method measured under the cost-to-cost method of accounting, whereby the Company recognizes sales and estimated profit as costs are incurred based on the proportion that the incurred costs represent of total estimated costs for each contract. Contract costs include all direct material, labor, subcontract and certain indirect costs. Administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are recognized when such losses are determined. Changes in job performance, conditions and estimated profitability may result in revisions to costs and income and are recognized in the period they are determined. Revenues recognized in excess of amounts billed are classified under current assets and billings in excess of revenues are classified under current liabilities in the Consolidated Balance Sheets.

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. 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. As of December 31, 2017, the Company has a valuation allowance of $3.1 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, 2017, 2016 and 2015, research and development costs were \$3.8 million, \$3.7 million, and \$1.5 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. Significant production costs are deferred and recognized as expense in the period that the related advertisement is first used. At December 31, 2017, 2016 and 2015, \$3.8 million, \$2.4 million and \$0.8 million, respectively, were included in prepaid expenses for production costs.

For the years ended December 31, 2017, 2016 and 2015, branding expenses, including advertising expenses as described above, were \$31.0 million, \$24.8 million, and \$23.4 million, respectively.

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 to approximate the fair value of the respective assets and liabilities at December 31, 2017 and 2016.

Recently Adopted Accounting Standards

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation – Stock Compensation (Topic 718)*: *Improvements to Employee Share-Based Payment Accounting*." The standard amended certain aspects of accounting for employee share-based payment transactions, including the accounting for income taxes related to those transactions and forfeitures. The standard requires recognizing excess tax benefits and deficiencies on share-based awards in the tax provision, instead of in equity. Also, the standard requires these amounts to be classified as an operating activity, and shares withheld to satisfy employee taxes to be classified as a financing activity in the statement of cash flows, rather than as financing and operating activities, respectively. The standard was effective for annual reporting periods beginning after December 15, 2016 and interim periods within that reporting period, with early adoption permitted. The Company elected to early adopt the standard in fiscal year 2016. The impact of the early adoption resulted in the following:

- The Company recorded a tax benefit of \$1.7 million within income tax expense related to the excess tax benefits of the settlement or vesting of time-based restricted stock or time-based restricted stock units and performance-based restricted stock or performance-based restricted stock units. The Company applied this guidance prospectively as of January 1, 2016 and, accordingly, data for the year ended December 31, 2015 was not adjusted. Prior to adoption this amount would have been recorded as an increase in additional paid-in capital. Going forward, this change could create volatility in the Company's effective tax rate.
- The Company elected to change its policy on accounting for forfeitures and recognize forfeitures as they occur. The Company applied this guidance on a modified retrospective transition method. The Company determined that the cumulative effect of applying the guidance under the modified retrospective transition method was not material to its Consolidated Financial Statements
- Excess tax benefits are now reported as an operating activity in the Company's Consolidated Statements of Cash Flows, rather than as a financing activity as was previously reported. As the Company applied this guidance prospectively as of January 1, 2016, excess tax benefits for the year ended December 31, 2015 were not adjusted and continue to be reported in financing activities in the Consolidated Statements of Cash Flows.

- The standard requires the presentation of employee taxes as a financing activity in the Consolidated Statements of Cash Flows. This provision did not impact the Company's Consolidated Financial Statements as the Company currently presents employee taxes as a financing activity in its Consolidated Statements of Cash Flows.

The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of diluted earnings per share for 2016, which did not materially increase the diluted weighted average common shares outstanding.

New Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606),"* and issued subsequent amendments to the initial guidance in August 2015 within ASU No. 2015-14, in March 2016 within ASU No. 2016-08, in April 2016 within ASU No. 2016-10, in May 2016 within ASU No. 2016-12, and in December 2016 within ASU No. 2016-20 (collectively, the new standard). The new standard provides a single, comprehensive model for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new standard requires an entity to recognize revenue when it satisfies a performance obligation at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring control of goods or services to a customer. The Company will to adopt the new standard in the first quarter of fiscal 2018. The Company intends to use the retrospective application to each reporting period presented, with the option to elect certain practical expedients as defined in the new standard. The Company has completed its evaluation of its Trex Residential segment and determined that adoption of the new standard will not have a significant impact on that segment. The Company continues to evaluate the impacts of adoption on its Trex Commercial segment, which was acquired on July 31, 2017. The Company expects expanded financial statement note disclosure. The Company expects expanded financial statement note disclosure.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*." The standard requires lessees to recognize leases on the balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of the lease payments. The asset will be based on the liability, subject to adjustment. Currently, under existing U.S. generally accepted accounting standards, the Company does not recognize on the balance sheet a right-of-use asset or lease liability related to its operating leases. For income statement purposes, the leases will continue to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) and finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The standard must be adopted using the modified retrospective transition method and provides for the option to elect a package of practical expedients upon adoption. The Company intends to adopt the standard in the first quarter of fiscal 2019 and is assessing the impact of adoption of the standard on its consolidated financial statements and related note disclosures. The Company has not made any decision on the option to elect adoption of the practical expedients.

