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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from to

Commission File Number: 001-14649

Trex Company, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares of the registrant's common stock, par value $0.01 per share, outstanding at October 20, 2020 was 115,787,185 shares.

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

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

TREX COMPANY, INC.

INDEX

PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net sales	$ 231,502	$ 194,551	$ 652,545	$ 580,575
Cost of sales	146,538	112,120	385,479	345,334
Gross profit	84,964	82,431	267,066	235,241
Selling, general and administrative expenses	28,027	27,409	91,598	93,281
Income from operations	56,937	55,022	175,468	141,960
Interest income, net	(208)	(744)	(801)	(801)
Income before income taxes	57,145	55,766	176,269	142,761
Provision for income taxes	14,435	13,790	43,938	33,520
Net income	$ 42,710	$ 41,976	$ 132,331	$ 109,241
Basic earnings per common share	$ 0.37	$ 0.36	$ 1.14	$ 0.94
Basic weighted average common shares outstanding	115,773,030	116,802,366	115,921,463	116,952,860
Diluted earnings per common share	$ 0.37	$ 0.36	$ 1.14	$ 0.93
Diluted weighted average common shares outstanding	116,134,623	117,211,452	116,280,807	117,413,920
Comprehensive income	$ 42,710	$ 41,976	$ 132,331	$ 109,241

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands)

	September 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 20,081	$ 148,833
Accounts receivable, net	253,416	78,462
Inventories	51,581	56,106
Prepaid expenses and other assets	17,822	19,803
Total current assets	342,900	303,204
Property, plant and equipment, net	260,519	171,300
Goodwill and other intangible assets, net	73,770	74,084
Operating lease assets	37,056	40,049
Other assets	3,990	3,602
Total assets	$ 718,235	$ 592,239
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 33,345	$ 15,227
Accrued expenses and other liabilities	71,164	58,265
Accrued warranty	5,600	5,178
Total current liabilities	110,109	78,670
Operating lease liabilities	30,182	34,242
Non-current accrued warranty	24,049	20,317
Deferred income taxes	9,831	9,831
Other long-term liabilities	—	4
Total liabilities	174,171	143,064
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value, 180,000,000 shares authorized; 140,563,175 and 140,374,926 shares issued and 115,785,673 and 116,481,442 shares outstanding at September 30, 2020 and December 31, 2019, respectively	1,406	1,404
Additional paid-in capital	124,923	123,294
Retained earnings	694,010	561,680
Treasury stock, at cost, 24,777,502 and 23,893,484 shares at September 30, 2020 and December 31, 2019, respectively	(276,275)	(237,203)
Total stockholders' equity	544,064	449,175
Total liabilities and stockholders' equity	$ 718,235	$ 592,239

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)

(In thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance, December 31, 2019	116,481,442	$1,404	$123,294	$561,680	23,893,484	$(237,203)	$449,175
Net income	—	—	—	42,402	—	—	42,402
Employee stock plans	32,772	—	299	—	—	—	299
Shares withheld for taxes on awards	(76,284)	—	(3,856)	—	—	—	(3,856)
Stock-based compensation	152,408	—	2,775	—	—	—	2,775
Repurchases of common stock	(884,018)	—	—	—	884,018	(39,072)	(39,072)
Balance, March 31, 2020	115,706,320	$1,404	$122,512	$604,082	24,777,502	$(276,275)	$451,723
Net income	—	—	—	47,218	—	—	47,218
Employee stock plans	16,412	—	391	—	—	—	391
Shares withheld for taxes on awards	(24,786)	—	(1,199)	—	—	—	(1,199)
Stock-based compensation	58,060	1	1,527	—	—	—	1,528
Balance, June 30, 2020	115,756,006	$1,405	$123,231	$651,300	24,777,502	$(276,275)	$499,661
Net income	—	—	—	42,710	—	—	42,710
Employee stock plans	6,559	—	390	—	—	—	390
Shares withheld for taxes on awards	(4,486)	—	(313)	—	—	—	(313)
Stock-based compensation	27,594	1	1,615	—	—	—	1,616
Balance, September 30, 2020	115,785,673	$1,406	$124,923	$694,010	24,777,502	$(276,275)	$544,064

	Common Stock		Additional Paid-In	Retained	Treasury Stock		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance, December 31, 2018	117,103,306	$1,400	$123,524	$416,942	22,893,366	$(198,903)	$342,963
Net income	—	—	—	31,555	—	—	31,555
Employee stock plans	48,944	—	302	—	—	—	302
Shares withheld for taxes on awards	(148,020)	—	(5,727)	—	—	—	(5,727)
Stock-based compensation	320,718	1	2,793	—	—	—	2,794
Repurchases of common stock	(249,978)	—	—	—	249,978	(8,730)	(8,730)
Balance, March 31, 2019	117,074,970	$1,401	$120,892	$448,497	23,143,344	$(207,633)	$363,157
Net income	—	—	—	35,710	—	—	35,710
Employee stock plans	29,810	—	257	—	—	—	257
Shares withheld for taxes on awards	(38,348)	—	(1,254)	—	—	—	(1,254)
Stock-based compensation	64,278	—	2,125	—	—	—	2,125
Repurchases of common stock	(250,302)	—	—	—	250,302	(8,462)	(8,462)
Balance, June 30, 2019	116,880,408	$1,401	$122,020	$484,207	23,393,646	$(216,095)	$391,533
Net income	—	—	—	41,976	—	—	41,976
Employee stock plans	52,324	1	158	—	—	—	159
Shares withheld for taxes on awards	(9,444)	—	(963)	—	—	—	(963)
Stock-based compensation	34,618	—	926	—	—	—	926
Repurchases of common stock	(249,960)	—	—	—	249,960	(10,081)	(10,081)
Balance, September 30, 2019	116,707,946	$1,402	$122,141	$526,183	23,643,606	$(226,176)	$423,550

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Activities		
Net income	$ 132,331	$109,241
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,450	10,477
Stock-based compensation	5,919	5,844
(Gain) loss on disposal of property, plant and equipment	(138)	90
Other non-cash adjustments	(28)	(372)
Changes in operating assets and liabilities:		
Accounts receivable	(174,954)	(26,225)
Inventories	4,525	13,878
Prepaid expenses and other assets	(694)	2,129
Accounts payable	14.447	(6,443)
Accrued expenses and other liabilities	13,286	(10,262)
Income taxes receivable/payable	5,370	629
Net cash provided by operating activities	12,514	98,986
Investing Activities		
Expenditures for property, plant and equipment	(99,696)	(36,926)
Proceeds from sales of property, plant and equipment	2,150	21
Net cash used in investing activities	(97,546)	(36,905)
Financing Activities		
Borrowings under line of credit	235,000	89,500
Principal payments under line of credit	(235,000)	(89,500)
Repurchases of common stock	(44,437)	(35,216)
Financing costs	(361)	—
Proceeds from employee stock purchase and option plans	1,078	718
Net cash used in financing activities	(43,720)	(34,498)
Net (decrease) increase in cash and cash equivalents	(128,752)	27,583
Cash and cash equivalents, beginning of period	148,833	105,699
Cash and cash equivalents, end of period	$ 20,081	$133,282
Supplemental Disclosure:		
Cash paid for interest	$ 155	$ 321
Cash paid for income taxes, net	$ 38,567	$ 32,872

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (Company) is the world's largest manufacturer of high-performance, low-maintenance wood-alternative decking and residential railing and outdoor living products and accessories, marketed under the brand name Trex®, with more than 25 years of product experience. A majority of its products are manufactured in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. Also, the Company is a leading national provider of custom-engineered railing and staging systems for the commercial and multi-family market, including sports stadiums and performing arts venues. The Company operates in two reportable segments, Trex Residential Products (Trex Residential) and Trex Commercial Products (Trex Commercial). The Company is incorporated in Delaware. The principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and the telephone number at that address is (540) 542-6300.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, the accompanying unaudited condensed consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments except as otherwise described herein) considered necessary for a fair presentation have been included in the accompanying unaudited condensed consolidated financial statements. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Trex Commercial Products, Inc., for all periods presented.

The unaudited consolidated results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020. The Company's results of operations are affected by economic conditions, including macroeconomic conditions and levels of business confidence. As of the date of this report, the Company has not experienced any material disruptions to its operations, production or its supply chain and has not experienced any material reduction in demand for its products due to the COVID-19 pandemic. However, the pandemic remains an evolving situation due to the continuation of the outbreak and any future measures that may be taken to contain the spread of the virus. In addition, the extent and duration of the economic fallout from COVID-19 remains unclear. The Company is actively managing its business to respond to the impact, such as engaging with its distributor network regarding market demand, ongoing communications with its suppliers, and continuing to ensure the safety of its employees. The Company will continue to evaluate the nature and extent of the impact to its business and consolidated results of operations and financial condition.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 included in the Annual Report of Trex Company, Inc. on Form 10-K, as filed with the U.S. Securities and Exchange Commission.

3. RECENTLY ADOPTED ACCOUNTING STANDARDS

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-15, "*Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of FASB Emerging Issues Task Force)*". The new guidance aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal-use software license. Under that model, implementation costs are capitalized or expensed depending on the nature of the costs and the project stage during which they are incurred. Capitalized implementation costs are amortized over the term of the associated hosted cloud computing arrangement service contract on a straight-line basis, unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from its right to access the hosted software. Capitalized implementation costs would then be assessed for impairment in a manner similar to long-lived assets.

The new guidance was effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Entities can adopt the new guidance either prospectively to eligible costs incurred on or after the date the guidance is first applied or retrospectively. The Company adopted the guidance prospectively on January 1, 2020. Adoption did not have a material impact on its consolidated financial condition or results of operations.

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

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses in Financial Instruments*," as amended. The ASU amends the guidance on the impairment of financial instruments and adds an impairment model, known as the current expected credit loss (CECL) model. The CECL model requires an entity to recognize its current estimate of all expected credit losses, rather than incurred losses, and applies to trade receivables and other receivables. The CECL model is designed to capture expected credit losses through the establishment of an allowance account, which will be presented as an offset to the amortized cost basis of the related financial asset. The new guidance was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is applied using the modified-retrospective approach. The Company adopted the guidance on January 1, 2020. Adoption did not have a material impact on its consolidated financial condition or results of operations.

4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

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

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

5. INVENTORIES

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

	September 30, 2020	December 31, 2019
Finished goods	$ 32,691	$ 42,281
Raw materials	36,515	31,686
Total FIFO (first-in, first-out) inventories	69,206	73,967
Reserve to adjust inventories to LIFO value	(19,062)	(19,062)
Total LIFO inventories	$ 50,144	$ 54,905

The Company utilizes the LIFO method of accounting to its Trex Residential wood-alternative decking and residential railing products, which generally provides for the matching of current costs with current revenues. However, under the LIFO method, reductions in annual inventory balances cause a portion of the Company's cost of sales to be based on historical costs rather than current year costs (LIFO liquidation). Reductions in interim inventory balances expected to be replenished by year-end do not result in a LIFO liquidation. Accordingly, interim LIFO calculations are based, in part, on management's estimates of expected year-end inventory levels and costs, which may differ from actual results. Since inventory levels and costs are subject to factors beyond management's control, interim results are subject to the final year-end LIFO inventory valuation. As of September 30, 2020, management estimates that interim inventory balances will be replenished by year-end and there were no LIFO inventory liquidations or related impact on cost of sales in the nine months ended September 30, 2020.

Inventories valued at lower of cost (FIFO method) and net realizable value were $1.4 million at September 30, 2020 and $1.2 million at December 31, 2019, consisting primarily of raw materials. The Company utilizes the FIFO method of accounting to its Trex Commercial architectural railing and staging system products.

6. PREPAID EXPENSES AND OTHER ASSETS

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

	September 30, 2020	December 31, 2019
Revenues in excess of billings	$ 8,838	$ 8,282
Prepaid expenses	6,407	6,664
Contract retainage	2,277	1,832
Income tax receivable	—	2,675
Other	300	350
Total prepaid expenses and other assets	$ 17,822	$ 19,803

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill by reportable segment at September 30, 2020 and December 31, 2019 was $14.2 million for Trex Residential and $54.3 million for Trex Commercial.

The Company's intangible assets consist of domain names. At September 30, 2020 and December 31, 2019, intangible assets were $6.3 million and accumulated amortization was $1.0 million and $0.7 million, respectively. Intangible asset amounts were determined based on the estimated economics of the asset and are amortized over the estimated useful lives on a straight-line basis over 15 years, which approximates the pattern in which the economic benefits are expected to be received. The Company evaluates the recoverability of intangible assets periodically and considers events or circumstances that may warrant revised estimates of useful lives or that may indicate an impairment. Intangible asset amortization expense for the nine months ended September 30, 2020 was $0.3 million and for the nine-months ended September 30, 2019 was $0.3 million.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2020	December 31, 2019
Sales and marketing	$ 32,645	$ 28,402
Compensation and benefits	14,485	13,475
Operating lease liabilities	7,961	7,079
Manufacturing costs	3,309	2,564
Customer deposits	3,179	2,905
Income taxes	2,696	—
Billings in excess of revenues	1,498	816
Other	5,391	3,024
Total accrued expenses and other liabilities	$ 71,164	$ 58,265

9. DEBT

The Company's outstanding debt consists of a revolving credit facility. The Company had no outstanding borrowings under its revolving credit facility and remaining available borrowing capacity of $300 million at September 30, 2020.

