

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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

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
(State or other jurisdiction of
incorporation or organization)

160 Exeter Drive
Winchester, Virginia
(Address of principal executive offices)

54-1910453
(I.R.S. Employer
Identification No.)

22603-8605
(Zip Code)

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

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

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

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding at April 24, 2023 was 108,803,516 shares.

TREX COMPANY, INC.

INDEX

	<u>Page</u>
<u>PART I FINANCIAL INFORMATION</u>	2
Item 1. Condensed Consolidated Financial Statements	2
Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2023 and March 31, 2022 (unaudited)	2
Condensed Consolidated Balance Sheets as of March 31, 2023 and December 31, 2022 (unaudited)	3
Condensed Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2023 and March 31, 2022 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2023 and March 31, 2022 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	27
<u>PART II OTHER INFORMATION</u>	28
Item 1. Legal Proceedings	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 5. Other Information	28
Item 6. Exhibits	30

PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

TREX COMPANY, INC.

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended	
	March 31,	
	2023	2022
Net sales	\$ 238,718	\$ 339,228
Cost of sales	144,290	204,316
Gross profit	94,428	134,912
Selling, general and administrative expenses	37,480	39,960
Income from operations	56,948	94,952
Interest expense, net	1,985	14
Income before income taxes	54,963	94,938
Provision for income taxes	13,832	23,727
Net income	\$ 41,131	\$ 71,211
Basic earnings per common share	\$ 0.38	\$ 0.62
Basic weighted average common shares outstanding	108,771,958	114,638,424
Diluted earnings per common share	\$ 0.38	\$ 0.62
Diluted weighted average common shares outstanding	108,916,261	114,853,881
Comprehensive income	\$ 41,131	\$ 71,211

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,916	\$ 12,325
Accounts receivable, net	302,071	98,057
Inventories	127,784	141,355
Prepaid expenses and other assets	25,712	35,105
Total current assets	459,483	286,842
Property, plant and equipment, net	617,503	589,892
Operating lease assets	30,654	30,991
Goodwill and other intangible assets, net	18,477	18,582
Other assets	7,004	7,398
Total assets	<u>\$1,133,121</u>	<u>\$ 933,705</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 23,136	\$ 19,935
Accrued expenses and other liabilities	50,529	44,064
Accrued warranty	4,600	4,600
Line of credit	369,500	222,000
Total current liabilities	447,765	290,599
Deferred income taxes	68,224	68,224
Operating lease liabilities	23,318	23,974
Non-current accrued warranty	22,077	20,999
Other long-term liabilities	11,560	11,560
Total liabilities	<u>572,944</u>	<u>415,356</u>
Commitments and contingencies	—	—
Stockholders' equity		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.01 par value, 360,000,000 shares authorized; 140,901,926 and 140,841,833 shares issued and 108,803,516 and 108,743,423 share outstanding, at March 31, 2023 and December 31, 2022, respectively	1,409	1,408
Additional paid-in capital	132,235	131,539
Retained earnings	1,171,805	1,130,674
Treasury stock, at cost, 32,098,410 shares at March 31, 2023 and December 31, 2022	(745,272)	(745,272)
Total stockholders' equity	560,177	518,349
Total liabilities and stockholders' equity	<u>\$1,133,121</u>	<u>\$ 933,705</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2022	108,743,423	\$1,408	\$131,539	\$1,130,674	32,098,410	\$(745,272)	\$518,349
Net income	—	—	—	41,131	—	—	41,131
Employee stock plans	8,504	—	316	—	—	—	316
Shares withheld for taxes on awards	(28,773)	—	(1,592)	—	—	—	(1,592)
Stock-based compensation	80,362	1	1,972	—	—	—	1,973
Balance, March 31, 2023	108,803,516	\$1,409	\$132,235	\$1,171,805	32,098,410	\$(745,272)	\$560,177

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 2021	115,148,152	\$1,407	\$127,787	\$ 946,048	25,586,601	\$(350,208)	\$725,034
Net income	—	—	—	71,211	—	—	71,211
Employee stock plans	9,081	—	523	—	—	—	523
Shares withheld for taxes on awards	(35,856)	—	(2,912)	—	—	—	(2,912)
Stock-based compensation	79,926	1	2,225	—	—	—	2,226
Repurchases of common stock	(833,963)	—	—	—	833,963	(75,017)	(75,017)
Balance, March 31, 2022	114,367,340	\$1,408	\$127,623	\$1,017,259	26,420,564	\$(425,225)	\$721,065

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

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

	Three Months Ended March 31,	
	2023	2022
OPERATING ACTIVITIES		
Net income	\$ 41,131	\$ 71,211
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	11,915	10,473
Stock-based compensation	1,972	2,226
Other non-cash adjustments	121	77
Changes in operating assets and liabilities:		
Accounts receivable	(204,014)	(49,825)
Inventories	13,571	(14,423)
Prepaid expenses and other assets	291	1,560
Accounts payable	2,975	36,605
Accrued expenses and other liabilities	3,361	(6,149)
Income taxes receivable/payable	13,206	22,124
Net cash (used in) provided by operating activities	(115,471)	73,879
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(39,192)	(22,288)
Net cash used in investing activities	(39,192)	(22,288)
FINANCING ACTIVITIES		
Borrowings under line of credit	200,500	—
Principal payments under line of credit	(53,000)	—
Repurchases of common stock	(1,592)	(77,929)
Proceeds from employee stock purchase and option plans	316	523
Financing costs	30	(50)
Net cash provided by (used in) financing activities	146,254	(77,456)
Net decrease in cash and cash equivalents	(8,409)	(25,865)
Cash and cash equivalents, beginning of period	12,325	141,053
Cash and cash equivalents, end of period	\$ 3,916	\$ 115,188
Supplemental Disclosure:		
Cash paid for interest, net of capitalized interest	\$ 1,817	\$ —
Cash paid for income taxes, net	\$ 733	\$ 1,604
Supplemental non-cash investing and financing disclosure:		
Capital expenditures in accounts payable	\$ 229	\$ 239

See Notes to Condensed Consolidated Financial Statements (Unaudited).

TREX COMPANY, INC.

**Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2023
(Unaudited)**

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (Trex, Company), a Delaware corporation, was incorporated on September 4, 1998. As of December 30, 2022, the Company operates in one reportable segment, Trex Residential Products (Trex Residential). Through December 30, 2022, Trex had one wholly-owned subsidiary, Trex Commercial Products, Inc. (Trex Commercial) and operated in two reportable segments, Trex Residential and Trex Commercial.

Trex Residential, the Company's principal business based on net sales, 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 30 years of product experience. A majority of its products are manufactured in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. 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. Certain reclassifications have been made to prior period balances to conform to current year presentation. The unaudited condensed consolidated financial statements include the accounts of the Company for all periods presented. Intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated results of operations for the three months ended March 31, 2023, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2023. The Company's results of operations are affected by a number of factors, including, but not limited to, the cost to manufacture and distribute products, cost of raw materials, inflation, consumer spending and preferences, interest rates, the impact of any supply chain disruptions, economic conditions, and/or any adverse effects from global health pandemics and geopolitical conflicts. Towards the end of June 2022, the Company experienced a reduction in demand from its distribution partners, which the Company believed was primarily spurred by concerns over a potential easing in consumer demand due to rising interest rates, declining consumer sentiment and expectations of a general slowing in the economy. As a result, beginning in the third quarter of 2022 the Company's channel partners met demand partially through inventory drawdown rather than reordering products and maintaining current inventories. This inventory recalibration was completed by year end.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2022, and December 31, 2021, and for each of the three years in the period ended December 31, 2022, included in the Annual Report of Trex Company, Inc. on Form 10-K, as filed with the U.S. Securities and Exchange Commission.