In August 2016, the FASB issued ASU No. 2016-15, "*Statement of Cash flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*." The guidance is intended to reduce diversity in practice across all industries in how certain transactions are classified in the statement of cash flows. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The guidance requires application using a retrospective transition method. The Company intends to adopt the guidance on the effective date and does not believe adoption will have a material impact on its consolidated financial statements.

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 is to be applied prospectively, and is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed on testing dates after January 1, 2017. The Company intends to adopt the guidance on the effective date and does not believe adoption will have a material impact on its financial condition or results of operations.

In May 2017, the FASB issued ASU No. 2017-09, "*Compensation—Stock Compensation (Topic 718), Scope Modification Accounting*." The guidance clarified when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value (or calculated intrinsic value, if those amounts are being used to measure the award under ASC 718), the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for annual periods beginning on or after December 15, 2017. Early adoption is permitted. The Company intends to adopt the guidance on the effective date and does not believe adoption will have a material impact on its financial condition or results of operations.

3. ACQUISITION

On July 31, 2017, through its newly-formed, wholly-owned subsidiary, Trex Commercial Products, the Company acquired certain assets and assumed certain liabilities of SC Company for $71.8 million in cash. The Company used cash on hand and $30.0 million of funding from its existing revolving credit facility, which was fully paid on August 17, 2017, to acquire the assets. The acquired business designs, engineers and markets modular architectural railing systems and solutions for the commercial and multifamily markets, and provides staging, acoustical and seating systems for commercial markets, including sports stadiums and performing arts venues. As a result of the purchase, the Company gained access to growing commercial markets, expanded its custom design and engineering capabilities, and added the contract architect and specifier communities as new channels for its products.

The acquisition was accounted for using the acquisition method of accounting under U.S. Generally Accepted Accounting Principles, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The fair values of consideration transferred and net assets acquired were determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in ASC 820, "*Fair Value Measurements and Disclosures*." The Company believes that the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. The Company's consolidated results of operations for the year ended December 31, 2017 include the operating results of the acquired business from the date of acquisition through year end. The Company's consolidated balance sheet at December 31, 2017 includes the acquired assets and any liabilities assumed.

Based on the Company's preliminary valuation, a total estimated consideration of $71.8 million has been allocated on to the assets acquired and liabilities assumed, as follows (in thousands). During the fourth quarter, a final determination of the purchase price and the final valuation report were completed upon the final determination of working capital at closing. No adjustments were made to the fair values of assets acquired and liabilities assumed as a result:

Accounts receivable, net	$ 8,357
Contract retainage	1,948
Inventories, net	2,344
Prepaid expenses and other assets	1,223
Revenues in excess of billings	3,463
Fixed assets, net	1,264
Intangible assets	4,900
Goodwill	57,938
Accounts payable	(3,990)
Accrued liabilities and other expenses	(2,329)
Billings in excess of revenues	(1,752)
Customer Deposits	(1,562)
Total consideration	$71,804

Goodwill of $57.9 million is primarily attributable to the potential opportunity for the Company to offer full service railing systems in the growing commercial and multi-family markets, access to a complementary product category with a track record of substantial revenue growth, the ability to achieve economies of scale around raw material procurement, an increase in the range of products the Company may offer its core customers, and intangible assets that do not qualify for separable or legal criterion, such as an assembled workforce. The amount of goodwill that was amortized and deductible for tax purposes in 2017 was $1.6 million. All of the goodwill was recorded to the Trex Commercial Products reportable segment. The fair value attributed to intangible assets, which consists of production backlog and trade names and trademarks, is being amortized straight line over 12 months and is based on the estimated economics of the assets. The fair value attributed to the intangible assets acquired and goodwill was based on assumptions and other information compiled by management, including independent valuations that utilized established valuation techniques.

From July 31, 2017, through December 31, 2017, Trex Commercial Products generated $21.8 million in net sales and incurred a net loss of $2.3 million, and which included $0.5 million of acquisition-related expenses during the year ended December 31, 2017, which are included in selling, general and administrative expense.