Revolving Credit Facility

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

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

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

The Notes and interest rates for the Revolving A Commitments remained unchanged and are the same as previously disclosed. The Notes for Revolving A Commitments and Revolving B Commitments provide the Company, in the aggregate, the ability to borrow an amount up to the respective Revolving A Loan Limit and Revolving B Loan Limit during the respective Revolving A Term and Revolving B Term. The Company is not obligated to borrow any amount under either the

Revolving A Loan or the Revolving B Loan. Within either the Revolving A Loan or the Revolving B Loan, the Company may borrow, repay and reborrow at any time or from time to time while the respective Revolving A Loan or Revolving B Loan remains in effect.

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

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

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

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

Compliance with Debt Covenants and Restrictions

Pursuant to the terms of the Fourth Amended Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of September 30, 2020. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

10. LEASES

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

For the nine months ended September 30, 2020 and September 30, 2019, total operating lease expense was $6.3 million and $6.3 million, respectively. The weighted average remaining lease term at September 30, 2020 and December 31, 2019 was 5.7 years and 6.5 years, respectively. The weighted average discount rate at September 30, 2020 and December 31, 2019 was 3.51% and 3.66%, respectively.

The following table includes supplemental cash flow information for the nine months ended September 30, 2020 and September 30, 2019 and supplemental balance sheet information at September 30, 2020 and December 31, 2019 related to operating leases (in thousands):

	Nine Months Ended	
Supplemental cash flow information	**September 30, 2020**	**September 30, 2019**
Cash paid for amounts included in the measurement of operating lease liabilities	$ 6,506	$ 6,356
Operating ROU assets obtained in exchange for lease liabilities	$ 2,254	$ 855

Supplemental balance sheet information	September 30, 2020	December 31, 2019
Operating lease ROU assets	$ 37,056	$ 40,049
Operating lease liabilities:		
Accrued expenses and other current liabilities	$ 7,961	$ 7,079
Operating lease liabilities	30,182	34,242
Total operating lease liabilities	$ 38,143	$ 41,321

The following table summarizes maturities of operating lease liabilities at September 30, 2020 (in thousands):

Maturities of operating lease liabilities	
2020	$ 2,301
2021	9,024
2022	7,155
2023	6,553
2024	6,224
Thereafter	11,078
Total lease payments	42,335
Less imputed interest	(4,192)
Total operating lease liabilities	$38,143

11. FINANCIAL INSTRUMENTS

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, other current liabilities, and debt to approximate the fair value of the respective assets and liabilities on the Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019.

12. STOCKHOLDERS' EQUITY

Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income available to common shareholders	$ 42,710	$ 41,976	$ 132,331	$ 109,241
Denominator:				
Basic weighted average shares outstanding	115,773,030	116,802,366	115,921,463	116,952,860
Effect of dilutive securities:				
Stock appreciation rights and options	202,113	230,350	187,767	266,060
Restricted stock	159,480	178,736	171,577	195,000
Diluted weighted average shares outstanding	116,134,623	117,211,452	116,280,807	117,413,920
Basic earnings per share	$ 0.37	$ 0.36	$ 1.14	$ 0.94
Diluted earnings per share	$ 0.37	$ 0.36	$ 1.14	$ 0.93

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock appreciation rights	390	46,844	19,415	40,514

Stock Repurchase Program

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

Amendment of Restated Certificate of Incorporation

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

Stock Split

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

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

<u>*Trex Residential Products*</u>

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

Trex Commercial Products

Trex Commercial generates revenue from the manufacture and sale of its modular and architectural railing and staging systems. All of its revenues are from fixed-price contracts with customers. Trex Commercial contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and is, therefore, not distinct. The transaction price allocated to remaining performance obligations on contracts with an original duration greater than one year was $60.1 million as of September 30, 2020. The Company will recognize this revenue as contracts are completed, which is expected to occur within the next 24 months.

For the three months and nine months ended September 30, 2020 and 2019, net sales were disaggregated in the following tables by (1) market, (2) timing of revenue recognition, and (3) type of contract. The tables also include a reconciliation of the respective disaggregated net sales with the Company's reportable segments (in thousands).

Three Months Ended September 30, 2020	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$218,435	$ —	$218,435
Products transferred over time and fixed price contracts	—	13,067	13,067
	$218,435	$ 13,067	$231,502

Nine Months Ended September 30, 2020	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$614,187	$ —	$614,187
Products transferred over time and fixed price contracts	—	38,358	38,358
	$614,187	$ 38,358	$652,545

Three Months Ended September 30, 2019	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$182,775	$ —	$182,775
Products transferred over time and fixed price contracts	—	11,776	11,776
	$182,775	$ 11,776	$194,551

Nine Months Ended September 30, 2019	Reportable Segment		
	Trex Residential	*Trex Commercial*	*Total*
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	$541,722	$ —	$541,722
Products transferred over time and fixed price contracts	—	38,853	38,853
	$541,722	$ 38,853	$580,575

14. STOCK-BASED COMPENSATION

The Company has one stock-based compensation plan, the 2014 Stock Incentive Plan (Plan), approved by the Company's stockholders in April 2014. The Plan amended and restated in its entirety the Trex Company, Inc. 2005 Stock Incentive Plan. The Plan was subsequently amended and restated by the Company's Board of Directors in May 2014 and May 2018. The Plan is administered by the Compensation Committee of the Company's Board of Directors. Stock-based compensation is granted to officers, directors and certain key employees in accordance with the provisions of the Plan. The Plan provides for grants of stock options, restricted stock, restricted stock units, stock appreciation rights (SARs), and unrestricted stock. The total aggregate number of shares of the Company's common stock that may be issued under the Plan is 25,680,000 and as of September 30, 2020, the total number of shares available for future issuance is 11,262,482.

The following table summarizes the Company's stock-based compensation grants for the nine months ended September 30, 2020:

	Stock Awards Granted	Weighted-Average Grant Price Per Share
Time-based restricted stock units	54,126	$ 53.87
Performance-based restricted stock units (a)	78,404	$ 39.60
Stock appreciation rights	43,830	$ 50.39

(a) Includes 54,024 of target performance-based restricted stock unit awards granted during the nine months ended September 30, 2020, and adjustments of (5,124), 6,058 and 23,446 to grants due to the actual performance level achieved for restricted stock and restricted stock units awarded in 2019, 2018, and 2017, respectively.

The fair value of each SAR is estimated on the date of grant using a Black-Scholes option-pricing formula. For SARs issued in the nine months ended September 30, 2020 and 2019 the data and assumptions shown in the following table were used:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Weighted-average fair value of grants	$ 17.81	$ 14.78
Dividend yield	0%	0%
Average risk-free interest rate	1.3%	2.5%
Expected term (years)	5	5
Expected volatility	38.3%	39.1%

The Company recognizes stock-based compensation expense ratably over the period from the grant date to the earlier of: (1) the vesting date of the award, or (2) the date the grantee is eligible to retire without forfeiting the award. For performance-based restricted stock and performance-based restricted stock units, expense is recognized ratably over the performance and vesting period of each tranche based on management's judgment of the ultimate award that is likely to be paid out based on the achievement of the predetermined performance measures. For the employee stock purchase plan, compensation expense is recognized related to the discount on purchases. Stock-based compensation expense in included in "Selling, general and administrative expenses" in the Condensed Consolidated Statements of Comprehensive Income. The following table summarizes the Company's stock-based compensation expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock appreciation rights	$ 99	$ 82	$ 548	$ 580
Time-based restricted stock and restricted stock units	663	602	2,590	3,057
Performance-based restricted stock and restricted stock units	774	162	2,471	2,045
Employee stock purchase plan	79	80	310	162
Total stock-based compensation	$ 1,615	$ 926	$ 5,919	$ 5,844

Total unrecognized compensation cost related to unvested awards as of September 30, 2020 was $6.7 million. The cost of these unvested awards is being recognized over the requisite vesting period of each award.

15. INCOME TAXES

The Company's effective tax rate for the nine months ended September 30, 2020 and 2019 was 24.9% and 23.5%, respectively, which resulted in expense of $43.9 million and $33.5 million, respectively. The increase of 1.4% in the effective tax rate was primarily due to a current year decrease in excess tax benefits from the exercise of share-based payments and an increase in non-deductible executive compensation.

During the nine months ended September 30, 2020 and 2019, the Company realized $1.4 million and $3.3 million, respectively, of excess tax benefits from stock-based awards and recorded a corresponding benefit to income tax expense.

The Company analyzes its deferred tax assets each reporting period, considering all available positive and negative evidence in determining the expected realization of those deferred tax assets. As of September 30, 2020, the Company maintains a valuation allowance of $3.0 million against deferred tax assets primarily related to state tax credits it estimates will expire before they are realized.

In response to COVID-19, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including deferring the due dates of certain tax payment requirements, including the employer portion of the Social Security tax, and the creation of certain refundable employee retention credits. The Company evaluated the impact on its consolidated financial statements and determined that as of September 30, 2020, the CARES Act did not have a material impact on its consolidated financial condition or results of operations and the Company did not receive any financial assistance under the CARES Act or similar programs.

The Company operates in multiple tax jurisdictions and, in the normal course of business, its tax returns are subject to examination by various taxing authorities. Such examinations may result in future assessments by these taxing authorities, and the Company accrues a liability when it believes that it is more likely than not that benefits of tax positions will not be realized. The Company believes that adequate provisions have been made for all tax returns subject to examination. As of September 30, 2020, for certain tax jurisdictions tax years 2016 through 2019 remain subject to examination. The Company's returns filed with the states of Michigan and Utah for the tax years 2016 through 2018 are currently under examination. No material adjustments are expected as a result of the audit. Sales made to foreign distributors are not taxable in any foreign jurisdiction as the Company does not have a taxable presence in any foreign jurisdiction.

16. SEGMENT INFORMATION

The Company operates in two reportable segments:

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

The Company's reportable segments have been determined in accordance with its internal management structure, which is organized based on residential and commercial sales activities. The Company evaluates performance of each segment primarily based on net sales and earnings before interest, income taxes, depreciation and amortization (EBITDA). The Company uses net sales to assess performance and allocate resources as this measure represents the amount of business the segment engaged in during a given period of time, is an indicator of market growth and acceptance of segment products, and represents the segment's customers' spending habits along with the amount of product the segment sells relative to its competitors. The Company uses EBITDA to assess performance and allocate resources because it believes that EBITDA facilitates performance comparison between the segments by eliminating interest, income taxes, and depreciation and amortization charges to income. The below segment data for the three and nine months ended September 30, 2020 and 2019 includes data for Trex Residential and Trex Commercial (in thousands):

Segment Data:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net sales	$ 218,435	$ 13,067	$231,502	$ 182,775	$ 11,776	$194,551
Net income	$ 42,225	$ 485	$ 42,710	$ 41,381	$ 595	$ 41,976
EBITDA	$ 60,619	$ 853	$ 61,472	$ 57,639	$ 970	$ 58,609
Depreciation and amortization	$ 4,326	$ 209	$ 4,535	$ 3,422	$ 165	$ 3,587
Income tax expense	$ 14,276	$ 159	$ 14,435	$ 13,580	$ 210	$ 13,790
Capital expenditures	$ 36,887	$ 197	$ 37,084	$ 17,766	$ 99	$ 17,865
Total assets	$ 624,904	$ 93,331	$718,235	$ 482,825	$ 87,945	$570,770

Reconciliation of Net Income to EBITDA:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net income	$ 42,225	$ 485	$42,710	$ 41,381	$ 595	$41,976
Interest income, net	(208)	—	(208)	(744)	—	(744)
Income tax expense	14,276	159	14,435	13,580	210	13,790
Depreciation and amortization	4,326	209	4,535	3,422	165	3,587
EBITDA	$ 60,619	$ 853	$61,472	$ 57,639	$ 970	$58,609

Segment Data:

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net sales	$ 614,187	$ 38,358	$652,545	$ 541,722	$ 38,853	$580,575
Net income	$ 129,157	$ 3,174	$132,331	$ 107,859	$ 1,382	$109,241
EBITDA	$ 183,064	$ 4,854	$187,918	$ 150,058	$ 2,282	$152,340
Depreciation and amortization	$ 11,855	$ 595	$ 12,450	$ 9,947	$ 433	$ 10,380
Income tax expense	$ 42,853	$ 1,085	$ 43,938	$ 33,046	$ 474	$ 33,520
Capital expenditures	$ 98,913	$ 783	$ 99,696	$ 35,584	$ 1,342	$ 36,926
Total assets	$ 624,904	$ 93,331	$718,235	$ 482,825	$ 87,945	$570,770

Reconciliation of Net Income to EBITDA:

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total	Trex Residential	Trex Commercial	Total
Net income	$ 129,157	$ 3,174	$132,331	$ 107,859	$ 1,382	$109,241
Interest income, net	(801)	—	(801)	(794)	(7)	(801)
Income tax expense	42,853	1,085	43,938	33,046	474	33,520
Depreciation and amortization	11,855	595	12,450	9,947	433	10,380
EBITDA	$ 183,064	$ 4,854	$187,918	$ 150,058	$ 2,282	$152,340

17. SEASONALITY

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

18. COMMITMENTS AND CONTINGENCIES

Product Warranty

The Company warrants that its decking and residential railing products will be free from material defects in workmanship and materials for warranty periods ranging from 10 years to 25 years, depending on the product and its use. If there is a breach of such warranties, the Company has an obligation either to replace the defective product or refund the purchase price. The Company continues to receive and settle claims for products manufactured at its Nevada facility prior to 2007 that exhibit surface flaking and maintains a warranty reserve to provide for the settlement of these claims. Estimating the warranty reserve for surface flaking claims requires management to estimate (1) the number of claims to be settled with payment and (2) the average cost to settle each claim.