3. SALE OF TREX COMMERCIAL PRODUCTS, INC.

On December 30, 2022, the Company completed the sale of substantially all of the assets of its wholly-owned subsidiary and reportable segment, Trex Commercial. The divestiture reflected the Company's decision to focus on driving the most profitable growth strategy for the Company and its shareholders through the execution of its outdoor living strategy. With the sale complete, the Company will dedicate its resources to accelerating conversion to composites from wood and further strengthen its leadership position in the outdoor living category. The divestiture did not represent a strategic shift with a major effect on the Company's operations. The results of operations of Trex Commercial are consolidated in the Company's results of operations for the three months ended March 31, 2022.

4. RECENTLY ADOPTED ACCOUNTING STANDARDS

In December 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-06 “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.” The amendments in this update defer the sunset date of Topic 848 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. 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.” These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The FASB included a sunset provision within Topic 848 based on the expectations of when the LIBOR would cease being published intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2024 and can be adopted as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020. The amendments did not have a material effect on the Company’s consolidated financial statements.

5. INVENTORIES

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

	March 31, 2023	December 31, 2022
Finished goods	\$ 98,573	\$ 107,114
Raw materials	64,262	69,292
Total FIFO (first-in, first-out) inventories	162,835	176,406
Reserve to adjust inventories to LIFO value	(35,051)	(35,051)
Total LIFO inventories	<u>\$ 127,784</u>	<u>\$ 141,355</u>

The Company utilizes the LIFO method of accounting related to its Trex Residential wood-alternative decking and residential railing products, which generally provides for the matching of current costs with current revenues. However, under the LIFO method, reductions in annual inventory balances cause a portion of the Company’s cost of sales to be based on historical costs rather than current year costs (LIFO liquidation). Reductions in interim inventory balances expected to be replenished by year-end do not result in a LIFO liquidation. Accordingly, interim LIFO calculations are based, in part, on management’s estimates of expected year-end inventory levels and costs and 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.

In the three months ended March 31, 2023, the Company had a reduction in inventory that it does not expect will be replenished by year end. However, the Company estimates that the LIFO liquidation will not have a material impact on cost of sales for the year ended December 31, 2023 and, accordingly, it did not impact the cost of sales for the three months ended March 31, 2023.

6. PREPAID EXPENSES AND OTHER ASSETS

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

	March 31, 2023	December 31, 2022
Prepaid expenses	\$ 10,738	\$ 10,787
Income tax receivable	14,635	23,979
Other	339	339
Total prepaid expenses and other assets	<u>\$ 25,712</u>	<u>\$ 35,105</u>

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

The carrying amount of goodwill at March 31, 2023, and December 31, 2022, was \$14.2 million for Trex Residential. The Company’s intangible assets, purchased in 2018, consist of domain names for Trex Residential. At March 31, 2023, and December 31, 2022, intangible assets were \$6.3 million and accumulated amortization was \$2.0 million and \$1.9 million, respectively. Intangible asset amounts were determined based on the estimated economics of the asset and are amortized over the estimated useful lives on a straight-line basis over 15 years, which approximates the pattern in which the economic benefits are expected to be received. The Company evaluates the recoverability of intangible assets periodically and considers events or circumstances that may warrant revised estimates of useful lives or that may indicate an impairment. Intangible asset amortization expense for the three months ended March 31, 2023, and March 31, 2022, was \$0.1 million and \$0.1 million, respectively.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	March 31, 2023	December 31, 2022
Sales and marketing	\$ 18,300	\$ 19,194
Compensation and benefits	10,413	8,646
Operating lease liabilities	7,731	7,488
Manufacturing costs	3,084	3,425
Income taxes	3,863	—
Other	7,138	5,311
Total accrued expenses and other liabilities	<u>\$ 50,529</u>	<u>\$ 44,064</u>

9. DEBT

Revolving Credit Facility

Indebtedness prior to May 18, 2022. On November 5, 2019, the Company entered into a Fourth Amended and Restated Credit Agreement (Fourth Amended Credit Agreement) as borrower, Trex Commercial, 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, and Truist Bank, arranged by BOA Securities, Inc. (BOA Securities), 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. 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) remained unchanged from the Original Credit Agreement.

The Company's revolving credit facility executed November 5, 2019, was completely replaced by the Company's revolving credit facility executed May 18, 2022.

Indebtedness on and after May 18, 2022 and prior to December 22, 2022. On May 18, 2022, the Company, as borrower; Trex Commercial, as guarantor; BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; Wells Fargo, as lender and Syndication Agent; Regions Bank, PNC Bank, National Association (PNC), and TD Bank, N.A. (TD)(each, a Lender and collectively, the Lenders), arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner, entered into a Credit Agreement (Credit Agreement) to amend and restate the Fourth Amended and Restated Credit Agreement dated as of November 5, 2019.

Under the Credit Agreement, the Lenders agreed to provide the Company with one or more Revolving Loans in a collective maximum principal amount of \$400,000,000 (Loan Limit) throughout the term, which ends May 18, 2027 (Term). Included within the Loan Limit are sublimits for a Letter of Credit facility in an amount not to exceed \$60,000,000; and Swing Line Loans in an aggregate principal amount at any time outstanding not to exceed \$20,000,000. The Revolving Loans, the Letter of Credit facility and the Swing Line Loans are for the purpose of raising working capital and supporting general business operations.

[Table of Contents](#)

The Credit Agreement provides the Company, in the aggregate, the ability to borrow an amount up to the Loan Limit during the Term. The Company is not obligated to borrow any amount under the Loan Limit. Within the Loan Limit, the Company may borrow, repay and reborrow at any time or from time to time while the Notes are in effect. Base Rate Loans (as defined in the 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 Credit Agreement) and Term SOFR Loans for the Revolving Loans accrue interest at the rate per annum equal to the sum of Term SOFR for such interest period plus the Applicable Rate (as defined in the 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 Term SOFR plus 1.0% subject to certain interest rate floors. Repayment of all then outstanding principal, interest, fees and costs is due at the end of the Term.

The Company and BofA Securities as a sustainability coordinator, are entitled to establish specified key performance indicators (KPIs) with respect to certain environmental, social and governance targets of the Company and its subsidiaries. The sustainability coordinator and the Company may amend the Credit Agreement for the purpose of incorporating the KPIs and other related provisions, unless the Lenders object to such amendment on or prior to the date that is ten business days after the date on which such amendment is posted for review by the Lenders. Based on the performance of the Company and its subsidiaries against the KPIs, certain adjustments (increase, decrease or no adjustment) to otherwise applicable pricing will be made; provided that the amount of such adjustments shall not exceed certain aggregate caps as in the definitive loan documentation.