The following pro forma results are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the years presented or the results which may occur in the future. The following unaudited pro forma results of operations assume the acquisition occurred on January 1, 2016 (in thousands, except per share amounts):

	Year Ended December 31			
	2017	2016	2017	2016
	Actual		Pro Forma	
Net sales	$565,153	$479,616	$597,288	$534,618
Net income	$ 95,128	$ 67,847	$ 96,608	$ 68,344
Basic earnings per common share	$ 3.24	$ 2.31	$ 3.29	$ 2.33
Diluted earnings per common share	$ 3.22	$ 2.29	$ 3.27	$ 2.31

Significant pro forma adjustments included in the above pro forma information include an adjustment to amortization expense for the intangible assets acquired, elimination of transaction costs related to the acquisition as such costs are considered to be non-recurring in nature, an adjustment to compensation expense related to restricted stock units granted in connection with the acquisition, the income tax effects of the adjustments based on a blended statutory rate of 38.0%.

4. INVENTORIES

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

	2017	2016
Finished goods	$ 32,986	$ 29,686
Raw materials	19,432	20,231
Total FIFO (first-in, first out) inventories	52,418	49,917
Reserve to adjust inventories to LIFO value	(20,070)	(21,371)
Total LIFO inventories	$ 32,348	$ 28,546

Inventory related to the Company's wood-alternative decking and railing products is stated at the lower of LIFO cost or net realizable value. The Company periodically reviews its inventory for slow moving or obsolete items and writes down the related products to estimated net realizable value.

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 inventory reduction during 2017 and 2016.

Inventories valued at lower of cost (FIFO method) and net realizable value as of December 31 consist of $2.2 million of raw materials. The Company utilizes the FIFO method of accounting related to its commercial railing and staging products.

5. PREPAID EXPENSES AND OTHER ASSETS

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

	2017	2016
Prepaid expenses	$ 7,494	$ 6,209
Contract retainage	1,449	—
Revenues in excess of billings	4,841	—
Income tax receivable	2,230	4,024
Other	864	167
Total prepaid expenses and other assets	$16,878	$10,400

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the activity related to the carrying amount of goodwill during the year ended December 31, 2017 (in thousands):

	2017
Beginning balance, January 1	$10,523
Goodwill recognized from acquisition of SC Company	57,938
Ending balance, December 31	$68,461

The following table reports the carrying amount of goodwill by reportable segment as of December 31, 2017 (in thousands):

	2017
Trex Residential Products	$14,216
Trex Commercial Products	54,245
Ending Balance, December 31	$68,461

Intangible assets acquired from SC Company on July 31, 2017 consist of the following at December 31, 2017:

	Net Carrying Amount (in thousands)	Amortization Period (in months)
Intangible assets:		
Customer backlog	$ 4,000	12
Trade names and trademarks	900	12
Total intangible assets	4,900	
Accumulated amortization:		
Customer backlog	(1,666)	
Trade name	(376)	
Total accumulated amortization	(2,042)	
Intantible assets, net	$ 2,858	

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 bases, which approximates the pattern in which the economic benefits are expected to be received. Amortization expense for the year ended December 31, 2017 was $2.0 million.

7. PROPERTY, PLANT AND EQUIPMENT

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

	2017	2016
Building and improvements	$ 49,403	$ 47,859
Machinery and equipment	228,107	223,450
Furniture and fixtures	1,620	2,710
Forklifts and tractors	9,799	10,167
Computer equipment	9,680	10,481
Construction in process	5,954	4,172
Land	11,417	11,417
Total property, plant and equipment	315,980	310,256
Accumulated depreciation	(212,870)	(206,970)
Total property, plant and equipment, net	$ 103,110	$ 103,286

The Company had construction in process as of December 31, 2017 of approximately $5.9 million. The Company expects that the construction in process will be completed and put into service in the year ending December 31, 2018.

Depreciation expense for the years ended December 31, 2017, 2016, and 2015 totaled $14.7 million, $14.2 million, and $14.3 million, respectively.

In January 2016, the Company sold a portion of the Olive Branch facility that contained the buildings for $4.2 million and recognized a $0.1 million gain on sale, which is reported in "Selling, general and administrative expenses" in the Consolidated Statements of Comprehensive Income. As of December 31, 2017, the Company continues to own approximately 62 acres of undeveloped land that is reported in "Property, plant and equipment, net" in the Consolidated Balance Sheet.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	2017	2016
Sales and marketing costs	$21,964	$16,707
Compensation and benefits	14,818	13,298
Manufacturing costs	1,979	1,799
Billings in excess of revenues	1,842	—
Customer deposits	1,230	—
Rent obligations	779	632
Other	3,654	2,257
Total accrued expenses	$46,266	$34,693

9. DEBT

The Company's debt consists of a revolving credit facility. At December 31, 2017 and 2016, the Company had no outstanding indebtedness. Available borrowing capacity at December 31, 2017, was $200 million.