To estimate the number of claims to be settled with payment, the Company utilizes actuarial techniques to quantify both the expected number of claims to be received and the percentage of those claims that will ultimately require payment (collectively, elements). Estimates for these elements are quantified using a range of assumptions derived from claim count history and the identification of factors influencing the claim counts. The cost per claim varies due to a number of factors, including the size of affected decks, the availability and type of replacement material used, the cost of production of replacement material and the method of claim settlement.

The Company monitors surface flaking claims activity each quarter for indications that its estimates require revision. Typically, a majority of surface flaking claims received in a year are received during the summer outdoor season, which spans the second and third quarters. It has been the Company's practice to utilize the actuarial techniques discussed above during the third quarter, after a significant portion of all claims has been received for the fiscal year and variances to annual claims expectations are more meaningful.

The number of incoming claims received in the nine months ended September 30, 2020, was higher than the number of claims received in the nine months ended September 30, 2019 and exceeded the Company's expectations for the current year. Prior to 2020, the number of incoming claims received declined each year since 2009. After evaluating the rise in incoming claims in its actuarial analysis, the Company increased its estimate of the number of future claims to be settled with payment. Average cost per claim experienced in the nine months ended September 30, 2020 was lower than that experienced in the nine months ended September 30, 2019 but higher than the Company's expectations for the current year. The Company estimates that average cost per claim will increase in future years, primarily due to inflation.

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

The Company's analysis is based on currently known facts and a number of assumptions, as discussed above, and current expectations. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause actual warranty liabilities to be higher or lower than those projected, which could materially affect the Company's consolidated financial condition, results of operations or cash flows. The Company estimates that the annual number of claims received will decline over time and that the average cost per claim will increase, primarily due to inflation. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases or decreases to the warranty reserve and a decrease or increase in earnings and cash flows in future periods. The Company estimates that a 10% change in the expected number of remaining claims to be settled with payment or the expected cost to settle claims may result in approximately a $2.2 million change in the surface flaking warranty reserve.

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

	Nine Months Ended September 30, 2020		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 19,024	$ 6,470	$ 25,494
Provisions and changes in estimates	6,479	1,932	8,411
Settlements made during the period	(3,078)	(1,178)	(4,256)
Ending balance, September 30	$ 22,425	$ 7,224	$ 29,649

	Nine Months Ended September 30, 2019		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	$ 23,951	$ 6,803	$ 30,754
Provisions and changes in estimates	—	1,571	1,571
Settlements made during the period	(4,027)	(1,004)	(5,031)
Ending balance, September 30	$ 19,924	$ 7,370	$ 27,294

Legal Matters

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

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

The following management discussion should be read in conjunction with the Trex Company, Inc. (Company, we or our) Annual Report on Form 10-K for the year ended December 31, 2019 filed with the U.S. Securities and Exchange Commission (SEC) and the condensed consolidated financial statements and notes thereto included in Part I, Item 1. "Financial Statements" of this quarterly report.

NOTE ON FORWARD-LOOKING STATEMENTS

This management's discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as "may," "will," "anticipate," "estimate," "expect," "intend" or similar expressions. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC, and the factor discussed under "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q. These statements are also subject to risks and uncertainties that could cause the Company's actual operating results to differ materially. Such risks and uncertainties include, but are not limited to: the extent of market acceptance of the Company's current and newly developed products; the costs associated with the development and launch of new products and the market acceptance of such new products; the sensitivity of the Company's business to general economic conditions; the impact of seasonal and weather-related demand fluctuations on inventory levels in the distribution channel and sales of the Company's products; the availability and cost of third-party transportation services for the Company's products and raw materials; the Company's ability to obtain raw materials, including scrap polyethylene, wood fiber, and other materials used in making our products, at acceptable prices; the Company's ability to maintain product quality and product performance at an acceptable cost; the Company's ability to increase throughput and capacity to adequately match supply with demand; the level of expenses associated with product replacement and consumer relations expenses related to product quality; the highly competitive markets in which the Company operates; cyber-attacks, security breaches or other security vulnerabilities; the impact of upcoming data privacy laws and the EU General Data Protection Regulation and the related actual or potential costs and consequences; material adverse impacts from global public health pandemics, including the strain of coronavirus known as COVID-19; and material adverse impacts related to labor shortages or increases in labor costs.

OVERVIEW

COVID-19: Our results of operations are affected by economic conditions, including macroeconomic conditions and levels of business and consumer confidence. The COVID-19 pandemic has increased the level of volatility and uncertainty globally and has created macroeconomic disruption. We are actively managing our business to respond to this health crisis and we continue to evaluate the nature and extent of its impact. As of the date of this report, we continue to operate at output levels similar to those prior to the COVID-19 pandemic, and the pandemic did not have a material adverse effect on our business, results of operations, cash flows or financial condition. We have not experienced any material disruptions to our operations, production or our supply chain, and have not experienced any material reduction in demand for our products due to the COVID-19 pandemic. However, the pandemic remains an evolving situation due to the continuation of the outbreak and any future measures that may be taken to contain the spread of the virus. In addition, the extent and duration of the economic fallout from COVID-19 remains unclear. We are actively managing our business to respond to the impact, such as engaging with our distributor network regarding market demand, ongoing communications with our suppliers, and continuing to ensure the safety of our employees. Our commitment to stakeholders is to take the appropriate actions to ensure the safety and well-being of our employees and partners, comply with any governmental orders relating to COVID-19, which may result in a period of disruption to our business, while at the same time leveraging our strengths and ensuring financial flexibility.

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

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

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

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

Trex offers the following products through Trex Residential:

Decking and Accessories	Our principal decking products are Trex Transcend®, Trex Select® and Trex Enhance®. Differentiating the Enhance collection is a scalloped profile that is lighter weight for easier handling and installation. Our high-performance, low-maintenance, eco-friendly composite decking products are comprised of a blend of 95 percent reclaimed wood fibers and recycled polyethylene film and feature a protective polymer shell for enhanced protection against fading, staining, mold and scratching. We also offer Trex Hideaway®, a hidden fastening system for grooved boards, and Trex DeckLighting™, an outdoor lighting system. Trex DeckLighting is a line of energy-efficient LED dimmable deck lighting, which is designed for use on posts, floors and steps. The line includes a post cap light, deck rail light, riser light and a recessed deck light.

Railing	Our residential railing products are Trex Transcend Railing, Trex Select Railing, Trex Enhance Railing and Trex Signature® aluminum railing. Trex Transcend Railing, made from approximately 40 percent recycled content, is available in the colors of Trex Transcend decking and finishes that make it appropriate for use with Trex decking products as well as other decking materials, which we believe enhances the sales prospects of our railing products. Trex Select Railing, made from approximately 40 percent recycled content, is offered in a white finish and is ideal for consumers who desire a simple clean finished look for their deck. Trex Enhance, made from approximately 40 percent recycled content, is available in three colors and is offered through home improvement retailers in kits that contain the complete railing system. Trex Signature aluminum railing, made from a minimum of 50 percent recycled content, is available in three colors and designed for consumers who want a sleek, contemporary look.
Fencing	Our Trex Seclusions® fencing product is offered through two specialty distributors. This product consists of structural posts, bottom rail, pickets, top rail and decorative post caps.
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.

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

Trex offers the following products through Trex Commercial:

Architectural Railing Systems	Our architectural railing systems are pre-engineered guardrails with options to accommodate styles ranging from classic and elegant wood top rail combined with sleek stainless components and glass infill, to modern and minimalist stainless cable and rod infill choices. Trex Commercial can also design, engineer and manufacture custom railing systems tailored to the customer's specific material, style and finish. Many railing styles are achievable, including glass, mesh, perforated railing and cable railing.
Aluminum Railing Systems	Trex Signature® aluminum railing collection, made from a minimum of 50 percent recycled content, combines superior styling with the unparalleled strength of aluminum – making it an ideal railing choice for a variety of commercial settings. Its straightforward, unobtrusive design features traditional balusters and contemporary vertical rods, and can be installed with continuously graspable rail options for added safety, comfort and functionality. Trex Signature is available in three colors – charcoal black, bronze and classic white – and is available in a variety of stock lengths.
Staging Equipment and Accessories	Our advanced modular, lightweight custom staging systems include portable platforms, orchestra shells, guardrails, stair units, barricades, camera platforms, VIP viewing decks, ADA infills, DJ booths, pool covers, and other custom applications. Our systems provide superior staging product solutions for facilities and venues with custom needs. Our modular stage equipment is designed to appear seamless, feel permanent, and maximize the functionality of the space.

Highlights for the three months ended September 30, 2020:

- Increase in net sales of 19%, or $37.0 million, to $231.5 million for the three months ended September 30, 2020 compared to $194.6 million for the three months ended September 30, 2019.

- Increase in gross profit of 3.1%, or $2.5 million, to $85.0 million for the three months ended September 30, 2020 compared to $82.4 million for the three months ended September 30, 2019.
- Increase in net income to $42.7 million, or $0.37 per diluted share, for the three months ended September 30, 2020 compared to $42.0 million, or $0.36 per diluted share, for the three months ended September 30, 2019.
- Capital expenditures of $37.1 million, primarily to increase production capacity at the Trex Residential facilities in Virginia and Nevada and for cost reduction initiatives and other production improvements.

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

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

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

We continue to receive and settle claims for decking products manufactured at our Nevada facility prior to 2007 that exhibit surface flaking and maintain a warranty reserve to provide for the settlement of these claims. We monitor surface flaking claims activity each quarter for indications that our estimates require revision. Typically, a majority of surface flaking claims received in a fiscal year are received during the summer outdoor season, which spans the second and third fiscal quarters. It has been our practice to utilize actuarial techniques during the third quarter, after a significant portion of all claims has been received for the fiscal year and variances to annual claims expectations are more meaningful. Our actuarial analysis is based on currently known facts and a number of assumptions. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause the actual warranty liabilities to be higher or lower than those projected, which could materially affect our financial condition, results of operations or cash flows.

The number of incoming claims received in the nine months ended September 30, 2020 was higher than the number of claims received in the nine months ended September 30, 2019 and exceeded our expectations for the current year. Prior to 2020, the number of incoming claims received declined each year since 2009. After evaluating the rise in incoming claims in our actuarial analysis, we increased our estimate of the number of future claims to be settled with payment. Average cost per claim experienced in the nine months ended September 30, 2020 was lower than that experienced in the nine months ended September 30, 2019 but higher than expectations for the current year. We estimate that average cost per claim will increase in future years, primarily due to inflation.

As a result of the increase in estimated future claims and expected rise in future average cost per claim, in the three-month period ended September 30, 2020, we recorded a provision of $6.5 million to the warranty reserve for the future settlement of surface flaking claims. We believe the reserve at September 30, 2020 is sufficient to cover future surface flaking obligations. Refer to Note 18, *Commitments and Contingencies, Product Warranty*, in the Notes to the Condensed Consolidated Financial Statements in Part I. Item 1. *Condensed Consolidated Financial Statements* of this Quarterly Report on Form 10-Q for additional information.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Claims open, beginning of period	1,724	2,021
Claims received (1)	1,263	1,184
Claims resolved (2)	(1,042)	(1,239)
Claims open, end of period	1,945	1,966
Average cost per claim (3)	$ 3,396	$ 3,475

(1) Claims received include new claims received or identified during the period.
(2) Claims resolved include all claims settled with or without payment and closed during the period.
(3) Average cost per claim represents the average settlement cost of claims closed with payment during the period.