Under the terms of the Security and Pledge Agreement, the Company and Trex Commercial, subject to certain permitted encumbrances, as collateral security for the above-stated loans and all other present and future indebtedness of the Company owing to the Lenders grants to BOA, as Administrative Agent for the Lenders, a continuing security interest in certain collateral described and defined in the Security and Pledge Agreement but excluding the Excluded Property (as defined in the Security and Pledge Agreement).

Indebtedness On and After December 22, 2022. As of December 22, 2022, the Company entered into a First Amendment to the Credit Agreement (First Amendment) by and among the Company, as borrower, the guarantors party thereto; BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; TD as lender and Syndication Agent; Regions Bank, PNC, and Wells Fargo (each, a Lender and collectively, the Lenders), arranged by BofA Securities as Sole Lead Arranger and Sole Bookrunner, amending that certain Credit Agreement dated as of May 18, 2022, by and among the Company, as borrower, the guarantors party thereto, BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer and the other lenders identified therein (as so amended, the “Credit Agreement”). The First Amendment removes Trex Commercial as a guarantor to any and all indebtedness under the Credit Agreement. As a part of the First Amendment, the Credit Agreement was amended and restated to provide for an additional Revolving B Loan (as hereinafter defined).

Under the First Amendment, the Lenders agreed to provide the Company with a Revolving B Loan consisting of one or more revolving loans in a collective maximum principal amount of \$150,000,000 (Revolving B Loan Limit) throughout the term, which ends December 22, 2024 (Revolving B Loan Term). Previously, under the Credit Agreement, there was no Revolving B Loan. The First Amendment also provided that TD would serve as Syndication Agent.

As of December 22, 2022, the Credit Agreement was amended and restated to refer to this loan as the Revolving A Loan. The amended and restated Credit Agreement was made an Exhibit A to the First Amendment. All of the terms of the Credit Agreement apply to the Revolving B Loan. The Credit Agreement continues to include sublimits under the Revolving A Loan for a Letter of Credit facility in an amount not to exceed \$60,000,000; and Swing Line Loans in an aggregate principal amount at any time outstanding not to exceed \$20,000,000. The Revolving Loans, the Letter of Credit facility and the Swing Line Loans under Revolving A Loan are for the purpose of raising working capital and supporting general business operations.

The Notes provide the Company, in the aggregate, the ability to borrow an amount up to the Revolving A Loan Limit during the Revolving A Loan Term and Revolving B Loan Limit during the Revolving B Loan Term. The Company is not obligated to borrow any amount under the revolving loans. Within the respective loan limit, the Company may borrow, repay and reborrow at any time or from time to time while the Notes are in effect. With respect to Revolving B Loans, for any day, the rate per annum is a tiered pricing based upon the Consolidated Debt to Consolidated EBITDA Ratio. The applicable rate for Revolving B Loans that are Base Rate Loans range between 1.20% and 2.15% and the applicable rate for Revolving B Loans that are Term SOFR/Term SOFR Daily Floating Rate range between 0.20% and 1.15%.

The Company had \$369.5 million in borrowings outstanding under its revolving credit facility and available borrowing capacity of \$180.5 million at March 31, 2023. The weighted average interest rate on the revolving credit facility was 5.64% as of March 31, 2023.

[Table of Contents](#)

Compliance with Debt Covenants and Restrictions

Pursuant to the terms of the Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of March 31, 2023. 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, training and manufacturing facilities, and certain plant equipment under various operating leases. The Company's operating leases have remaining lease terms of 1 year to 7 years. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

For the three months ended March 31, 2023, and March 31, 2022, total operating lease expense was \$2.1 million and \$2.1 million, respectively. The weighted average remaining lease term at March 31, 2023 and December 31, 2022 was 5.0 years and 5.2 years, respectively. The weighted average discount rate at March 31, 2023 and December 31, 2022 was 2.25% and 2.10%, respectively.

The following table includes supplemental cash flow information for the three months ended March 31, 2023, and March 31, 2022, and supplemental balance sheet information at March 31, 2023 and December 31, 2022 related to operating leases (in thousands):

Supplemental cash flow information	Three Months Ended	
	March 31,	
	2023	2022
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,120	\$ 2,174
Operating ROU assets obtained in exchange for lease liabilities	\$ 1,541	\$ 6,053

Supplemental balance sheet information	March 31,	December 31,
	2023	2022
Operating lease ROU assets	\$ 30,654	\$ 30,991
Operating lease liabilities:		
Accrued expenses and other current liabilities	\$ 7,731	\$ 7,488
Operating lease liabilities	23,318	23,974
Total operating lease liabilities	\$ 31,049	\$ 31,462

The following table summarizes maturities of operating lease liabilities at March 31, 2023 (in thousands):

Maturities of operating lease liabilities	
2023	\$ 5,960
2024	7,290
2025	5,456
2026	4,755
2027	4,400
Thereafter	4,844
Total lease payments	32,705
Less imputed interest	(1,656)
Total operating lease liabilities	\$31,049

11. FINANCIAL INSTRUMENTS

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, other current liabilities, and debt to approximate the fair value of the respective assets and liabilities on the Condensed Consolidated Balance Sheets at March 31, 2023 and December 31, 2022.

12. STOCKHOLDERS' EQUITY

Earnings Per Share

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

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net income available to common shareholders	\$ 41,131	\$ 71,211
Denominator:		
Basic weighted average shares outstanding	108,771,958	114,638,424
Effect of dilutive securities:		
Stock appreciation rights and options	70,004	124,327
Restricted stock	74,299	91,130
Diluted weighted average shares outstanding	108,916,261	114,853,881
Basic earnings per share	\$ 0.38	\$ 0.62
Diluted earnings per share	\$ 0.38	\$ 0.62

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

	Three Months Ended March 31,	
	2023	2022
Stock appreciation rights	108,749	31,006
Restricted stock	107,571	52,278

Stock Repurchase Program

On February 16, 2018, the Trex Board of Directors adopted a stock repurchase program of up to 11.6 million shares of its outstanding common stock (Stock Repurchase Program). During the three months ended March 31, 2023, Trex did not repurchase shares of its outstanding common stock under the Stock Repurchase Program. On May 4, 2023, the Trex Board of Directors adopted a new stock repurchase program of up to 10.8 million shares of its outstanding common stock, and terminated the existing Stock Repurchase Program. This repurchase program has no set expiration date.

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Trex Residential Products

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

[Table of Contents](#)

Trex Commercial Products

On December 30, 2022, the Company completed the sale of its wholly-owned subsidiary and reportable segment, Trex Commercial. Prior to December 30, 2022, Trex Commercial generated revenue from the manufacture and sale of its modular and architectural railing and staging systems. All of its revenues were from fixed-price contracts with customers. Trex Commercial contracts had a single performance obligation as the promise to transfer the individual goods or services were not separately identifiable from other promises in the contract and was, therefore, not distinct.

For the three months ended March 31, 2023, and March 31, 2022, net sales were disaggregated in the following tables by (1) market, (2) timing of revenue recognition, and (3) type of contract. The tables also include a reconciliation of the respective disaggregated net sales with the Company's reportable segments (in thousands).