Revolving Credit Facility

On January 12, 2016, the Company entered into a Third Amended and Restated Credit Agreement and also the First Amendment to the Third Amended and Restated Credit Agreement (together, the Third Amended Credit Agreement) with Bank of America, N.A. (BOA) as Lender, Administrative Agent, Swing Line Lender and Letter of Credit Issuer; and certain other lenders including Citibank, N.A., Capital One, N.A., and SunTrust Bank (collectively, Lenders) arranged by Bank of America Merrill Lynch as Sole Lead Arranger and Sole Bookrunner. The Third Amended Credit Agreement amended and restated the Second Amended Credit Agreement.

Under the Third Amended Credit Agreement, the Lenders agree to provide the Company with one or more revolving loans in a collective maximum principal amount of $250 million from January 1 through June 30 of each year and a maximum principal amount of $200 million from July 1 through December 31 of each year throughout the term, which ends January 12, 2021. Included within the revolving loan limit are sublimits for a letter of credit facility in an amount not to exceed $15 million and swing line loans in an aggregate principal amount at any time outstanding not to exceed $5 million. The revolving loans, the letter of credit facility and the swing line loans are for the purpose of funding working capital needs and supporting general business operations. Additionally, within the Revolving Loan Limit, the Company could borrow, repay, and reborrow, at any time or from time to time while the Third Amended Credit Agreement is in effect.

The Company has the option to select interest rates for each loan request at the Base Rate or Eurodollar Rate. Base rate loans under the revolving loans and the swing line loans accrue interest at the Base Rate plus the Applicable Rate. Eurodollar Rate Loans for the revolving loans and swing line loans accrue interest at the Adjusted London InterBank Offered Rate plus the Applicable Rate. 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%. Repayment of all then outstanding principal, interest, fees and costs is due on January 12, 2021.

The Company shall reimburse BOA for all amounts payable, including interest, under a letter of credit at the earlier of (i) the date set forth in the application, or (ii) one business day after the payment under such letter of credit by BOA.

The Third Amended Credit Agreement is secured by property with respect to which liens in favor of the Administrative Agent, for the benefit of itself and the other holders of the obligations, are purported to be granted pursuant to and in accordance with the terms of the collateral documents as referenced in the Third Amended Credit Agreement.

Compliance with Debt Covenants and Restrictions

The Company's ability to make scheduled principal and interest payments, borrow and repay amounts under any outstanding revolving credit facility and continue to comply with any loan covenants depends primarily on its ability to generate sufficient cash flows from operations. To remain in compliance with financial covenants, the Company is required to maintain specified financial ratios based on levels of debt, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of the business, some of which are discussed in this report under "Risk Factors." The material financial covenants and restrictions do not permit the Company's fixed charge coverage ratio to be less than 1.5 to 1.0 and do not permit the Company's consolidated debt to consolidated EBITDA ratio to exceed 3.0 to 1.0, measured as of the end of each fiscal quarter (and in the case of Consolidated EBITDA, for the four-quarter period ending on such date). The Company was in compliance with all covenants contained in the Third Amended Credit Agreement at December 31, 2017. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

10. FINANCIAL INSTRUMENTS

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities to approximate the fair value of the respective assets and liabilities at December 31, 2017 and 2016.

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,		
	2017	2016	2015
Numerator:			
Net income	$ 95,128	$ 67,847	$ 48,098
Denominator:			
Basic weighted average shares outstanding	29,392,559	29,394,559	31,350,542
Effect of dilutive securities:			
SARS	99,321	125,119	197,299
Restricted stock	83,580	92,991	134,668
Diluted weighted average shares outstanding	29,575,460	29,612,669	31,682,509
Basic earnings per share	$ 3.24	$ 2.31	$ 1.53
Diluted earnings per share	$ 3.22	$ 2.29	$ 1.52

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,		
	2017	2016	2015
Restricted stock	83	12	501
Stock appreciation rights	10,617	4,631	5,828

Stock Repurchase Programs

On October 23, 2014, the Board of Directors authorized a common stock repurchase program of up to 2.0 million shares of the Company's outstanding common stock (October 2014 Stock Repurchase Program). This authorization had no expiration date. During 2015, the Company repurchased 1,134,300 shares for $45.2 million under the October 2014 Stock Repurchase Program. On October 22, 2015, the Board of Directors terminated the October 2014 Stock Repurchase Program and adopted a new stock repurchase program of up to 3.15 million shares of the Company's outstanding common stock (October 2015 Stock Repurchase Program). This authorization terminated on December 31, 2016. During 2016, the Company repurchased 1,578,952 shares for $53.3 million under the October 2015 Stock Repurchase Program.