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

RESULTS OF OPERATIONS

Below is our discussion and analysis of our operating results and material changes in our operating results for the three months ended September 30, 2020 (2020 quarter) compared to the three months ended September 30, 2019 (2019 quarter), and for the nine months ended September 30, 2020 (2020 nine-month period) compared to the nine months ended September 30, 2019 (2019 nine-month period).

Three Months Ended September 30, 2020 Compared To The Three Months Ended September 30, 2019

Net Sales

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	$ Change	% Change
	(dollars in thousands)			
Total net sales	$ 231,502	$ 194,551	$36,951	19.0%
Trex Residential net sales	$ 218,435	$ 182,775	$35,660	19.5%
Trex Commercial net sales	$ 13,067	$ 11,776	$ 1,291	11.0%

Total net sales increased by 19% in the 2020 quarter compared to the 2019 quarter reflecting a 19.5% increase in Trex Residential net sales and an 11% increase in Trex Commercial net sales. The increase in Trex Residential net sales was substantially all due to volume growth of our residential decking and railing products, resulting from strong demand for our outdoor living products, a strong residential repair and remodeling sector and our initiatives to accelerate conversion from wood. The increase in Trex Commercial net sales during the 2020 quarter was primarily due to underlying growth in the commercial segment.

Gross Profit

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	$ Change	% Change
	(dollars in thousands)			
Cost of sales	$ 146,538	$ 112,120	$34,418	30.7%
% of total net sales	63.3%	57.6%		
Gross profit	$ 84,964	$ 82,431	$ 2,533	3.1%
Gross margin	36.7%	42.4%		

Gross profit as a percentage of net sales, gross margin, was 36.7% in the 2020 quarter compared to 42.4% in the 2019 quarter. Gross margin for Trex Residential and Trex Commercial was 37.4% and 24.4%, respectively, in the 2020 quarter compared to 43.4% and 26.5%, respectively, in the 2019 quarter. Excluding a $6.5 million provision to the Trex Residential legacy warranty reserve, gross margin was 39.5% for the 2020 quarter period compared to 42.4% in the 2019 quarter. This charge related to the surface flaking issue that affected a portion of products produced at our Nevada plant before 2007. In addition to the warranty reserve provision, gross margin was unfavorably impacted by increased labor costs related to our announced capacity expansion program, COVID-19 management and depreciation due to capital expansion expenditures, partially offset by favorable material costs due to managing our Enhance profile to the lower weight target.

Selling, General and Administrative Expenses

	Three Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative expenses	$ 28,027	$ 27,409	$ 618	2.3%
% of total net sales	12.1%	14.1%		

Selling, general and administrative expenses in the 2020 quarter were comparable to those in the 2019 quarter. The increase in selling, general and administrative expenses was primarily the result of higher operating expenses offset by lower branding.

Provision for Income Taxes

	Three Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	$ 14,435	$ 13,790	$ 645	4.7%
Effective tax rate	25.3%	24.7%		

The effective tax rate for the 2020 quarter of 25.3% was relatively unchanged with an increase of 0.6% compared to the effective tax rate of 24.7% for the 2019 quarter.

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

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

	Three Months Ended September 30, 2020		
	Trex Residential	Trex Commercial	Total
Net income	$ 42,225	$ 485	$ 42,710
Interest income, net	(208)	—	(208)
Income tax expense	14,276	159	14,435
Depreciation and amortization	4,326	209	4,535
EBITDA	$ 60,619	$ 853	$ 61,472

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

	Three Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total
Net income	$ 41,381	$ 595	$41,976
Interest income, net	(744)	—	(744)
Income tax expense	13,580	210	13,790
Depreciation and amortization	3,422	165	3,587
EBITDA	$ 57,639	$ 970	$58,609

	Three Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Total EBITDA	$ 61,472	$ 58,609	$ 2,863	4.9%
Trex Residential EBITDA	$ 60,619	$ 57,639	$ 2,980	5.2%
Trex Commercial EBITDA	$ 853	$ 970	$ (117)	(12.1)%

Total EBITDA increased 4.9% to $61.5 million for the 2020 quarter compared to $58.6 million for the 2019 quarter. The increase was driven by a 5.2% increase in Trex Residential EBITDA, primarily due to the volume growth in net sales. The increase was offset by the decrease in Trex Commercial EBITDA related to a decrease in gross margin. Excluding the impact of the $6.5 million surface flaking reserve, the growth in EBITDA was 15.9%.

Nine Months Ended September 30, 2020 Compared To The Nine Months Ended September 30, 2019

Net Sales

	Nine Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Total net sales	$ 652,545	$ 580,575	$71,970	12.4%
Trex Residential net sales	$ 614,187	$ 541,722	$72,465	13.4%
Trex Commercial net sales	$ 38,358	$ 38,853	$ (495)	(1.3)%

The 12.4% increase in total net sales in the 2020 nine-month period compared to the 2019 nine-month period was primarily due to increased net sales at Trex Residential. The increase of 13.4% in Trex Residential net sales during the 2020 nine-month period was substantially all due to volume growth, resulting from the strong broad-based demand for our outdoor living products, positive momentum in the residential repair and remodeling sector and our initiatives to expand our addressable market and accelerate conversion from wood.

Gross Profit

	Nine Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Cost of sales	$ 385,479	$ 345,334	$40,145	11.6%
% of total net sales	59.1%	59.5%		
Gross profit	$ 267,066	$ 235,241	$31,825	13.5%
Gross margin	40.9%	40.5%		

Gross profit as a percentage of net sales, gross margin, was 40.9% in the 2020 nine-month period, comparable to 40.5% in the 2019 nine-month period. Gross margin for Trex Residential and Trex Commercial in the 2020 nine-month period were 41.6% and 29.6%, respectively, compared to 41.8% and 22.6%, respectively, in the 2019 nine-month period. Excluding a $6.5 million provision to the Trex Residential legacy warranty reserve, gross margin was 41.9% for the 2020 nine-month period compared to 40.5% in the 2019 nine-month period. This charge related to the surface flaking issue that affected a portion of products produced at our Nevada plant before 2007. Gross margin was favorably impacted by the non-recurrence of Enhance startup costs in 2019 experienced at Trex Residential in the 2019 nine-month period. Also, an increase in gross margin at Trex Commercial, primarily due to non-recurrence of legacy low margin contracts coupled with a mix of higher margin contracts in the 2020 nine-month period, and initiatives aimed at improving project estimating, project management, and manufacturing cost savings, contributed to the increase in gross margin.

Selling, General and Administrative Expenses

	Nine Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Selling, general and administrative expenses	$ 91,598	$ 93,281	$ (1,683)	(1.8)%
% of total net sales	14.0%	16.1%		

The $1.7 million decrease in selling, general and administrative expenses in the 2020 nine-month period compared to the 2019 nine-month period was primarily driven by disciplined branding and advertising spending, which decreased by $4.4 million during the 2020 nine-month period, as the effects of COVID-19 played out during the second and third quarters. The decreases were offset by increases in personnel related expenses of $1.2 million and a net increase in information technology and other operating expenses of $2.3 million.

Provision for Income Taxes

	Nine Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Provision for income taxes	$ 43,938	$ 33,520	$10,418	31.1%
Effective tax rate	24.9%	23.5%		

The effective tax rate for the 2020 nine-month period increased by 1.4% compared to the effective tax rate for the 2019 nine-month period primarily due to a current year decrease in excess tax benefits from the exercise of share-based payments and an increase in non-deductible executive compensation.

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

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

	Nine Months Ended September 30, 2020 Trex Residential	Trex Commercial	Total
Net income	$129,157	$ 3,174	$132,331
Interest income, net	(801)	—	(801)
Income tax expense	42,853	1,085	43,938
Depreciation and amortization	11,855	595	12,450
EBITDA	$183,064	$ 4,854	$187,918

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

	Nine Months Ended September 30, 2019		
	Trex Residential	Trex Commercial	Total
Net income	$107,859	$ 1,382	$109,241
Interest income, net	(794)	(7)	(801)
Income tax expense	33,046	474	33,520
Depreciation and amortization	9,947	433	10,380
EBITDA	$150,058	$ 2,282	$152,340

	Nine Months Ended September 30, 2020	2019	$ Change	% Change
	(dollars in thousands)			
Total EBITDA	$ 187,918	$ 152,340	$35,578	23.4%
Trex Residential EBITDA	$ 183,064	$ 150,058	$33,006	22.0%
Trex Commercial EBITDA	$ 4,854	$ 2,282	$ 2,572	112.7%

Total EBITDA increased 23.4% to $187.9 million for the 2020 nine-month period compared to $152.3 million for the 2019 nine-month period. The increase was primarily driven by a 22% increase in Trex Residential EBITDA due to volume growth in net sales and by a $2.6 million increase in Trex Commercial EBITDA primarily related to an increase in gross margin. Excluding the impact of the $6.5 million surface flaking reserve, the growth in EBITDA was 27.6%.

LIQUIDITY AND CAPITAL RESOURCES

We finance operations and growth primarily with cash flows from operations, borrowings under our revolving credit facilities, operating leases and normal trade credit terms from operating activities. At September 30, 2020 we had $20.1 million of cash and cash equivalents.

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

	Nine Months Ended September 30, 2020	2019
Net cash provided by operating activities	$ 12,514	$ 98,986
Net cash used in investing activities	(97,546)	(36,905)
Net cash used in financing activities	(43,720)	(34,498)
Net (decrease) increase in cash and cash equivalents	$ (128,752)	$ 27,583

Operating Activities

Cash provided by operations was $12.5 million during the 2020 nine-month period compared to cash provided by operations of $99.0 million during the 2019 nine-month period. The use of cash flows in operations was primarily due to higher working capital investment in accounts receivable as a result of the timing of sales within the period and related payment discounts offered to our Trex Residential decking and railing customers. Substantially all of the accounts receivable balance at September 30, 2020, will be collected in the fourth quarter. The decrease in cash flows from operating activities was offset primarily by increased net income and increases in accounts payable and accrued expenses.

Investing Activities

Capital expenditures in the 2020 nine-month period were $99.7 million, consisting primarily of $82 million for capacity expansion at our Virginia and Nevada facilities and $12.5 million for general plant cost reduction initiatives and other production improvements.

Financing Activities

Net cash used in financing activities was $43.7 million in the 2020 nine-month period primarily for repurchases of our common stock of $44.4 million.

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

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

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

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

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

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

Compliance with Debt Covenants. Pursuant to the terms of the Fourth Amended Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of September 30, 2020. Failure to comply with the financial covenants could be considered a default of repayment obligations and, among other remedies, could accelerate payment of any amounts outstanding.

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

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

Capital Requirements. In June 2019, we announced a new capital expenditure program to increase production capacity at our Trex Residential facilities in Virginia and Nevada. The new multi-year capital expenditure program is projected at approximately $200 million through 2021, and involves the construction of a new decking facility at the existing Virginia site and the installation of additional production lines at the Nevada site. The investment will allow us to increase production output for future projected growth related to our strategy of converting wood demand to Trex Residential wood-alternative composite decking. When completed these investments will increase our Trex Residential production capacity by approximately 70 percent. Our capital expenditure guidance for 2020 is $150 million to $170 million. In addition to the above, our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, upgrading equipment, and acquisitions which fit our long-term growth strategy as we continue to evaluate opportunities that would be a good strategic fit for Trex, and return of capital to shareholders.

Inventory in Distribution Channels. We sell our Trex Residential decking and railing products through a tiered distribution system. We have over 50 distributors worldwide and two national retail merchandisers to which we sell our products. The distributors in turn sell the products to dealers and retail locations who in turn sell the products to end users. Significant increases in inventory levels in the distribution channel without a corresponding change in end-use demand could have an adverse effect on future sales. We cannot definitively determine the level of inventory in the distribution channels at any time. We are not aware of any significant increases in the levels of inventory in the distribution channels at September 30, 2020 compared to inventory levels at September 30, 2019.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding our exposure to certain market risks, see "Quantitative and Qualitative Disclosures about Market Risk," in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. There were no material changes to the Company's market risk exposure during the nine months ended September 30, 2020.

Item 4. Controls and Procedures

The Company's management, with the participation of its President and Chief Executive Officer, who is the Company's principal executive officer, and its 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 September 30, 2020. 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. There have been no changes in the Company's internal control over financial reporting during the nine-month period ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The Company's business, financial condition, results of operations and cash flows are subject to various risks which could cause actual results to vary from recent results or from anticipated future results. Other than the supplemental risk factors set forth below, there have been no material changes to the risk factors disclosed in Part I - Item 1A, Risk Factors of our Form 10-K for the year ended December 31, 2019.