Three Months Ended March 31, 2023

	<i>Trex Residential and Consolidated</i>
Timing of Revenue and Type of Contract	
Products transferred at a point in time and variable consideration contracts	\$ 238,718
	<u>\$ 238,718</u>

Three Months Ended March 31, 2022

	Reportable Segment		
	<i>Trex Residential</i>	<i>Trex Commercial</i>	<i>Consolidated</i>
Timing of Revenue Recognition and Type of Contract			
Products transferred at a point in time and variable consideration contracts	\$327,194	\$ —	\$ 327,194
Products transferred over time and fixed price contracts	—	12,034	12,034
	<u>\$327,194</u>	<u>\$ 12,034</u>	<u>\$ 339,228</u>

14. STOCK-BASED COMPENSATION

At the annual meeting of stockholders of the Company held on May 4, 2023, the Company's stockholders approved the Trex Company, Inc. 2023 Stock Incentive Plan (Plan). The Company's board of directors unanimously approved the Plan on April 10, 2023, subject to stockholder approval. The Plan amends and restates in its entirety the Trex Company, Inc. 2014 Stock Incentive Plan (2014 Plan), which was last approved by the Company's stockholders at the annual meeting held on April 30, 2014. The Plan, which will be administered by the compensation committee of the board of directors, provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights and unrestricted stock, which are referred to collectively as "awards." Awards may be granted under the Plan to officers, directors (including non-employee directors) and other employees of the Company or any subsidiary thereof, to any adviser, consultant or other provider of services to the Company (and any employee thereof), and to any other individuals who are approved by the board of directors as eligible to participate in the Plan. Only employees of the Company or any subsidiary thereof are eligible to receive incentive stock options. Subject to certain adjustments as provided in the Plan, the total number of shares of common stock available for future grants under the Plan is 4,000,000 shares.

Table of Contents

The following table summarizes the Company's stock-based compensation grants for the three months ended March 31, 2023:

	<u>Stock Awards Granted</u>	<u>Weighted-Average Grant Price Per Share</u>
Time-based restricted stock units	76,698	\$ 56.75
Performance-based restricted stock units (a)	96,013	\$ 56.79
Stock appreciation rights	51,916	\$ 56.80

- (a) Includes 11,059 of target performance-based restricted stock unit awards granted during the three months ended March 31, 2023, and adjustments of 1,413, and 9,646 to grants due to the actual performance level achieved for restricted stock and restricted stock units awarded in 2021, and 2020, respectively.

The fair value of each SAR is estimated on the date of grant using a Black-Scholes option-pricing formula. For SARs issued in the three months ended March 31, 2023, and March 31, 2022, the data and assumptions shown in the following table were used:

	<u>Three Months Ended March 31, 2023</u>	<u>Three Months Ended March 31, 2022</u>
Weighted-average fair value of grants	\$ 27.19	\$ 33.90
Dividend yield	0%	0%
Average risk-free interest rate	4.0%	1.9%
Expected term (years)	5	5
Expected volatility	49.5%	44.9%

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

	<u>Three Months Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Stock appreciation rights	\$ 215	\$ 154
Time-based restricted stock and restricted stock units	935	847
Performance-based restricted stock and restricted stock units	724	1,158
Employee stock purchase plan	98	67
Total stock-based compensation	<u>\$ 1,972</u>	<u>\$ 2,226</u>

Total unrecognized compensation cost related to unvested awards as of March 31, 2023, was \$18.6 million. The cost of these unvested awards is being recognized over the requisite vesting period of each award.

15. INCOME TAXES

The Company's effective tax rate for the three months ended March 31, 2023, was 25.2% and was comparable to the effective tax rate for the three months ended March 31, 2022, of 25.0%, which resulted in income tax expense of \$13.8 million and \$23.7 million, respectively.

During the three months ended March 31, 2023 and March 31, 2022, the Company realized \$0.2 million and \$0.1 million, respectively, of excess tax benefits from stock-based awards and recorded a corresponding benefit to income tax expense.

[Table of Contents](#)

The Company analyzes its deferred tax assets each reporting period, considering all available positive and negative evidence in determining the expected realization of those deferred tax assets. As of March 31, 2023, the Company maintains a valuation allowance of \$3.0 million against deferred tax assets primarily related to state tax credits it estimates will expire before they are realized.

The Company operates in multiple tax jurisdictions, and, in the normal course of business, its tax returns are subject to examination by various taxing authorities. Such examinations may result in future assessments by these taxing authorities, and the Company accrues a liability when it believes that it is more likely than not that benefits of tax positions will not be realized. The Company believes that adequate provisions have been made for all tax returns subject to examination. As of March 31, 2023, for certain tax jurisdictions tax years 2019 through 2022 remain subject to examination. The Company believes that adequate provisions have been made for all tax returns subject to examination. Sales made to foreign distributors are not taxable in any foreign jurisdiction as the Company does not have a taxable presence in any foreign jurisdiction.

16. SEGMENT INFORMATION

Through December 30, 2022, the Company operated in two reportable segments. On December 30, 2022, the Company completed the sale of its wholly-owned subsidiary and reportable segment, Trex Commercial. Subsequent to the sale of Trex Commercial, the Company operates in one reportable segment, Trex Residential:

- 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 designed, engineered, and marketed modular and architectural railing and staging systems for the commercial and multi-family market, including sports stadiums and performing arts venues. Trex Commercial products were marketed to architects, specifiers, contractors, and others doing business within the commercial and multi-family market.

The Company's reportable segments are determined in accordance with its internal management structure, which, through December 30, 2022, was based on residential and commercial sales activities and, subsequent to December 30, 2022, is based on its residential sales activities. The Company evaluates performance of each segment primarily based on net sales and earnings before interest, income taxes, depreciation and amortization (EBITDA). The Company uses net sales to assess performance and allocate resources as this measure represents the amount of business the segment engaged in during a given period of time, is an indicator of market growth and acceptance of segment products and represents the segment's customers' spending habits along with the amount of product the segment sells relative to its competitors. The Company uses EBITDA to assess performance and allocate resources because it believes that EBITDA facilitates performance comparison between the segments by eliminating interest, income taxes, and depreciation and amortization charges to income. The below segment data for the three months ended March 31, 2023 and March 31, 2022 includes data for its reportable segments (in thousands):

Segment Data:

	Three Months Ended	Three Months Ended March 31, 2022		
	March 31, 2023	Trex Residential	Trex Commercial	Consolidated
	Trex Residential and Consolidated			
Net sales	\$ 238,718	\$ 327,194	\$ 12,034	\$ 339,228
Net Income (loss)	\$ 41,131	\$ 72,215	\$ (1,004)	\$ 71,211
EBITDA	\$ 68,862	\$ 106,483	\$ (1,058)	\$ 105,425
Depreciation and amortization	\$ 11,914	\$ 10,191	\$ 282	\$ 10,473
Income tax expense (benefit)	\$ 13,832	\$ 24,063	\$ (336)	\$ 23,727
Capital expenditures	\$ 39,192	\$ 22,283	\$ 5	\$ 22,288
Total assets	\$ 1,133,121	\$ 929,737	\$ 42,659	\$ 972,396

Reconciliation of Net Income to EBITDA:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022		
	Trex Residential and Consolidated	Trex Residential	Trex Commercial	Consolidated
Net Income (loss)	\$ 41,131	\$ 72,215	\$ (1,004)	\$ 71,211
Interest expense, net	1,985	14	—	14
Income tax expense (benefit)	13,832	24,063	(336)	23,727
Depreciation and amortization	11,914	10,191	282	10,473
EBITDA	<u>\$ 68,862</u>	<u>\$ 106,483</u>	<u>\$ (1,058)</u>	<u>\$ 105,425</u>

17. SEASONALITY

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

18. COMMITMENTS AND CONTINGENCIES
Product Warranty

The Company warrants that for the applicable warranty period its Trex Residential products, when properly installed, used and maintained, will be free from material defects in workmanship and materials and its decking, cladding, fascia and railing products will not split, splinter, rot or suffer structural damage from termites or fungal decay.