On February 16, 2017, the Board of Directors authorized a common stock repurchase program of up to 2.961 million shares of the Company's outstanding common stock (February 2017 Stock Repurchase Program). The Company made no repurchases under the February 2017 Stock Repurchase Program. On February 16, 2018, the Board of Directors terminated the February 2017 Stock Repurchase Program and adopted a new stock repurchase program of up to 2.9 million shares of the Company's outstanding common stock (February 2018 Stock Repurchase Program). As of the date of this report, the Company has made no repurchases under the February 2018 Stock Repurchase Program.

12. 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 6,420,000.

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 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,		
	2017	2016	2015
Time-based restricted stock and time-based restricted stock units	$1,992	$2,281	$2,704
Performance-based restricted stock and performance-based restricted stock units	2,805	2,210	1,562
Stock appreciation rights	251	184	525
Employee stock purchase plan	139	113	70
Total stock-based compensation	$5,187	$4,788	$4,861

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, 2017, 2016 and 2015 was $5.5 million, $1.7 million, and $9.8 million, respectively. At December 31, 2017, there was $2.1 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 1.8 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, 2014	329,562	$18.89
Granted	57,598	$43.81
Vested	(230,704)	$42.37
Forfeited	(48,549)	$20.20
Nonvested at December 31, 2015	107,907	$29.43
Granted	57,874	$37.64
Vested	(43,848)	$42.34
Forfeited	(133)	$43.89
Nonvested at December 31, 2016	121,800	$31.59
Granted	36,201	$72.54
Vested	(81,186)	$28.90
Forfeited	(256)	$37.36
Nonvested at December 31, 2017	76,559	$53.79

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, 2017, 2016, and 2015 there was $1.8 million, $1.2 million, and $0.6 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 1.9 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, 2014	42,676	$33.72
Granted	34,638	$43.89
Vested	(35,679)	$41.91
Forfeited	(12,538)	$38.12
Nonvested at December 31, 2015	29,097	$39.38
Granted	44,925	$35.83
Vested	(14,949)	$35.71
Forfeited	(657)	$33.72
Nonvested at December 31, 2016	58,416	$36.63
Granted	43,307	$57.54
Vested	(43,394)	$37.27
Forfeited	—	$ —
Nonvested at December 31, 2017	58,329	$51.69

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 compensation cost on a straight-line basis over the vesting period for the award.

As of December 31, 2017, there was $0.3 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. There were no SARs issued in the year ended December 31, 2016. For SARs issued in the years ended December 31, 2017 and 2015, respectively, the assumptions shown in the following table were used:

	December 31,	
	2017	2015
Dividend yield	0%	0%
Average risk-free interest rate	2.0%	1.6%
Expected term (years)	5	5
Expected volatility	42.3%	42.9%

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, 2017 and 2015 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 Company recognizes forfeitures as they occur.

The weighted-average grant date fair value of SARs granted during the years ended December 31, 2017 and 2015 was $27.97 and $16.26, respectively.

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

	SARs	Weighted-Average Grant Price Per Share	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of December 31, 2017
Outstanding at December 31, 2014	515,830	$13.98		
Granted	15,585	$41.19		
Exercised	(263,626)	$13.86		
Canceled	(5,712)	$21.94		
Outstanding at December 31, 2015	262,077	$13.13		
Granted	—	$ —		
Exercised	(124,352)	$11.09		
Canceled	—	$ —		
Outstanding at December 31, 2016	137,725	$19.57		
Granted	18,739	$70.75		
Exercised	(17,406)	$16.13		
Canceled	—	$ —		
Outstanding at December 31, 2017	139,058	$26.89	5.3	$11,333,033
Vested at December 31, 2017	139,058	$26.89	5.3	$11,333,033
Exercisable at December 31, 2017	115,191	$19.12	4.6	$10,282,908

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 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 600,000. Through December 31, 2017, employees had purchased approximately 429,073 shares under the plan.

Stock Options

Stock options are granted with an exercise 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 options are generally forfeitable upon termination of a holder's service as an employee or director, unless the individual's service is terminated due to retirement, death or permanent disability. The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option-pricing model. The Company recognizes compensation cost on a straight-line basis over the vesting period for the award. All outstanding options were exercised during fiscal 2015 and there were no stock options outstanding at December 31, 2017 and 2016.