Risk	Discussion
Description: Our business, results of operations and financial condition may be disrupted and adversely affected by global public health pandemics, including the strain of coronavirus known as COVID-19. Impact: If our employees or the employees of our suppliers or transportation providers are unable to work because of illness related to the COVID-19 pandemic, or if we or our suppliers or transportation providers are forced to temporarily cease operations, either on a voluntary or mandatory basis, then we may have a period of reduced operations and be unable to supply our customers in a timely manner, which could have a material negative impact on our business. If the COVID-19 outbreak disrupts the operations of our distributors and retail outlets and negatively impacts economies in the United States, Canada and the rest of the world, our business, results of operations and financial condition may be adversely affected.	In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. It spread to other countries, including the United States, and efforts to contain COVID-19 have intensified. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Our business, results of operations and financial condition may be adversely affected if COVID-19 interferes with the ability of our employees, suppliers and other business partners to perform their respective responsibilities and obligations relative to the conduct of our business. We continue to monitor the outbreak of COVID-19 and evaluate its impact on our business, including new information as it emerges concerning its severity and the continuation and possible escalation of new cases, and any actions to prevent, contain or treat it, among others. These developments are constantly evolving and cannot be accurately predicted. The extent to which COVID-19 may impact our business will depend on future developments, which are highly uncertain and cannot be predicted. Currently, we continue to operate at output levels similar to those prior to the COVID-19 pandemic, and the pandemic has not had a material adverse effect on our business, results of operations, cash flows or financial condition. We are actively managing our business to respond to the impact, such as engaging with our distributor network regarding market demand, ongoing communications with our suppliers, and continuing to ensure the safety of our employees.

Risk	Discussion
Description: Labor shortages or increases in labor costs could adversely impact our business and results of operations. Impact: If we are not successful in our recruiting and retention efforts, we could encounter a shortage of qualified employees in future periods. Any such shortage would decrease our ability to produce sufficient quantities of our product to serve our customers effectively. Such a shortage may also require us to pay higher wages for employees and incur a corresponding reduction in our profitability.	Labor is a key component of our production process. We rely heavily on our employees and any shortage of qualified labor could adversely affect our business. Our success is dependent upon recruiting qualified employees to manufacture our product. Our future success depends on, among other things, our ability to identify, attract, hire, train, retain and motivate operational personnel on a timely basis as we continue our pace of growth. Further, improvements in the economy and labor markets could impact our ability to attract and retain key personnel. We foster the development and engagement of our employees, and our compensation, incentive and benefit packages encourage retention of our employees and aid in our ability to attract personnel.

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

(c) The following table provides information relating to the purchases of our common stock during the three months ended September 30, 2020 in accordance with Item 703 of Regulation S-K:

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit) ($)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum number of Shares (or Units) that May Yet Be Purchased Under the Plan or Program
July 1, 2020 – July 31, 2020	4,486	$ 69.67	—	8,797,222
August 1, 2020 – August 31, 2020	—	—	—	8,797,222
September 1, 2020 – September 30, 2020	—	—	—	8,797,222
Quarterly period ended September 30, 2020	4,486		—	

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

(2) On February 16, 2018, the Company’s Board of Directors authorized a common stock repurchase program of up to 11.6 million shares of the Company’s outstanding common stock (Stock Repurchase Program). The Stock Repurchase Program was publicly announced on February 21, 2018. The Company did not purchase any shares under the Stock Repurchase Program during the three months ended September 30, 2020.

On March 12, 2020, the Company suspended repurchases of its common stock under the Stock Repurchase Program due to the volatility and uncertainty in the stock market associated with the COVID-19 pandemic. On October 30, 2020, the Company lifted the suspension of repurchases of its common stock under the Stock Repurchase Program, primarily due to the stability and growth of the Company’s business and the industry segment in which the Company operates.

Item 5. Other Information

Stock Split

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

Item 6. Exhibits

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

SIGNATURE

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

TREX COMPANY, INC.

Date: November 2, 2020

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

EXHIBIT INDEX

Exhibit No.	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
3.1	Restated Certificate of Incorporation of Trex Company, Inc.	S-1/A	3.1	March 24, 1999	333-63287
3.2	Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 30, 2014.	10-Q	3.2	May 5, 2014	001-14649
3.3	Second Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 2, 2018.	10-Q	3.3	May 7, 2018	001-14649
3.4	Third Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 1, 2019.	8-K	3.1	May 1, 2019	001-14649
3.5	Fourth Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated April 29, 2020.	10-Q	3.5	May 4, 2020	001-14649
3.6	Amended and Restated By-Laws of Trex Company, Inc.	8-K	3.2	May 1, 2019	001-14649
4.1	First Amendment to the Credit Agreement by and among Trex Company, Inc. as borrower; Trex Commercial Products, Inc. as guarantor; Bank of America, N.A. as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent; Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner dated May 26, 2020.	8-K	4.1	May 28, 2020	001-14649
4.2	Fourth Amended and Restated Credit Agreement between the Company, as borrower; Trex Commercial Products, Inc., as guarantor, Bank of America, N.A., as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; and certain other lenders including Wells Fargo Bank, N.A., who is also Syndication Agent, Truist Bank; and Regions Bank, arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner, dated May 26, 2020.	8-K	4.2	May 28, 2020	001-14649
4.3	Note dated November 5, 2019 payable by the Company to Bank of America, N.A.	8-K	4.2	November 6, 2019	001-14649
4.4	Note dated November 5, 2019 payable by the Company to Wells Fargo Bank, N.A.	8-K	4.3	November 6, 2019	001-14649
4.5	Note dated November 5, 2019 payable by the Company to Branch Banking and Trust Company (Truist Bank)	8-K	4.5	November 6, 2019	001-14649

Exhibit No.	Description	Incorporated by reference			
		Form	Exhibit	Filing Date	File No.
4.6	Note dated May 26, 2020 payable by the Company to Regions Bank	8-K	4.6	May 28, 2020	001-14649
4.7	Fourth Amended and Restated Security and Pledge Agreement dated as of November 5, 2019 between the Company, as debtor, Trex Commercial Products, Inc., as additional obligor; and Bank of America, N.A. as Administrative Agent (including Notices of Grant of Security Interest in Copyrights and Trademarks).	8-K	4.6	November 6, 2019	001-14649
10.1***	Amended and Restated 1999 Incentive Plan for Outside Directors.	8-K	10.1	February 25, 2020	001-14649
10.2***	Change-in-Control Severance Agreement, dated as of February 21, 2020, by and between Trex Company, Inc. and Bryan H. Fairbanks.	8-K	10.2	February 25, 2020	001-14649
10.3***	Severance Agreement, dated as of February 21, 2020, by and between Trex Company, Inc. and Bryan H. Fairbanks.	8-K	10.3	February 25, 2020	001-14649
10.4* ***	Trex Company, Inc. Amended and Restated 2014 Stock Incentive Plan.				
31.1*	Certification of Chief Executive Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
31.2*	Certification of Chief Financial Officer of Trex Company, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
32**	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).				
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104.1*	Cover Page Interactive Data File – The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.				

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

Exhibit 10.4

TREX COMPANY, INC.
AMENDED AND RESTATED
2014 STOCK INCENTIVE PLAN

TABLE OF CONTENTS

TREX COMPANY, INC.
AMENDED AND RESTATED
2014 STOCK INCENTIVE PLAN

Trex Company, Inc., a Delaware corporation (the “Company”), sets forth herein the terms of the Trex Company, Inc. Amended and Restated 2014 Stock Incentive Plan (the “Plan”), which amends and restates the Trex Company, Inc. 2005 Stock Incentive Plan, as follows:

1. PURPOSE

The Plan is intended to enhance the Company’s ability to attract and retain highly qualified officers, key employees, outside directors and other persons, and to motivate such officers, key employees, outside directors and other persons to serve the Company and its affiliates (as defined herein) and to expend maximum effort to improve the business results and earnings of the Company, by providing to such officers, key employees, outside directors and other persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, restricted stock, restricted stock units, unrestricted stock and stock appreciation rights in accordance with the terms hereof. Stock options granted under the Plan may be non-qualified stock options or incentive stock options, as provided herein, except that stock options granted to outside directors and all Service Providers shall in all cases be non-qualified stock options. With respect to persons subject to Section 16 of the Exchange Act (as defined below), transactions under this Plan are intended to satisfy the requirements of Rule 16b-3 of the Act.

2. DEFINITIONS

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

2.1 “Affiliate” of, or person “affiliated” with, a person means any company or other trade or business that controls, is controlled by or is under common control with such person within the meaning of Rule 405 of Regulation C under the Securities Act.

2.2 “Award Agreement” means the stock option agreement, restricted stock agreement, restricted stock unit agreement, stock appreciation right agreement or other written agreement between the Company and a Grantee that evidences and sets out the terms and conditions of a Grant.

2.3 “Board” means the Board of Directors of the Company.

2.4 “Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

2.5 “Committee” means the Compensation Committee of the Board (or any successor Committee designated by the Board to administer the Plan), provided that, if any member of the Compensation Committee does not qualify as (i) an outside director for purposes of Code Section 162(m), (ii) a non-employee director for purposes of Rule 16b-3 under the Exchange Act, and (iii) an independent director for purposes of the rules of the exchange on which the Stock is traded, the remaining members of the Committee (but not less than two members) shall be constituted as a subcommittee to act as the Committee for purposes of the Plan.

2.6 “Company” means Trex Company, Inc., a Delaware corporation.

2.7 “Disability” means, as to an Incentive Stock Option, a Disability within the meaning of Code section 22(e)(3). As to all other incentive awards, Disability (or variations thereof) means, unless otherwise provided in the Award Agreement with respect to the Grant, a Disability within the meaning of Code Section 409A(a)(2)(C) and Section 1.409A-3(i)(4) of the applicable treasury regulations (or any successor provision). The Committee shall determine whether a Disability exists and the determination shall be conclusive.

2.8 “Effective Date” means the date on which the Plan, as herein amended and restated and adopted by the Board on February 20, 2014, is approved by the Company’s stockholders.

2.9 “Exchange Act” means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.10 “Fair Market Value” means the closing price of a share of Stock reported on the New York Stock Exchange (“NYSE”) on the date Fair Market Value is being determined, provided that if there should be no closing price reported on such date, the Fair Market Value of a share of Stock on such date shall be deemed equal to the closing price as reported by the NYSE for the last preceding date on which sales of shares were reported. Notwithstanding the foregoing, in the event that the shares of Stock are listed upon more than one established stock exchange, Fair Market Value means the closing price of a share of Stock reported on the exchange that trades the largest volume of shares on such date. If the Stock is not at the time listed or admitted to trading on a stock exchange, Fair Market Value means the mean between the lowest reported bid price and highest reported asked price of the Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Committee and regularly reporting the market price of Stock in such market. If the Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, Fair Market Value shall be as determined in good faith by the Committee.

2.11 “Grant” means an award of an Option, Restricted Stock, Restricted Stock Unit, Unrestricted Stock, or Stock Appreciation Right under the Plan.

2.12 “Grant Date” means, as determined by the Committee, (i) the date as of which the Committee approves a Grant or (ii) such other date as may be specified by the Committee.

2.13 “Grantee” means a person who receives or holds an Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right or Unrestricted Stock under the Plan.

2.14 “Immediate Family Members” means the spouse, children, grandchildren, parents and siblings of the Grantee.

2.15 “Incentive Stock Option” means an “incentive stock option” within the meaning of Section 422 of the Code.

2.16 “Option” means an option to purchase one or more shares of Stock pursuant to the Plan.

2.17 “Option Price” means the purchase price for each share of Stock subject to an Option.

2.18 “Outside Director” means a member of the Board who is not an officer or employee of the Company or any Subsidiary.

2.19 “Plan” means this Trex Company, Inc. 2014 Stock Incentive Plan, which amends and restates the Trex Company, Inc. 2005 Stock Incentive Plan, as may be further amended from time to time.

2.20 “Reporting Person” means a person who is required to file reports under Section 16(a) of the Exchange Act.

2.21 “Restricted Period” means the period during which Restricted Stock or Restricted Stock Units are subject to restrictions or conditions pursuant to Section 11.2 hereof.

2.22 “Restricted Stock” means shares of Stock, awarded to a Grantee pursuant to Section 11 hereof, that are subject to restrictions and to a risk of forfeiture.

2.23 “Restricted Stock Unit” means a unit awarded to a Grantee pursuant to Section 11 hereof, which represents a conditional right to receive a share of Stock in the future, and which is subject to restrictions and to a risk of forfeiture.

2.24 “Retirement’ means termination of employment with the Company and its Subsidiaries on or after age 65.

2.25 “Securities Act” means the Securities Act of 1933, as now in effect or as hereafter amended.

2.26 “Service Provider” means a consultant or adviser to the Company, a manager of the Company’s properties or affairs, or other similar service provider or Affiliate of the Company, and employees of any of the foregoing, as such persons may be designated from time to time by the Committee pursuant to Section 6 hereof.

2.27 “Stock” means the common stock, par value $0.01 per share, of the Company.

2.28 “Stock Appreciation Right” or “SAR” means a right granted to a Grantee pursuant to Section 9 hereof.

2.29 “Subsidiary” means any “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code.