Products sold on or after January 1, 2023: The warranty period for residential use is 50 years for Transcend® decking, 35 years for Select® decking and Universal Fascia, and 25 years for Enhance® decking and Transcend, Select, Enhance and Signature® railing. The warranty period for commercial use is 10 years, excluding Signature railing and Transcend cladding, which each have a warranty period of 25 years. The Company further warrants that Trex Transcend, Trex Enhance and Trex Select decking and cladding and Universal Fascia products will not fade in color from light and weathering exposure more than a certain amount and will be resistant to permanent staining from food and beverage substances or mold and mildew, provided the stain is cleaned within seven days of appearance, for the warranty period referred to above. If there is a breach of such warranties, the Company has an obligation either to replace the defective product or refund the purchase price.

Products sold prior to January 1, 2023: The warranty period is 25 years for residential use and 10 years for commercial use. With respect to Trex Signature railing, the warranty period is 25 years for both residential and commercial use. The Company further warrants that Trex Transcend, Trex Enhance, Trex Select and Universal Fascia products will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold, provided the stain is cleaned within seven days of appearance, for the warranty period referred to above. If there is a breach of such warranties, the company has an obligation either to replace the defective product or refund the purchase price.

Trex Residential continues to receive and settle claims for decking products manufactured at its Nevada facility prior to 2007 that exhibit surface flaking and maintains a warranty reserve to provide for the settlement of these claims. Estimating the warranty reserve for surface flaking claims requires management to estimate (1) the number of claims to be settled with payment and (2) the average cost to settle each claim.

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

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

[Table of Contents](#)

The number of incoming claims received in the three months ended March 31, 2023 was lower than the number of claims received in the three months ended March 31, 2022, and lower than the Company's expectations for 2023. Average cost per claim experienced in the three months ended March 31, 2023 was significantly lower than that experienced in the three months ended March 31, 2022, which was elevated due to the closure of three large claims, and lower than the Company's expectations for 2023. The Company believes the reserve at March 31, 2023 is sufficient to cover future surface flaking obligations.

The Company's analysis is based on currently known facts and a number of assumptions, as discussed above, and current expectations. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause the actual warranty liabilities to be higher or lower than those projected, which could materially affect the Company's financial condition, results of operations or cash flows. The Company estimates that the annual number of claims received will continue to decline over time and that the average cost per claim will increase slightly, primarily due to inflation. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases or decreases to the warranty reserve and a decrease or increase in earnings and cash flows in future periods. The Company estimates that a 10% change in the expected number of remaining claims to be settled with payment or the expected cost to settle claims may result in approximately a \$1.6 million change in the surface flaking warranty reserve.

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

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

	Three Months Ended March 31, 2023		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	\$ 15,905	\$ 9,694	\$ 25,599
Provisions and changes in estimates	—	1,945	1,945
Settlements made during the period	(316)	(551)	(867)
Ending balance, March 31	<u>\$ 15,589</u>	<u>\$ 11,088</u>	<u>\$ 26,677</u>

	Three Months Ended March 31, 2022		
	Surface Flaking	Other Residential	Total
Beginning balance, January 1	\$ 18,542	\$ 10,053	\$ 28,595
Provisions and changes in estimates	—	1,090	1,090
Settlements made during the period	(745)	(528)	(1,273)
Ending balance, March 31	<u>\$ 17,797</u>	<u>\$ 10,615</u>	<u>\$ 28,412</u>

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.

Arkansas Facility

In October 2021, the Company announced plans to add a third U.S.-based Trex Residential manufacturing facility located in Little Rock, Arkansas, that will sit on approximately 300 acres of land. The development approach for the new campus will be modular and calibrated to demand trends for Trex Residential outdoor living products. Construction began on the new facility in the second quarter of 2022, and in July 2022, the Company entered into a design-build agreement. As previously announced, the Company anticipates spending approximately \$400 million on the facility and the budget for the design-build agreement is contained within this amount. Construction for the new facility will be funded primarily through the Company's ongoing cash generation or its line of credit.

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. (Trex, Company, we or our) Annual Report on Form 10-K for the year ended December 31, 2022 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, 2022 filed with the SEC. These statements are also subject to risks and uncertainties that could cause the Company’s actual operating results to differ materially. Such risks and uncertainties include, but are not limited to: the extent of market acceptance of the Company’s current and newly developed products; the costs associated with the development and launch of new products and the market acceptance of such new products; the sensitivity of the Company’s business to general economic conditions; the impact of seasonal and weather-related demand fluctuations on inventory levels in the distribution channel and sales of the Company’s products; the availability and cost of third-party transportation services for the Company’s products 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; increasing inflation in the macro-economic environment; 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, geopolitical conflicts; and material adverse impacts related to labor shortages or increases in labor costs.

OVERVIEW

The following MD&A is intended to help the reader understand the operations and current business environment of the Company. The MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes thereto contained in “Item 1. Condensed Consolidated Financial Statements” of this report. MD&A includes the following sections:

- *Operations and Products* — a general description of our business, a brief overview of our reportable segments’ products, and a discussion of our operational highlights.
- *Highlights and Financial Performance Quarter-to-Date and Year-to-Date* – a summary of financial performance and highlights for the three months ended March 31, 2023, a general discussion of factors that may affect our operations, and a description of relevant financial statement line items.
- *Results of Operations* — an analysis of our consolidated results of operations for the three months in the period ended March 31, 2023 compared to three months ended March 31, 2022, respectively.
- *Liquidity and Capital Resources* — an analysis of cash flows; contractual obligations, and a discussion of our capital and other cash requirements.

OPERATIONS AND PRODUCTS

Prior to December 30, 2022, the Company operated in two reportable segments, Trex Residential Products (Trex Residential), the Company’s principal business based on net sales, and Trex Commercial Products (Trex Commercial). Subsequent to December 30, 2022, the Company currently operates in one reportable segment, Trex Residential. 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 our Trex Residential segment.