13. LEASES

The Company leases office space, storage warehouses and certain office and plant equipment under various operating leases. Minimum annual payments under these non-cancelable leases as of December 31, 2017 were as follows (in thousands):

Year Ending December 31,	
2018	$10,626
2019	9,344
2020	7,223
2021	6,716
2022	4,843
Thereafter	14,046
Total minimum lease payments	$52,798

For the years ended December 31, 2017, 2016 and 2015, the Company recognized rental expenses of approximately $9.1 million, $9.9 million, and $7.7 million, respectively.

14. EMPLOYEE BENEFIT PLANS

The Company has two 401(k) Profit Sharing Plans for the benefit of its employees who meet certain eligibility requirements. The plans cover substantially all of the Company's full-time employees. One of the plans provides for the Company to match contributions equal to 100% of an employee's contribution to the plan up to 6% of base salary. The other plan provides for the Company to match $0.25 for every $1.00 contributed by an employee to the plan up to 6% of compensation.

The Company's contributions to the plans totaled $3.0 million, $2.5 million, and $2.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

15. INCOME TAXES

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

	Year Ended December 31,		
	2017	2016	2015
Current income tax provision:			
Federal	$41,177	$26,752	$25,105
State	5,420	2,798	2,560
	46,597	29,550	27,665
Deferred income tax provision:			
Federal	1,177	5,217	987
State	(983)	216	37
	194	5,433	1,024
Total income tax provision	$46,791	$34,983	$28,689

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,		
	2017	2016	2015
U.S. Federal statutory taxes	$49,671	$35,990	$26,876
State and local taxes, net of U.S. Federal benefit	5,110	3,747	2,806
Permanent items	576	396	1,308
Excess tax benefits from vesting or settlement of stock compensation awards	(1,454)	(1,749)	—
Domestic production activities deduction	(4,376)	(2,740)	(2,262)
Federal credits	(534)	(488)	(328)
Other	(2,202)	(173)	289
Total income tax provision	$46,791	$34,983	$28,689

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

	As of December 31,	
	2017	2016
Deferred tax assets:		
Net operating losses	$ 123	$ 93
Residential product warranty reserve	8,876	14,510
Stock-based compensation	1,823	2,186
Accruals not currently deductible and other	1,838	2,261
Inventories	3,783	5,785
State tax credit carryforwards	3,619	4,020
Gross deferred tax assets, before valuation allowance	20,062	28,855
Valuation allowance	(3,096)	(4,061)
Gross deferred tax assets, after valuation allowance	16,966	24,794
Deferred tax liabilities:		
Depreciation and other	(18,055)	(25,688)
Gross deferred tax liabilities	(18,055)	(25,688)
Net deferred tax (liability) asset	$ (1,089)	$ (894)

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.

The Company has recognized the tax effects of the Tax Cuts and Jobs Act (Act) in its consolidated financial statements and related notes as of and for the year ended December 31, 2017. Deferred tax assets and deferred tax liabilities that existed as of the enactment date and that are expected to reverse after the Act's effective date of January 1, 2018 have been adjusted to reflect the new Federal statutory tax rate of 21%. The effect of the change in tax rate on the deferred tax assets and deferred tax liabilities resulted in a tax benefit of $1.9 million for the year ended December 31, 2017, which is included in "Other" in the above tax rate reconciliation. We continue to analyze certain aspects of the Act and refine our calculation, which could potentially affect the measurement of these balances or give rise to new deferred tax amounts. As of December 31, 2017, the Company had a valuation allowance of $3.1 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.

In 2016, the Company adopted ASU No. 2016-09, "*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*," and, accordingly, recognizes excess tax benefits for stock-based awards within income tax expense when realized. The Company applied the guidance in the new standard prospectively as of January 1, 2016. Excess tax benefits for the year ended December 31, 2015 are recorded in additional paid-in-capital. The Company realized $1.5 million and $1.7 million of excess tax benefits during 2017 and 2016, respectively.

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, 2017, 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, 2017, Federal tax years 2013 through 2016 remain subject to examination. The Company believes that adequate provisions have been made for all tax returns subject to examination. Sales made to foreign distributors are not taxable in any foreign jurisdictions as the Company does not have a taxable presence.

16. SEGMENT INFORMATION

Prior to July 31, 2017, the Company operated in one reportable segment. Subsequent to the acquisition of certain assets and assumption of certain liabilities of SC Company on July 31, 2017, the Company operates in two reportable segments:

- Trex Residential Products manufactures wood-alternative 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 Residential Products net sales were $543.3 million, $479.6 million, and $440.8 million, in the years ended December 31, 2017, 2016, and 2015, respectively.
- Trex Commercial Products designs, engineers, and markets modular and architectural railing systems and solutions for the commercial and multifamily markets, and staging, acoustical and seating systems for commercial markets, 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. Trex Commercial Products net sales were $21.8 million from the date of acquisition through December 31, 2017.