2.30 “Unrestricted Stock” means an award of Stock granted to a Grantee pursuant to Section 12 hereof.

3. ADMINISTRATION OF THE PLAN

3.1 Committee

The Committee shall have such powers and authorities related to the administration of the Plan as are consistent with the Company’s certificate of incorporation, bylaws and applicable law. The Committee shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Grant or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Committee deems to be necessary or appropriate to the administration of the Plan, any Grant or any Award Agreement. All such actions and determinations shall be by the affirmative vote of a majority of the members of the Committee present at a meeting or by unanimous consent of the Committee executed in writing in accordance with the Company’s certificate of incorporation, bylaws and applicable law. The interpretation and construction by the Committee of any provision of the Plan, any Grant or any Award Agreement shall be final and conclusive. As permitted by law, the Committee may delegate its authority under the Plan to a member of the Committee or an executive officer of the Company; provided, however, that, unless otherwise provided by resolution of the Committee, only the Committee may make a Grant to an executive officer of the Company and establish the number of shares of Stock that may be subject to Grants with respect to any fiscal period. In the absence of Committee action, the Board is authorized to take any action permitted to be taken by the Committee hereunder.

3.2 Grants.

Subject to the other terms and conditions of the Plan, the Committee shall have full and final authority (i) to designate Grantees, (ii) to determine the types of Grants to be made to a Grantee, (iii) to determine the number of shares of Stock to be subject to a Grant, (iv) to establish the terms and conditions of each Grant, including, but not limited to, the Option Price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof, including lapse relating to a change in control of the Company) relating to the vesting, exercise, transfer or forfeiture of a Grant or the shares of Stock subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options, (v) to prescribe the form of each Award Agreement evidencing a Grant, and (vi) to make Grants alone, in addition to, or in tandem with, any other Grant or any other award granted under another plan of the Company or a Subsidiary. Such authority specifically includes the authority, in order to effectuate the purposes of the Plan but without amending the Plan, to modify Grants to eligible individuals who are foreign nationals or are individuals who are employed outside the United States to recognize differences in local law, tax policy or custom. As a condition to any subsequent Grant, the Committee shall have the right, at its discretion, to require Grantees to return to the Company any Grants previously awarded under the Plan. Subject to the terms and conditions of the Plan, any such subsequent Grant shall be upon such terms and conditions as are specified by the Committee at the time the subsequent Grant is made.

The Company may retain the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee on account of actions taken by the Grantee in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any affiliate thereof or any confidentiality obligation with respect to the Company or any affiliate thereof or otherwise in competition with the Company, to the extent specified in such Award Agreement applicable to the Grantee. Furthermore, the Company may annul a Grant if the Grantee is an employee of the Company or an affiliate thereof and is terminated “for cause” as defined in the applicable Award Agreement. The Committee may permit or require the deferral of any award payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Stock equivalents.

Except as provided in Section 16 hereof, the terms of outstanding Grants may not be amended to reduce the exercise price of outstanding Options or SARs, and outstanding Options or SARs may not be cancelled, exchanged, repurchased or surrendered in exchange for cash, other Grants, or Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs, without stockholder approval.

3.3 No Liability.

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Grant or Award Agreement.

3.4 Applicability of Rule 16b-3.

Those provisions of the Plan that make express reference to Rule 16b-3 under the Exchange Act shall apply only to Reporting Persons.

3.5 Termination of Employment or Other Relationship.

(i) Whether a termination of a Grantee's employment or other relationship with the Company and its Subsidiaries shall have occurred and whether such termination is by reason of Disability shall be determined by the Committee, whose determination shall be final and conclusive.

(ii) Whether a leave of absence or leave on military or government service shall constitute a termination of employment or other relationship for purposes of the Plan shall be determined by the Committee, whose determination shall be final and conclusive.

(iii) For purposes of the Plan, a termination of employment or other relationship shall not be deemed to occur if the Grantee is immediately thereafter employed with the Company, a Subsidiary or a Service Provider, or is engaged as a Service Provider or an Outside Director.

4. STOCK SUBJECT TO THE PLAN

4.1 Aggregate Limitation.

(i) Effective as of a two-for-one stock split of the Stock of the Company (in the form of a stock dividend) on September 14, 2020, and subject to adjustment as provided in Section 16 hereof, the aggregate number of shares of Stock available for issuance under the Plan pursuant to Options or other Grants shall be twenty five million six hundred and eighty thousand (25,680,000) Shares. Shares may be authorized but unissued shares, treasury shares or issued and outstanding shares that are purchased in the open market.

(ii) Any shares of Stock granted under the Plan which are forfeited to the Company because of the failure to meet an award contingency or condition shall again be available for issuance pursuant to new awards granted under the Plan. Any shares of Stock covered by an award (or portion of an award) granted under the Plan which are forfeited or canceled, expire or are settled in cash, or are withheld by the Company to cover withholding taxes (as provided in Section 19), shall be deemed not to have been issued for purposes of determining the maximum number of shares of Stock available for issuance under the Plan.

(iii) If any Option is exercised by tendering shares of Stock, by withholding shares of Stock subject to the Option being exercised, by tendering or withholding shares of Stock, either actually or by attestation, to the Company as full or partial payment in connection with the exercise of an Option or a stock option under any prior plan of the Company as hereinabove described, only the number of shares of Stock issued net of the shares of Stock tendered or withheld shall be deemed issued for purposes of determining the maximum number of shares of Stock available for issuance under the Plan. In the case of a SAR, only the actual number of shares of Stock issued upon exercise of the SAR shall be deemed issued for purposes of determining the maximum number of shares of Stock available for issuance under the Plan. Shares of Stock issued under the Plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards resulting from the acquisition of another entity shall not reduce the maximum number of shares available for issuance under the Plan.

(iv) The number of shares of Stock reserved under this Section 4 shall be increased by the number of any shares of Stock that are repurchased by the Company with Option Proceeds (as defined herein) in respect of the exercise of an Option; provided, however, that the number of shares of Stock contributed to the number of shares of Stock reserved under this Section 4 in respect of the use of Option Proceeds for repurchase shall not be greater than the number obtained by dividing the amount of such Option Proceeds by the Fair Market Value on the date of exercise of the applicable Option. "Option Proceeds" means, with respect to an Option, the sum of (x) the Option Price paid in cash, if any, to purchase shares of Stock under such Option, plus (y) the value of all federal, state and local tax deductions to which the Company is entitled with respect to the exercise of such Option, determined using the highest Federal tax rate applicable to corporations and a blended tax rate for state and local taxes based on the jurisdictions in which the Company does business and giving effect to the deduction of state and local taxes for Federal tax purposes.

(v) The number of shares of Stock available for grant as incentive stock options shall not exceed twenty five million six hundred and eighty thousand (25,680,000), subject to adjustment as provided in Section 16 hereof, and shall not be increased by reason of the application of subsection (iii) or (iv) of this Section 4.1.

4.2 Application of Aggregate Limitation.

The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares of Stock previously counted in connection with a Grant.

4.3 Per-Grantee Limitation.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act:

(i) no person eligible for a Grant under Section 6 hereof may be awarded Options and SARs under the Plan exercisable for greater than one million two hundred thousand (1,200,000) shares of Stock in any single calendar year, except that in the case of a newly hired employee, such limit shall be two million four hundred thousand (2,400,000) shares of Stock (in each case, subject to adjustment as provided in Section 16 hereof); and

(ii) the maximum number of shares of Restricted Stock or Unrestricted Stock that are earned based on achievement of performance objectives that may be awarded under the Plan (including for this purpose any shares of Stock represented by Restricted Stock Units) to any person eligible for a Grant under Section 11 hereof is six hundred thousand (600,000) shares of Stock in any single calendar year, except that in the case of a newly hired employee, such limit shall be one million two hundred thousand (1,200,000) shares of Stock (in each case, subject to adjustment as provided in Section 16 hereof).

5. EFFECTIVE DATE AND TERM OF THE PLAN

5.1 Effective Date.

The Plan as herein amended and restated was approved by the Board on February 19, 2014 and shall be effective as of the date the Plan is approved by the Company's stockholders (the "Effective Date"). Until such Effective Date, the terms of the Plan prior to its amendment and restatement herein (known as the "Trex Company, Inc. 2005 Stock Incentive Plan") shall remain in effect. The approval of the Plan as herein amended and restated by the Board and stockholders shall have no effect on Grants made under the Plan prior to the Effective Date.

5.2 Term.

The Plan shall expire on the tenth anniversary of the Effective Date.

6. PERMISSIBLE GRANTEES

6.1 Employees and Service Providers.

Subject to the provisions of Section 6.3 hereof, Grants may be made under the Plan to any employee of the Company or any Subsidiary, including any such employee who is an officer or director of the Company, to an Outside Director, to a Service Provider or employee of a Service Provider providing, or who has provided, services to the Company or any Subsidiary, and to any other individual whose participation in the Plan is determined by the Committee to be in the best interests of the Company, as the Committee shall determine and designate from time to time.

6.2 Multiple Grants.

An eligible person may receive more than one Grant, subject to such restrictions as are provided herein.

6.3 Limitations on Grants of Incentive Stock Options.

An Option shall constitute an Incentive Stock Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its affiliates) does not exceed one hundred thousand dollars ($100,000). This limitation shall be applied by taking Options into account in the order in which they were granted.

7. AWARD AGREEMENT

Each Grant pursuant to the Plan shall be evidenced by an Award Agreement, in such form or forms as the Committee shall from time to time determine. Award Agreements issued from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing a Grant of Options shall specify whether such Options are intended to be non-qualified stock options or Incentive Stock Options, and in the absence of such specification such options shall be deemed non-qualified stock options.

8. OPTIONS

8.1 Option Price.

The Option Price of each Option shall be no less than the Fair Market Value of a share of Stock on the date of grant and stated in the Award Agreement evidencing such Option; provided, however, that in the event that a Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent (10%) of the Company's outstanding shares of Stock), the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a share of Stock.

8.2 Vesting.

Subject to Sections 8.3 and 16 hereof, each Option granted under the Plan shall become exercisable at such times and under such conditions as shall be determined by the Committee and stated in the Award Agreement, provided, however, that subject to earlier vesting as otherwise provided herein or except as otherwise specifically provided by the Committee in an Award Agreement, vesting shall occur over a minimum of a three (3) year period. For purposes of this Section 8.2, fractional numbers of shares of Stock subject to an Option shall be rounded down to the next nearest whole number.

8.3 Option Term.

Each Option granted under the Plan shall terminate, and all rights to purchase shares of Stock thereunder shall cease, upon the expiration of ten (10) years (eleven (11) years if the Grantee shall terminate employment or other service due to death in the tenth year of the Option term) from the date such Option is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Committee and thereafter stated in the Award Agreement relating to such Option; provided, however, that in the event that the Grantee would otherwise be ineligible to receive an Incentive Stock Option by reason of the provisions of Sections 422(b)(6) and 424(d) of the Code (relating to ownership of more than ten percent (10%) of the outstanding shares of Stock), an Option granted to such Grantee that is intended to be an Incentive Stock Option shall not be exercisable after the expiration of five (5) years from its date of grant.

8.4 Termination of Employment or Other Relationship for a Reason Other than Retirement, Death or Disability.

Unless otherwise provided by the Committee, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries other than by reason of death, Disability or Retirement, any Option or portion thereof held by such Grantee that has not vested in accordance with the provisions of Section 8.2 hereof shall terminate immediately, and any Option or portion thereof that has vested in accordance with the provisions of Section 8.2 hereof but has not been exercised shall terminate at the close of business on the 90th day following the Grantee's termination of employment or other relationship (or, if such 90th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday). Upon termination of an Option or portion thereof, the Grantee shall have no further right to purchase shares of Stock pursuant to such Option or portion thereof.

8.5 Rights in the Event of Death.

Unless otherwise provided by the Committee, if a Grantee dies while employed by or providing services to the Company or its Subsidiaries, all Options granted to such Grantee that have not previously terminated shall fully vest on the date of death, and the executors or administrators or legatees or distributees of such Grantee's estate shall have the right, at any time within five (5) years after the date of such Grantee's death and prior to termination of the Option pursuant to Section 8.3 hereof, to exercise any Option held by such Grantee at the date of such Grantee's death.

8.6 Rights in the Event of Disability.

Unless otherwise provided by the Committee, if a Grantee's employment or other relationship with the Company or its Subsidiaries is terminated by reason of the Disability of such Grantee, such Grantee's Options that have not previously terminated shall fully vest, and shall be exercisable for a period of five (5) years after such termination of employment or other relationship, subject to earlier termination of the Option as provided in Section 8.3 hereof.

8.7 Rights in the Event of Retirement.

Unless otherwise provided by the Committee, if a Grantee's employment or other relationship with the Company is terminated by reason of the Grantee's Retirement, all Options granted to such Grantee that have not previously terminated shall fully vest on the date of Retirement, and the Grantee shall have the right, at any time within five (5) years after the date of such Grantee's Retirement and prior to termination of the Option pursuant to Section 8.3 hereof, to exercise any Option held by such Grantee at the date of such Grantee's Retirement.