Table of Contents

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. With more than 30 years of product experience, we offer a comprehensive set of aesthetically appealing and durable, low-maintenance product offerings in the decking, residential railing, fencing and outdoor lighting categories. A majority of the products are eco-friendly and leverage recycled and reclaimed 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 Residential 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 Residential 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:

<p><i>Decking and Accessories</i></p>	<p>Our principal decking products are Trex Transcend® Lineage™, Trex Transcend®, Trex Signature®, Trex Select®, and Trex Enhance®. In addition, our Trex Transcend decking product can also be used as cladding. Our high-performance, low-maintenance, eco-friendly composite decking products are comprised of a blend of 95 percent reclaimed wood fibers and recycled polyethylene film and feature a protective polymer shell for enhanced protection against fading, staining, mold and scratching. Trex Transcend Lineage is the next generation of design and performance in composite decking and is available in four luxurious, on-trend hues inspired by some of the most picturesque locales in the United States. Our Trex Transcend decking provides elevated aesthetics paired with the highest level of performance and is available in eight multi-tonal monochromatic classical earth tones and premium tropical colors. Trex Signature decking offers realistic woodgrain aesthetics that raises the bar for beauty, performance and sustainability and is available in two luxurious hues inspired by stunning natural settings. Trex Select decking offers the perfect pairing of price and minimal maintenance and is available in five nature-inspired earth tone colors. Our Trex Enhance boards pair the beauty of authentic wood-grain appearance with the durability of composite with minimal maintenance and the affordability of wood and is available in natural and basic colors.</p> <p>We also offer accessories to our decking products. Trex Hideaway®, a self-gapping universal hidden fastener designed to give a seamless finish to every project. Trex DeckLighting™, an outdoor lighting system, is a line of energy-efficient LED dimmable deck lighting designed to use 75% less energy compared to incandescent lighting. It can be installed into the railing, stair risers or the deck itself. The line includes a post cap light, deck rail light, riser light, a soffit light and a recessed deck light. Pre-assembled stair panels that allow for easier installation and are designed to save time on the jobsite.</p>
<p><i>Railing</i></p>	<p>Our railing products are Trex Transcend Railing, Trex Select Railing, and Trex Signature® aluminum railing. Our high-performance composite and aluminum deck railing kits and systems are sustainably manufactured, easy to install and durable. Trex railing systems are built with the same durability as Trex decking and won’t rot, warp, peel or splinter and resist fading and corrosion. 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 Signature aluminum railing, made from a minimum of 40 percent recycled content, is available in three colors and designed for consumers who want a sleek, contemporary look.</p>
<p><i>Fencing</i></p>	<p>Our Trex Seclusions® composite fencing product is offered through two specialty distributors. This product consists of structural posts, bottom rail, pickets, top rail and decorative post caps. The top and bottom rails of Trex fencing are designed to provide a “picture frame” element and the deep rich colors have a matte surface to prevent harsh sunlight reflections.</p>

[Table of Contents](#)

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

<i>Trex® Outdoor Furniture™</i>	A line of outdoor furniture products manufactured and sold by PolyWood, Inc.
<i>Trex® RainEscape® and Trex® Protect®</i>	An above joist deck drainage system manufactured and sold by DriDeck Enterprises, LLC. Trex Protect Joist, Beam and Rim tape is a self-adhesive butyl tape that protects wooden deck framing/substructure elements.
<i>Trex® Pergola™</i>	Pergolas made from low maintenance cellular PVC and all-aluminum product, manufactured by Home & Leisure, Inc. dba Structureworks Fabrication.
<i>Trex® Latticeworks™</i>	Outdoor lattice boards manufactured and sold by Structureworks Fabrication.
<i>Trex® Cornhole™</i>	Cornhole boards manufactured and sold by IPC Global Marketing LLC.
<i>Trex® Blade™</i>	A specialty saw blade for wood-alternative composite decking manufactured and sold by Freud America, Inc.
<i>Trex® SpiralStairs</i>	A staircase alternative for use with all deck substructures manufactured and sold by M. Cohen and Sons, Inc. dba The Iron Shop.
<i>Trex® Outdoor Kitchens™</i>	Outdoor kitchen cabinetry manufactured and sold by Danver Stainless Outdoor Kitchens.

Trex Commercial designed and engineered custom solutions prevalent in professional and collegiate sports facilities, commercial and high-rise applications, performing arts, sports, and event production and rentals. Trex Commercial marketed to architects, specifiers, contractors, and building owners.

Trex offered the following products through Trex Commercial through December 30, 2022:

- Architectural railing systems;
- Aluminum railing systems; and
- Staging equipment and accessories.

[Table of Contents](#)

Highlights:

- *Trex Transcend® Lineage™ Named “Sustainable Product of the Year”* by Green Building Media as a 2023 Sustainable Product of the Year.
- *Trex Named Most Sustainable Decking Brand by Green Builder Media for 13th Consecutive Year* and the only brand to be recognized as a sustainability leader for all 13 years of the program.
- *Trex Releases 2023 Outdoor Living Forecast.* In March 2023, Trex released its 2023 Outdoor Living Trends forecast, listing five outdoor trends that it expects will shape backyard projects in 2023.
- *Trex Named 2023 America’s Most Trusted® Composite Decking Brand* according to a nationwide study by Lifestory Research.
- *Introduction of Trex Signature® Decking* that offers realistic woodgrain aesthetics that raises the bar for beauty, performance and sustainability and is available in two luxurious hues inspired by stunning natural settings.
- *Introduction of New Product Warranty* for the applicable warranty period providing that our Trex Residential products, when properly installed, used and maintained, will be free from material defects in workmanship and materials and our decking, cladding, fascia and railing products will not split, splinter, rot or suffer structural damage from termites or fungal decay.

HIGHLIGHTS AND FINANCIAL PERFORMANCE QUARTER-TO-DATE AND YEAR-TO-DATE

Financial performance. The following table presents quarter-to-date highlights of our financial performance:

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
<i>(\$ 000s omitted, except per share data)</i>				
Net sales	\$ 238,718	\$ 339,228	\$ (100,510)	(29.6)%
Gross profit	\$ 94,428	\$ 134,912	\$ (40,484)	(30.0)%
Net income	\$ 41,131	\$ 71,211	\$ (30,080)	(42.2)%
EBITDA	\$ 68,862	\$ 105,425	\$ (36,563)	(34.7)%
Diluted earnings per share	\$ 0.38	\$ 0.62	\$ (0.24)	(38.7)%

Capital expenditures. During the 2023 first quarter, our capital expenditures were \$39.2 million primarily related to \$22.6 million for the Arkansas manufacturing facility, \$4.9 million in cost reduction initiatives, \$4.0 million for our new corporate headquarters, and \$3.6 million in capacity expansion in our existing facilities and safety, environmental and general support.

RESULTS OF OPERATIONS

General. Our results of operations are affected by a number of factors, including, but not limited to, the cost to manufacture and distribute products, cost of raw materials, inflation, interest rates, consumer spending and preferences, the impact of any supply chain disruptions, economic conditions, and any adverse effects from global health pandemics and geopolitical conflicts.

Strong sales growth in the first and second quarters of 2022 reflected an increase in Trex Residential net sales driven by pricing actions taken in 2021 and 2022, volume growth that continued to reflect strong secular trends in the outdoor living category, continued execution of our wood-to-composite market strategy share conversion, and channel inventory build to support historically high growth rates. The channel inventory build was due in part to expected consumer demand along the lines of what was seen in 2020 and 2021, but also was a consequence of improved product availability following more than two years of capacity constraints and product allocations.