The Company's operating 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. The below segment data for the year ended December 31, 2017, includes data for Trex Residential Products for the year ended December 31, 2017, and data for Trex Commercial Products from the date of the acquisition of SC Company through December 31, 2017 (in thousands):

	Year ended December 31, 2017		
	Residential	Commercial	Total
Net sales	$543,346	$21,807	$565,153
Net income (loss)	$ 97,412	$ (2,284)	$ 95,128
EBITDA	$160,382	$ (1,272)	$159,110
Depreciation and amortization	$ 14,598	$ 2,132	$ 16,730
Income tax expense (benefit)	$ 47,911	$ (1,120)	$ 46,791
Capital expenditures	$ 14,989	$ 51	$ 15,040
Total assets	$247,817	$78,410	$326,227

Reconciliation of net income to EBITDA:

	Year Ended December 31, 2017		
	Residential	Commercial	Total
Net income (loss)	$ 97,412	$(2,284)	$ 95,128
Interest	461	—	461
Taxes	47,911	(1,120)	46,791
Depreciation and amortization	14,598	2,132	16,730
EBITDA	$160,382	$(1,272)	$159,110

17. SEASONALITY

The Company's operating results have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for Trex products to a later period. As part of its normal business practice and consistent with industry practice, the Company 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 the Company's product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs.

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, 2017, the Company purchased substantially all of its reclaimed wood fiber requirements under purchase orders which do not involve long-term supply commitments. 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 of the wood or polyethylene a supplier provides, if the wood or polyethylene meets certain specifications. The amount 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, 2017, the Company has purchase commitments under material supply contracts of $47.2 million, $9.5 million, and $5.9 million for the years ending December 31, 2018, 2019, and 2020, respectively.

Product Warranty

The Company warrants that its 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.

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. Management utilizes 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 number of claims received has declined each year since peaking in 2009, although the rate of decline has decelerated in recent years. 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 claims received in the year ended December 31, 2017 was lower than claims received in the year ended December 31, 2016, and consistent with the Company's expectations for 2017. Also, the average settlement cost per claim experienced in the year ended December 31, 2017 was lower than the average settlement cost per claim experienced during the year ended December 31, 2016 and consistent with the Company's expectation for 2017. Based on the facts and circumstances at December 31, 2017, the Company believes its reserve is sufficient to cover future surface flaking obligations. The Company's analysis is based on currently known facts and a number of assumptions, as discussed above, and current expectations. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause 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 $2.8 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, 2017		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$33,847	$ 3,845	$37,692
Provisions and changes in estimates	—	4,268	4,268
Settlements made during the period	(5,689)	(1,272)	(6,961)
Ending balance, December 31	$28,158	$ 6,841	$34,999

	Year Ended December 31, 2016		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$29,673	$ 3,849	$33,522
Provisions and changes in estimates	9,835	1,017	10,852
Settlements made during the period	(5,661)	(1,021)	(6,682)
Ending balance, December 31	$33,847	$ 3,845	$37,692

19. INTERIM FINANCIAL DATA (Unaudited)

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(In thousands, except share and per share data)							
Net sales	$ 122,212	$ 140,194	$ 157,941	$ 144,806	$ 95,322	$ 106,168	$ 146,450	$ 131,676
Gross profit	$ 50,906	$ 55,284	$ 72,014	$ 65,169	$ 38,113	$ 29,945	$ 61,410	$ 57,627
Net income	$ 18,299	$ 20,098	$ 28,782	$ 27,949	$ 12,629	$ 7,787	$ 23,725	$ 23,706
Basic net income per share	$ 0.62	$ 0.68	$ 0.98	$ 0.95	$ 0.43	$ 0.27	$ 0.81	$ 0.80
Basic weighted average common shares outstanding	29,412,848	29,404,049	29,389,458	29,363,210	29,318,915	29,295,284	29,264,362	29,697,722
Diluted net income per share	$ 0.62	$ 0.68	$ 0.97	$ 0.95	$ 0.43	$ 0.26	$ 0.80	$ 0.79
Diluted weighted average common shares outstanding	29,611,129	29,578,216	29,550,418	29,561,406	29,543,842	29,516,718	29,477,870	29,910,292

The Company's operating results have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions in certain geographic regions reduce the level of home improvement and construction activity and can shift demand for Trex products to a later period.