8.8 Limitations on Exercise of Option.

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, prior to the date the Plan is approved by the stockholders of the Company as provided herein, or after ten (10) years following the date upon which the Option is granted (except as provided in Section 8.3 hereof in the case of death of the Grantee), or after the occurrence of an event referred to in Section 16 hereof which results in termination of the Option.

8.9 Method of Exercise.

An Option that is exercisable may be exercised by the Grantee's delivery to the Company of written notice of exercise on any business day, at the Company's principal office, addressed to the attention of the Committee. Such notice shall specify the number of shares of Stock with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares of Stock for which the Option is being exercised. The minimum number of shares of Stock with respect to which an Option may be exercised, in whole or in part, at any time shall be the lesser of (i) one hundred (100) shares or such lesser number set forth in the applicable Award Agreement and (ii) the maximum number of shares of Stock available for purchase under the Option at the time of exercise. Payment of the Option Price for the shares of Stock purchased pursuant to the exercise of an Option shall be made (i) in cash or in cash equivalents acceptable to the Company; (ii) to the extent permitted by law and at the Committee's discretion, through the actual or constructive tender to the Company of shares of Stock, which shares of Stock, if acquired from the Company, shall have been held for at least six months prior to such tender if necessary to avoid negative accounting treatment (or such shorter period as the Committee may approve) and which shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at their Fair Market Value on the date of exercise; or (iii) to the extent permitted by law and at the Committee's discretion, by a combination of the methods described in clauses (i) and (ii) or any other method permitted by law that is approved by the Committee. An attempt to exercise any Option granted hereunder other than as set forth above shall be invalid and of no force and effect.

8.10 Rights as a Stockholder; Dividend Equivalents.

Unless otherwise stated in the applicable Award Agreement, an individual holding or exercising an Option shall have none of the rights of a stockholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject shares of Stock or to direct the voting of the subject shares of Stock) until the shares of Stock covered thereby are fully paid and issued to such individual. Except as provided in Section 16 hereof, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance. However, the Committee may, on such conditions as it deems appropriate, provide that a Grantee will receive a benefit in lieu of cash dividends that would have been payable on any or all shares of Stock subject to the Grant if such shares of Stock had been outstanding. Without limitation, the Committee may provide for payment to the Grantee of amounts representing such dividends, either currently or in the future, or for the investment of such amounts on behalf of the Grantee.

8.11 Delivery of Stock Certificates.

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price, such Grantee shall be entitled to the issuance of a Stock certificate or certificates evidencing such Grantee's ownership of the shares of Stock subject to the Option. Notwithstanding any other provision of this Plan to the contrary, the Company may elect to satisfy any requirement under this Plan for the delivery of stock certificates through the use of book-entry.

9. STOCK APPRECIATION RIGHTS

9.1 SAR Price.

A SAR shall confer on the Grantee a right to receive, upon exercise thereof, the excess of (x) the Fair Market Value of one share of Stock on the date of exercise over (y) the grant price of the SAR, as determined by the Committee. The grant price of a SAR shall not be less than the Fair Market Value of a share of Stock on the Grant Date.

9.2 Vesting, and Terms and Conditions Governing SARs.

Subject to Sections 8.3 and 16 hereof, the Committee shall determine the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including exercise based on achievement of performance objectives or future service requirements), the time or times at which and the circumstances under which a SAR shall cease to be exercisable, the method of exercise, the method of settlement, the form of consideration payable in settlement, whether or not a SAR shall be in tandem or in combination with any other Grant, and any other terms and conditions of any SAR provided, however, that subject to earlier vesting as otherwise provided herein, or except as otherwise specifically provided by the Committee in an Award Agreement, vesting shall occur over a minimum of a three (3) year period.

9.3 SAR Term

Each SAR granted under the Plan shall terminate upon the expiration of ten (10) years (eleven (11) years if the Grantee shall terminate employment or other service due to death in the tenth (10th) year of the SAR term) from the date such SAR is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Committee and thereafter stated in the Award Agreement relating to such SAR.

9.4 Termination of Employment or Other Relationship for a Reason Other than Retirement, Death or Disability.

Unless otherwise provided by the Committee, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries other than by reason of death, Disability or Retirement, any SAR or portion thereof held by such Grantee that has not vested shall terminate immediately, and any SAR or portion thereof that has vested but has not been exercised shall terminate at the close of business on the 90th day following the Grantee's termination of employment or other relationship (or, if such 90th day is a Saturday, Sunday or holiday, at the close of business on the next preceding day that is not a Saturday, Sunday or holiday).

9.5 Rights in the Event of Death.

Unless otherwise provided by the Committee, if a Grantee dies while employed by or providing services to the Company or its Subsidiaries, all SARs granted to such Grantee that have not previously terminated shall fully vest on the date of death, and the executors or administrators or legatees or distributees of such Grantee's estate shall have the right, at any time within five (5) years after the date of such Grantee's death and prior to termination of the SAR pursuant to Section 9.2 hereof, to exercise any SAR held by such Grantee at the date of such Grantee's death.

9.6 Rights in the Event of Disability.

Unless otherwise provided by the Committee, if a Grantee's employment or other relationship with the Company is terminated by reason of the Disability of such Grantee, such Grantee's SARs that have not previously terminated shall fully vest, and shall be exercisable for a period of five (5) years after such termination of employment or other relationship, subject to earlier termination of the SAR as provided in Section 9.2 hereof.

9.7 Rights in the Event of Retirement.

Unless otherwise provided by the Committee, if a Grantee's employment or other relationship with the Company or its Subsidiaries is terminated by reason of the Grantee's Retirement, all SARs granted to such Grantee that have not previously terminated shall fully vest on the date of Retirement, and the Grantee shall have the right, at any time within five (5) years after the date of such Grantee's Retirement and prior to termination of the SAR pursuant to Section 9.2 hereof, to exercise any SAR held by such Grantee at the date of such Grantee's Retirement.

9.8 Limitations on Exercise of SAR.

Notwithstanding any other provision of the Plan, in no event may any SAR be exercised, in whole or in part, prior to the date the Plan is approved by the stockholders of the Company as provided herein, or after ten (10) years following the date upon which the SAR is granted (except as provided in Section 9.3 hereof in the case of death of the Grantee), or after the occurrence of an event referred to in Section 16 hereof which results in termination of the SAR.

10. TRANSFERABILITY OF OPTIONS AND SARS

10.1 General Rule

Except as provided in Section 10.2 hereof, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's guardian or legal representative) may exercise a SAR or Option. Except as provided in Section 10.2 hereof, no Option or SAR shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

10.2 Family Transfers.

To the extent permitted by the Committee and under such rules and conditions as may be imposed by the Committee, a Grantee may transfer all or part of an Option that is not an Incentive Stock Option or a SAR to (i) any Immediate Family Member, (ii) a trust or trusts for the exclusive benefit of any Immediate Family Member or (iii) a partnership or limited liability company in which Immediate Family Members are the only partners or members, provided that (x) there may be no consideration for any such transfer, and (y) subsequent transfers of transferred Options or SARs or transfers of an interest in a trust, partnership, or limited liability company to which an Option or SAR has been transferred are prohibited except those in accordance with this Section 10.2 or by will or the laws of descent and distribution. Following such transfer, any such Option or SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer, provided that, for purposes of this Section 10.2, the term "Grantee" shall be deemed to refer to the transferee. The events of termination of employment or other relationship referred to in Sections 8.4 through 8.7 and Sections 9.4 through 9.7 hereof, or any agreement between the Grantee and the Company, shall continue to be applied with respect to the original Grantee, following which the Option or SAR shall be exercisable by the transferee only to the extent and for the periods specified in Section 8.4, 8.5, 8.6 or 8.7 hereof in the case of Options and Section 9.4, 9.5, 9.6 or 9.7 hereof in the case of SARs.

11. RESTRICTED STOCK

11.1 Grant of Restricted Stock or Restricted Stock Units.

The Committee from time to time may grant Restricted Stock or Restricted Stock Units to persons eligible to receive Grants under Section 6 hereof, subject to such restrictions, conditions and other terms as the Committee may determine.

11.2 Restrictions.

At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Committee shall establish a period of time (the "Restricted Period") applicable to such Restricted Stock or Restricted Stock Units. Unless the Grant is being made in consideration of compensation due under another plan, or unless vesting is subject to performance, or subject to earlier vesting as otherwise provided herein, or except as otherwise specifically provided by the Committee in an Award Agreement, the Restricted Period will be a minimum of three (3) years (subject to the accelerated vesting provisions of Section 16 hereof). Each Grant of Restricted Stock or Restricted Stock Units may be subject to a different Restricted Period. At the time a Grant of Restricted Stock or Restricted Stock Units is made, the Committee may, in its sole discretion, prescribe restrictions in addition to or other than the expiration of the Restricted Period, including the satisfaction of corporate or individual performance objectives, which may be applicable to all or any portion of the Restricted Stock or Restricted Stock Units. Such performance objectives shall be established in writing by the Committee by not later than the 90th day of the period of service to which such performance objectives relate and while the outcome is substantially uncertain. Performance objectives may be stated either on an absolute or relative basis and may be based on any of the following criteria: revenue, growth in revenue (in general, by type of product and/or by type of customer), gross margin, gross profit, operating margin, operating earnings, net income, earnings before interest, taxes, depreciation and amortization ("EBITDA"), earnings before interest and taxes ("EBIT"), earnings per share ("EPS"), earnings growth, cash flow, growth in assets, return on assets, return on equity, return on capital, retained earnings, total shareholder return ("TSR"), economic value added ("EVA"), market share, stock price, completion of acquisitions, completion of divestitures and asset sales, cost or expense reductions, introduction or conversion of product brands, achievement of specified management information systems objectives, and any combination of the foregoing performance objectives (e.g., cash flow return on capital), provided that the performance period may be no less than one (1) year. Performance objectives may include positive results, maintaining the status quo or limiting economic losses. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Committee with respect to such Restricted Stock or Restricted Stock Units.

11.3 Restricted Stock Certificates.

The Company shall issue, in the name of each Grantee to whom Restricted Stock has been granted, Stock certificates representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Committee may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee's benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends complying with the applicable securities laws and regulations and making appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

11.4 Rights of Holders of Restricted Stock.

Unless the Committee otherwise provides in an Award Agreement, holders of Restricted Stock shall have the right to vote such shares of Stock and the right to receive any dividends declared or paid with respect to such shares of Stock. The Committee may provide that any dividends paid on Restricted Stock must be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Stock. All distributions, if any, received by a Grantee with respect to Restricted Stock as a result of any stock split, stock dividend, combination of shares or other similar transaction shall be subject to the restrictions applicable to the original Grant.

11.5 Rights of Holders of Restricted Stock Units.

Unless the Committee otherwise provides in an Award Agreement, holders of Restricted Stock Units shall have no rights as stockholders of the Company. The Committee may provide in an Award Agreement evidencing a Grant of Restricted Stock Units that the holder of such Restricted Stock Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Restricted Stock Unit held equal to the per-share dividend paid on the shares of Stock. Such Award Agreement may also provide that such cash payment will be deemed reinvested in additional Restricted Stock Units at a price per unit equal to the Fair Market Value of a share on the date that such dividend is paid.

11.6 Termination of Employment or Other Relationship for a Reason Other than Death, Disability or Retirement.

Unless otherwise provided by the Committee, upon the termination of a Grantee's employment or other relationship with the Company and its Subsidiaries, in either case other than, in the case of individuals, by reason of death, Disability or Retirement, any Restricted Stock or Restricted Stock Units held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of Restricted Stock or Restricted Stock Units, the Grantee shall have no further rights with respect to such Grant, including, but not limited to, any right to vote Restricted Stock or any right to receive dividends with respect to Restricted Stock or Restricted Stock Units.

11.7 Rights in the Event of Death.

Unless otherwise provided by the Committee, if a Grantee dies while employed by the Company or its Subsidiaries or while serving as a Service Provider, all Restricted Stock or Restricted Stock Units granted to such Grantee shall, if vesting is based solely on continued service, fully vest on the date of death, or if vesting is based in whole or part on performance, shall be immediately forfeited to the extent not yet vested. Upon such vesting, the shares of Stock represented thereby shall be deliverable in accordance with the terms of the Plan to the executors, administrators, legatees or distributees of the Grantee's estate.

11.8 Rights in the Event of Disability.

Unless otherwise provided by the Committee, if a Grantee's employment or other relationship with the Company or its Subsidiaries or a Service Provider, or service as a Service Provider, is terminated by reason of the Disability of such Grantee, such Grantee's then unvested Restricted Stock or Restricted Stock Units shall, if vesting is based solely on continued service, fully vest and be paid on the date of termination, or if vesting is based in whole or part on performance, shall be immediately forfeited to the extent not yet vested.