However, towards the end of June 2022 Trex Residential experienced a reduction in demand from its distribution partners, spurred by concerns over a potential easing in consumer demand due to rising interest rates, declining consumer sentiment and expectations of a general slowing in the economy. As a result, beginning in the third quarter 2022 Trex Residential’s channel partners met demand partially through inventory drawdown, which negatively impacted net sales. In response to this changed environment, Trex Residential immediately took measures to manage a production slowdown, including labor force reductions, production optimization, as well as other cost actions.

[Table of Contents](#)

Sale of Substantially All of the Assets of Trex Commercial Products, Inc. On December 30, 2022, we completed the sale of substantially all of the assets of our wholly-owned subsidiary and reportable segment, Trex Commercial, for net proceeds of \$7.3 million. The divestiture of Trex Commercial reflects our decision to focus on driving the most profitable growth strategy for the Company and its shareholders through the execution of our outdoor living strategy. With the sale complete, we will dedicate our resources to accelerating conversion to composites from wood and further strengthen our leadership position in the outdoor living category. The divestiture did not represent a strategic shift with a major effect on the Company's operations and financial results. As such, the results of operations of Trex Commercial are consolidated in the Company's results of operations for the three months ended March 31, 2022.

Russian / Ukraine Conflict. The conflict between Russia and Ukraine has not directly affected our business and results of operations. We have no operations or direct sales in Russia or Ukraine but continue to monitor the potential economic impact of the conflict on supply chains, commodity and fuel prices, and prices of raw materials. We cannot predict the impact of the continued conflict on the global economy, our industry or our business.

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.

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

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

Below is the discussion and analysis of our operating results and material changes in our operating results for the three months ended March 31, 2023 (2023 quarter) compared to the three months ended March 31, 2022 (2022 quarter).

Three Months Ended March 31, 2023 Compared To The Three Months Ended March 31, 2022

Net Sales

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	(dollars in thousands)			
Total net sales	\$ 238,718	\$ 339,228	\$(100,510)	(29.6)%
Trex Residential net sales	\$ 238,718	\$ 327,194	\$(88,476)	(27.0)%
Trex Commercial net sales	N/A	\$ 12,034	N/A	N/A

Total net sales decreased by \$100.5 million, or 29.6%, in the 2023 quarter compared to the 2022 quarter. The decrease was substantially all due to a decrease in volume, which was primarily the result of more cautious purchase patterns by the channel due to softening economic conditions. On December 30, 2022, we completed the sale of substantially all of the assets of our wholly-owned subsidiary and reportable segment, Trex Commercial.

[Table of Contents](#)

Gross Profit

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2023</u>	<u>2022</u>		
	(dollars in thousands)			
Cost of sales	\$ 144,290	\$ 204,316	\$ (60,026)	(29.4)%
% of total net sales	60.4%	60.2%		
Gross profit	\$ 94,428	\$ 134,912	\$ (40,484)	(30.0)%
Gross margin	39.6%	39.8%		

Gross profit as a percentage of net sales, gross margin, was 39.6% in the 2023 quarter compared to 39.8% in the 2022 quarter. Excluding Trex Commercial in the gross margin for the 2022 quarter, gross margin was 40.9%. The decrease was primarily the result of lower absorption due to a decrease in production levels. The decrease was offset in part by improved manufacturing performance and other cost containment actions.

Selling, General and Administrative Expenses

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2023</u>	<u>2022</u>		
	(dollars in thousands)			
Selling, general and administrative expenses	\$ 37,480	\$ 39,960	\$ (2,480)	(6.2)%
% of total net sales	15.7%	11.8%		

Selling, general and administrative expenses decreased \$2.5 million in the 2023 quarter. The decrease primarily related to a \$3.5 million decrease in personnel related expenses, offset by a \$1.1 million increase in other operating expenses. The decrease in personnel related expenses was primarily driven by the divestiture of Trex Commercial in December 2022, which resulted in reduced personnel related expenses in the 2023 quarter.

Provision for Income Taxes

	<u>Three Months Ended March 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2023</u>	<u>2022</u>		
	(dollars in thousands)			
Provision for income taxes	\$ 13,832	\$ 23,727	\$ (9,895)	(41.7)%
Effective tax rate	25.2%	25.0%		

The effective tax rate for the 2023 quarter of 25.2% and was comparable to the effective tax rate of 25.0% for the 2022 quarter.

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

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022		
	Trex Residential and Consolidated	Trex Residential	Trex Commercial	Consolidated
Net Income (loss)	\$ 41,131	\$ 72,215	\$ (1,004)	\$ 71,211
Interest expense, net	1,985	14	—	14
Income tax expense (benefit)	13,832	24,063	(336)	23,727
Depreciation and amortization	11,914	10,191	282	10,473
EBITDA	<u>\$ 68,862</u>	<u>\$ 106,483</u>	<u>\$ (1,058)</u>	<u>\$ 105,425</u>

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	(dollars in thousands)			
Total EBITDA	\$ 68,862	\$ 105,425	\$(36,563)	(34.7)%
Trex Residential EBITDA	\$ 68,862	\$ 106,483	\$(37,621)	(35.3)%
Trex Commercial EBITDA	N/A	\$ (1,058)	N/A	N/A

Total EBITDA decreased 34.7% to \$68.9 million for the 2023 quarter compared to \$105.4 million for the 2022 quarter. The decrease in EBITDA was driven primarily by a decrease in net sales and gross profit.

LIQUIDITY AND CAPITAL RESOURCES

We finance operations and growth primarily with cash flows from operations, borrowings under our revolving credit facilities, operating leases and normal trade credit terms from operating activities. At March 31, 2023 we had \$3.9 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):

	Three Months Ended March 31,	
	2023	2022
Net cash (used in) provided by operating activities	\$ (115,471)	\$ 73,879
Net cash used in investing activities	(39,192)	(22,288)
Net cash provided by (used in) financing activities	146,254	(77,456)
Net decrease in cash and cash equivalents	<u>\$ (8,409)</u>	<u>\$ (25,865)</u>

Operating Activities

Cash used in operations was \$115.5 million during the first quarter of 2023 compared to cash provided by operations of \$73.9 million during the first quarter of 2022. The \$189.4 million decrease in cash provided by operating activities was primarily related to an increase in accounts receivable and, to a lesser extent, reduced profitability in the first quarter of 2023. Shorter payment terms offered as part of our 2022 early buy program resulted in stronger cash collections from accounts receivable in the first quarter of 2022 compared to historical first quarter collections. The timing of collections in the first quarter of 2023 were more aligned with the timing of collections in first quarters prior to 2022. We anticipate the timing of collections in the second and third quarters of 2023 will be more comparable to those in the second and third quarters of 2022. Substantially all of the accounts receivables balances as of March 31, 2023 will be collected during the second quarter of 2023. The effects of the increase in accounts receivable and reduced profitability were offset, in part, by a decrease in inventories in the first quarter of 2023. During the second half of 2022, our channel partners met demand partially through inventory drawdown rather than through additional purchases, resulting in an increase in our inventory levels. We anticipate a decrease in inventory levels throughout 2023 compared to 2022.

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. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP and are not meant to be considered superior to or a substitute for our GAAP results.