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. Accordingly, the Company has recognized the tax effects of the Act in its consolidated 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 are expected to reverse after the Act's effective date of January 1, 2018 have been adjusted to reflect the new Federal statutory tax rate of 21%. The effect of the change in tax rate on the deferred tax assets and deferred tax liabilities resulted in a tax benefit of $1.9 million for the year ended December 31, 2017.

TREX COMPANY, INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In thousands)

Descriptions	Balance at Beginning of Period	Additions (Reductions) Charged to Cost and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2017:				
Residential product warranty reserve	$37,692	$ 4,268	$(6,961)	$34,999
Income tax valuation allowance	$ 4,061	$ —	$ (965)	$ 3,096
Year ended December 31, 2016:				
Residential product warranty reserve	$33,522	$10,852	$(6,682)	$37,692
Income tax valuation allowance	$ 4,582	$ —	$ (521)	$ 4,061
Year ended December 31, 2015:				
Residential product warranty reserve	$33,841	$ 8,515	$(8,834)	$33,522
Income tax valuation allowance	$ 4,465	$ 117	$ —	$ 4,582

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Trex Company, Inc.

Date: February 21, 2018

By: /s/ JAMES E. CLINE

James E. Cline
President and Chief Executive Officer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed as of February 21, 2018 by the following persons on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ JAMES E. CLINE **James E. Cline**	President and Chief Executive Officer (Principal Executive Officer); Director
/s/ BRYAN H. FAIRBANKS **Bryan H. Fairbanks**	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ RONALD W. KAPLAN **Ronald W. Kaplan**	Chairman
/s/ MICHAEL F. GOLDEN **Michael F. Golden**	Director
/s/ JAY M. GRATZ **Jay M. Gratz**	Director
/s/ FRANK H. MERLOTTI, JR. **Frank H. Merlotti, Jr.**	Director
/s/ RICHARD E. POSEY **Richard E. Posey**	Director
/s/ PATRICIA B. ROBINSON **Patricia B. Robinson**	Director
/s/ GERALD VOLAS **Gerald Volas**	Director

OFFICERS

JAMES E. CLINE
President and Chief Executive Officer

BRYAN H. FAIRBANKS
Vice President and Chief Financial Officer

CHRISTOPHER P. GERHARD
Vice President, Sales

WILLIAM R. GUPP
Senior Vice President, General Counsel and Secretary

JOHN G. LEWIS
President and Chief Executive Officer
of Trex Commercial Products, Inc.

JACOB T. RUDOLPH
Vice President, Human Resources

JAY T. SCRIPTER
Vice President, Operations

ADAM D. ZAMBANINI
Vice President, Marketing

DIRECTORS & COMMITTEE MEMBERSHIPS

JAMES E. CLINE

MICHAEL F. GOLDEN
Nominating/Corporate Governance Committee Chairman
Audit Committee Member

JAY M. GRATZ
Audit Committee Chairman
Compensation Committee Member

RONALD W. KAPLAN
Chairman of the Board

FRANK H. MERLOTTI, JR.
Compensation Committee Member
Nominating/Corporate Governance Committee Member

RICHARD E. POSEY
Compensation Committee Chairman
Audit Committee Member

PATRICIA B. ROBINSON
Lead Independent Director
Compensation Committee Member
Nominating/Corporate Governance Committee Member

GERALD VOLAS
Audit Committee Member
Nominating/Corporate Governance Committee Member

CORPORATE INFORMATION

CORPORATE OFFICE
Trex Company, Inc.
160 Exeter Drive
Winchester, VA 22603-8605
540-542-6300
www.trex.com

LEGAL COUNSEL
Woods Rogers PLC

INDEPENDENT AUDITORS
Ernst & Young LLP

TRANSFER AGENT
Computershare
P.O. Box 505000
Louisville, KY 40233-5000
Toll Free #: 866-337-6287
Foreign Holders: 201-680-6578
www.computershare.com/investor

INVESTOR CONTACT
AdvisIRy Partners
501 Madison Avenue, Floor 12A
New York, NY 10022
212-750-5800
www.advisiry.com

STOCK SYMBOL
NYSE: TREX

Trex® Signature™ Rod Rail — Coming in Spring 2018

BACK
Monmouth, New Jersey, USA
—
decking: Transcend® in Spiced Rum
railing: Transcend® Railing and Trex® Outdoor Furniture™

FRONT
Gig Harbor, Washington, USA
—
decking: Enhance® decking in Clam Shell
railing: Transcend® railing with glass panels and Trex® Pergola™ with retractable shade

Engineering What's Next in Outdoor Living®

Trex Company, Inc.
160 Exeter Drive
Winchester, VA 22603-8605
trex.com