11.9 Rights in the Event of Retirement.

Unless otherwise provided by the Committee, if a Grantee's employment with the Company or its Subsidiaries is terminated by reason of Retirement, all Restricted Stock or Restricted Stock Units granted to such Grantee shall, if vesting is based solely on continued service, fully vest and be paid on the date of termination, or if vesting is based in whole or part on performance, shall be immediately forfeited to the extent not yet vested.

11.10 Delivery of Shares and Payment Therefor.

Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to Restricted Stock or Restricted Stock Units shall lapse, and, unless otherwise provided in the Award Agreement, upon payment by the Grantee to the Company, in cash or by check, of the greater of (i) the aggregate par value of the shares of Stock represented by such Restricted Stock or Restricted Stock Units or (ii) the purchase price, if any, specified in the Award Agreement relating to such Restricted Stock or Restricted Stock Units, a certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be.

12. UNRESTRICTED STOCK

The Committee may, in its sole discretion, grant Stock (or sell Stock at par value or such other higher purchase price determined by the Committee) free of restrictions other than those required under federal or state securities laws ("Unrestricted Stock") to persons eligible to receive grants under Section 6 hereof. Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration in lieu of any cash compensation due to such Grantee, or in satisfaction of a performance share award payable in Stock and earned based on the satisfaction of one or more of the performance objectives enumerated in Section 11.2 hereof with respect to Restricted Stock and Restricted Stock Units.

13. PARACHUTE LIMITATIONS

If the Grantee is a "disqualified individual" (as defined in Section 280G(c) of the Code), any Option, Restricted Stock, Restricted Stock Unit or SAR and any other right to receive any payment or benefit under the Plan shall not vest or become exercisable (i) to the extent that the right to vest or any other right to any payment or benefit, taking into account all other rights, payments or benefits to or for the Grantee, would cause any payment or benefit to the Grantee under the Plan to be considered a "parachute payment" within the meaning of Section 280G(b)(2) of the Code as then in effect (a "Parachute Payment") and (ii) if, as a result of receiving a Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under any Award Agreements, the Plan, and all other rights, payments or benefits to or for the Grantee would be less than the maximum after-tax amount that could be received by the Grantee without causing the payment or benefit to be considered a Parachute Payment. In the event that, but for the provisions of this Section 13, the Grantee would be considered to have received a Parachute Payment under any Award Agreements that would have the effect of decreasing the after-tax amount received by the Grantee as described in clause (ii) of the preceding sentence, then the Grantee shall have the right, in the Grantee's sole discretion, to designate any rights, payments or benefits under any Award Agreements, the Plan, any other agreements and any benefit arrangements to be reduced or eliminated so as to avoid having the payment or benefit to the Grantee under any Award Agreements be deemed to be a Parachute Payment. The Award Agreement, or any agreement entered into by the Grantee with the Company before or after the date of grant, may provide for different treatment of Grants than is set forth in this Section 13 in the event that the Grantee is a disqualified individual.

14. REQUIREMENTS OF LAW

14.1 General.

The Company shall not be required to sell or issue any shares of Stock under any Grant if the sale or issuance of such shares of Stock would constitute a violation by the Grantee, any other person exercising a right emanating from such Grant, or the Company of any provision of any law or regulation of any governmental authority, including, without limitation, any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares of Stock subject to a Grant upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares of Stock hereunder, no shares of Stock may be issued or sold to the Grantee or any other person exercising a right emanating from such Grant unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Grant. Without limiting the generality of the foregoing, upon the exercise of any Option or any SAR that may be settled in shares of Stock or the delivery of any Restricted Stock or shares of Stock underlying Restricted Stock Units, unless a registration statement under the Securities Act is in effect with respect to the shares of Stock covered by such Grant, the Company shall not be required to sell or issue such shares of Stock unless the Committee has received evidence satisfactory to it that the Grantee or any other person exercising a right emanating from such Grant may acquire such shares of Stock pursuant to an exemption from registration under the Securities Act. Any such determination by the Committee shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or a SAR or the issuance of shares of Stock pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option (or SAR that may be settled in shares of Stock) shall not be exercisable until the shares of Stock covered by such Option (or SAR) are registered or are exempt from registration, the exercise of such Option (or SAR) under circumstances in which the laws of such jurisdiction apply shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

14.2 Rule 16b-3.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Grants pursuant to the Plan and the exercise of Options and SARs granted hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Committee does not comply with the requirements of Rule 16b-3, such provision or action shall be deemed inoperative to the extent permitted by law and deemed advisable by the Committee, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify the Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

15. AMENDMENT AND TERMINATION OF THE PLAN

The Board may, at any time and from time to time, amend, suspend or terminate the Plan as to any shares of Stock as to which Grants have not been made; provided, that, any amendment that materially increases the benefits available under the Plan or which is required to be submitted for stockholder approval by applicable law, rule or regulation (including, without limitation, rules of the exchange on which the Stock is traded) shall be adopted subject to stockholder approval. Except as permitted under this Section 15 or Section 16 hereof, no amendment, suspension or termination of the Plan shall, without the consent of the Grantee, alter or impair rights or obligations under any Grant theretofore awarded under the Plan.

16. EFFECT OF CHANGES IN CAPITALIZATION

16.1 Changes in Stock.

Subject to Section 16.2 hereof, in the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, spin-off, split-up, share combination or other change in the corporate structure of the Company affecting the shares of Stock, (a) such adjustment shall be made in the number and class of shares which may be delivered under Section 4 hereof and the Grant limits under Section 4 hereof, and in the number and class of or price of shares subject to outstanding Grants as may be determined to be appropriate and equitable by the Board or the Committee, in its sole discretion, to prevent dilution or enlargement of existing rights; and (b) the Board or the Committee or, if another legal entity assumes the obligations of the Company hereunder, the board of directors, compensation committee or similar body of such other legal entity shall either (i) make appropriate provision for the protection of outstanding Grants by the substitution on an equitable basis of appropriate equity interests or awards similar to the Grants, provided that the substitution neither enlarges nor diminishes the value and rights under the Grants, or (ii) upon written notice to the Grantees, provide that Grants shall be exercised, distributed, canceled or exchanged for value pursuant to such terms and conditions (including the waiver of any existing terms or conditions) as shall be specified in the notice. Any adjustment of an Incentive Stock Option under this Section 16.1 shall be made in such a manner so as not to constitute a “modification” within the meaning of Section 424(h)(3) of the Code. The conversion of any convertible securities of the Company shall not be treated as a change in the corporate structure of the Company affecting the shares of Stock. Subject to any contrary language in an Award Agreement evidencing a Grant of Restricted Stock, any restrictions applicable to such Restricted Stock shall apply as well to any replacement shares received by the Grantee as a result of the merger, reorganization or other transaction referred to in this Section 16.1.

16.2 Reorganization, Sale of Assets or Sale of Stock.

Upon the dissolution or liquidation of the Company or upon a merger, consolidation or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, or upon a sale of substantially all of the assets of the Company to another entity, or upon any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving entity) approved by the Board that results in any person or entity (or person or entities acting as a group or otherwise in concert) owning eighty percent (80%) or more of the combined voting power of all classes of securities of the Company, (i) all outstanding Restricted Stock and Restricted Stock Units shall be deemed to have vested, and all restrictions and conditions applicable to such Restricted Stock and Restricted Stock Units shall be deemed to have lapsed, immediately prior to the occurrence of such transaction, and (ii) all Options and SARs outstanding hereunder shall become immediately exercisable for a period of fifteen (15) days immediately prior to the scheduled consummation of such transaction. Any exercise of an Option or SAR during such fifteen (15) day period shall be conditioned upon the consummation of the transaction and shall be effective only immediately before the consummation of the transaction.

This Section 16.2 shall not apply to any transaction to the extent that (A) provision is made in writing in connection with such transaction for the continuation of the Plan or the assumption of the Options, SARs, Restricted Stock and Restricted Stock Units theretofore granted, or for the substitution for such Options, SARs, Restricted Stock and Restricted Stock Units of new options, stock appreciation rights, restricted stock and restricted stock units covering the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares or units and exercise prices, in which event the Plan and Options, SARs, Restricted Stock and Restricted Stock Units theretofore granted shall continue in the manner and under the terms so provided or (B) a majority of the full Board determines that such transaction shall not trigger application of the provisions of this Section 16.2 and limited by any “change in control” provision in any employment agreement or Award Agreement applicable to the Grantee. Upon consummation of any such transaction, the Plan and all outstanding but unexercised Options and SARs shall terminate, except to the extent provision is made in writing in connection with such transaction for the continuation of the Plan or the assumption of such Options and SARs theretofore granted, or for the substitution for such Options and SARs of new options and stock appreciation rights covering the shares of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kinds of shares or units and exercise prices, in which event the Plan and Options and SARs theretofore granted shall continue in the manner and under the terms so provided. The Board shall send written notice of an event that will result in such a termination to all individuals who hold Options and SARs not later than the time at which the Company gives notice thereof to its stockholders.

16.3 Adjustments.

Adjustments under this Section 16 related to shares of Stock or securities of the Company shall be made by the Committee, whose determination in that respect shall be final and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

16.4 No Limitations on Company.

The making of Grants pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve or liquidate, or to sell or transfer all or any part of its business or assets.

17. DISCLAIMER OF RIGHTS

No provision in the Plan or in any Grant or Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any affiliate thereof, or to interfere in any way with any contractual or other right or authority of the Company or Service Provider either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company or any affiliate thereof. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement or employment agreement, no Grant awarded under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a director, officer, consultant or employee of the Company. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any participant or beneficiary under the terms of the Plan. No Grantee shall have any of the rights of a stockholder with respect to the shares of Stock subject to an Option or SAR except to the extent such shares of Stock shall have been issued upon the exercise of the Option or SAR.

18. NONEXCLUSIVITY OF THE PLAN

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Committee to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Committee in its discretion determines desirable, including, without limitation, the granting of Stock options otherwise than under the Plan.

19. WITHHOLDING TAXES

The Company or a Subsidiary, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to Restricted Stock or Restricted Stock Units or upon the exercise of an Option or SAR or the grant of Unrestricted Stock. At the time of such vesting, lapse or exercise, the Grantee shall pay to the Company or the Subsidiary, as the case may be, any amount that the Company or the Subsidiary may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Subsidiary, which may be withheld by the Company or the Subsidiary, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or the Subsidiary to withhold shares of Stock otherwise issuable to the Grantee or (ii) by delivering to the Company or the Subsidiary shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the Subsidiary as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 19 may satisfy such Grantee’s withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirement.

20. CAPTIONS

The use of captions in the Plan or any Award Agreement is for convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

21. OTHER PROVISIONS

Each Grant awarded under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Committee, in its sole discretion.

22. NUMBER AND GENDER

With respect to words used in this Plan, the singular form shall include the plural form and, the masculine gender shall include the feminine gender, as the context requires.

23. SEVERABILITY

If any provision of the Plan or any Award Agreement shall be finally determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

24. GOVERNING LAW

The validity and construction of this Plan and the instruments evidencing the Grants awarded hereunder shall be governed by the laws of the State of Delaware (without giving effect to the choice of law provisions thereof).

25. SECTION 409A

To the extent that the Committee determines that a Grantee would be subject to the additional twenty percent (20%) tax imposed on certain deferred compensation arrangements pursuant to Section 409A of Code as a result of any provision of any Grant, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The Committee shall determine the nature and scope of any such amendment.

The Plan, prior to its amendment and restatement herein, was duly adopted and approved by the Board of Directors of the Company on March 12, 1999 and by the stockholders of the Company on April 7, 1999. An amended and restated Plan was approved by the Board of Directors of the Company on March 8, 2005 and by the stockholders of the Company on April 21, 2005. The Plan was subsequently amended by the Board of Directors of the Company on September 12, 2005, March 13, 2008, and February 26, 2013, and approved by the stockholders on May 7, 2008. The Plan, as amended and restated herein, was approved by the Board of Directors of the Company on February 19, 2014 and by the stockholders of the Company on April 30, 2014. The Plan was subsequently amended and restated by the Board of Directors as of May 7, 2014, May 2, 2018 and September 14, 2020.

CERTIFICATION

I, Bryan H. Fairbanks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function(s)):

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

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

Date: November 2, 2020

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

Exhibit 31.2

CERTIFICATION

I, Dennis C. Schemm, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Trex Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function(s)):

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

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

Date: November 2, 2020

/s/ Dennis C. Schemm

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

Exhibit 32

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

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

(a) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 filed on the date hereof with the U.S. Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2020	/s/ Bryan H. Fairbanks
	Bryan H. Fairbanks President and Chief Executive Officer
Date: November 2, 2020	/s/ Dennis C. Schemm
	Dennis C. Schemm Vice President and Chief Financial Officer