[Table of Contents](#)

Investing Activities

Capital expenditures in the 2023 quarter were \$39.2 million primarily related to \$22.6 million for the Arkansas manufacturing facility, \$4.9 million in cost reduction initiatives, \$4.0 million for our new corporate headquarters, and \$3.6 million in capacity expansion in our existing facilities and safety, environmental and general support.

Financing Activities

Net cash provided by financing activities in the 2023 quarter consisted primarily of net borrowings under our line of credit of \$147.5 million.

Stock Repurchase Program. On February 16, 2018, the Trex Board of Directors adopted a stock repurchase program of up to 11.6 million shares of its outstanding common stock (Stock Repurchase Program). As of March 31, 2023, the Company has repurchased 10.1 million shares under the Stock Repurchase Program. On May 4, 2023, the Trex Board of Directors adopted a new stock repurchase program of up to 10.8 million shares of its outstanding common stock, and terminated the existing Stock Repurchase Program. This repurchase program has no set expiration date.

Indebtedness prior to May 18, 2022. On November 5, 2019, the Company entered into a Fourth Amended and Restated Credit Agreement (Fourth Amended Credit Agreement) as borrower, Trex Commercial, 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, and Truist Bank, arranged by BOA Securities, Inc. (BOA Securities), 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. 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) remained unchanged from the Original Credit Agreement.

The Company's revolving credit facility executed November 5, 2019, was completely replaced by the Company's revolving credit facility executed May 18, 2022.

Indebtedness on and after May 18, 2022 and prior to December 22, 2022. On May 18, 2022, the Company, as borrower; Trex Commercial, as guarantor; BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; Wells Fargo, as lender and Syndication Agent; Regions Bank, PNC Bank, National Association (PNC), and TD Bank, N.A. (TD)(each, a Lender and collectively, the Lenders), arranged by BofA Securities, Inc. as Sole Lead Arranger and Sole Bookrunner, entered into a Credit Agreement (Credit Agreement) to amend and restate the Fourth Amended and Restated Credit Agreement dated as of November 5, 2019.

Under the Credit Agreement, the Lenders agreed to provide the Company with one or more Revolving Loans in a collective maximum principal amount of \$400,000,000 (Loan Limit) throughout the term, which ends May 18, 2027 (Term). Included within the Loan Limit are sublimits for a Letter of Credit facility in an amount not to exceed \$60,000,000; and Swing Line Loans in an aggregate principal amount at any time outstanding not to exceed \$20,000,000. The Revolving Loans, the Letter of Credit facility and the Swing Line Loans are for the purpose of raising working capital and supporting general business operations.

The Credit Agreement provides the Company, in the aggregate, the ability to borrow an amount up to the Loan Limit during the Term. The Company is not obligated to borrow any amount under the Loan Limit. Within the Loan Limit, the Company may borrow, repay and reborrow at any time or from time to time while the Notes are in effect. Base Rate Loans (as defined in the 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 Credit Agreement) and Term SOFR Loans for the Revolving Loans accrue interest at the rate per annum equal to the sum of Term SOFR for such interest period plus the Applicable Rate (as defined in the 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 Term SOFR plus 1.0% subject to certain interest rate floors. Repayment of all then outstanding principal, interest, fees and costs is due at the end of the Term.

[Table of Contents](#)

The Company and BofA Securities as a sustainability coordinator, are entitled to establish specified key performance indicators (KPIs) with respect to certain environmental, social and governance targets of the Company and its subsidiaries. The sustainability coordinator and the Company may amend the Credit Agreement for the purpose of incorporating the KPIs and other related provisions, unless the Lenders object to such amendment on or prior to the date that is ten business days after the date on which such amendment is posted for review by the Lenders. Based on the performance of the Company and its subsidiaries against the KPIs, certain adjustments (increase, decrease or no adjustment) to otherwise applicable pricing will be made; provided that the amount of such adjustments shall not exceed certain aggregate caps as in the definitive loan documentation.

Under the terms of the Security and Pledge Agreement, the Company and Trex Commercial, subject to certain permitted encumbrances, as collateral security for the above-stated loans and all other present and future indebtedness of the Company owing to the Lenders grants to BOA, as Administrative Agent for the Lenders, a continuing security interest in certain collateral described and defined in the Security and Pledge Agreement but excluding the Excluded Property (as defined in the Security and Pledge Agreement).

Indebtedness On and After December 22, 2022. As of December 22, 2022, the Company entered into a First Amendment to the Credit Agreement (First Amendment) by and among the Company, as borrower, the guarantors party thereto; BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer; TD as lender and Syndication Agent; Regions Bank, PNC, and Wells Fargo (each, a Lender and collectively, the Lenders), arranged by BofA Securities as Sole Lead Arranger and Sole Bookrunner, amending that certain Credit Agreement dated as of May 18, 2022, by and among the Company, as borrower, the guarantors party thereto, BOA, as a Lender, Administrative Agent, Swing Line Lender and L/C Issuer and the other lenders identified therein (as so amended, the "Credit Agreement"). The First Amendment removes Trex Commercial as a guarantor to any and all indebtedness under the Credit Agreement. As a part of the First Amendment, the Credit Agreement was amended and restated to provide for an additional Revolving B Loan (as hereinafter defined).

Under the First Amendment, the Lenders agreed to provide the Company with a Revolving B Loan consisting of one or more revolving loans in a collective maximum principal amount of \$150,000,000 (Revolving B Loan Limit) throughout the term, which ends December 22, 2024 (Revolving B Loan Term). Previously, under the Credit Agreement, there was no Revolving B Loan. The First Amendment also provided that TD would serve as Syndication Agent.

As of December 22, 2022, the Credit Agreement was amended and restated to refer to this loan as the Revolving A Loan. The amended and restated Credit Agreement was made an Exhibit A to the First Amendment. All of the terms of the Credit Agreement apply to the Revolving B Loan. The Credit Agreement continues to include sublimits under the Revolving A Loan for a Letter of Credit facility in an amount not to exceed \$60,000,000; and Swing Line Loans in an aggregate principal amount at any time outstanding not to exceed \$20,000,000. The Revolving Loans, the Letter of Credit facility and the Swing Line Loans under Revolving A Loan are for the purpose of raising working capital and supporting general business operations.

The Notes provide the Company, in the aggregate, the ability to borrow an amount up to the Revolving A Loan Limit during the Revolving A Loan Term and Revolving B Loan Limit during the Revolving B Loan Term. The Company is not obligated to borrow any amount under the revolving loans. Within the respective loan limit, the Company may borrow, repay and reborrow at any time or from time to time while the Notes are in effect. With respect to Revolving B Loans, for any day, the rate per annum is a tiered pricing based upon the Consolidated Debt to Consolidated EBITDA Ratio. The applicable rate for Revolving B Loans that are Base Rate Loans range between 1.20% and 2.15% and the applicable rate for Revolving B Loans that are Term SOFR/Term SOFR Daily Floating Rate range between 0.20% and 1.15%.

At March 31, 2023, we had \$369.5 million in outstanding borrowings under the revolving credit facility and borrowing capacity under the facility of \$180.5 million.

Compliance with Debt Covenants. Pursuant to the terms of the Credit Agreement, the Company is subject to certain loan compliance covenants. The Company was in compliance with all covenants as of March 31, 2023. 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 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.

[Table of Contents](#)

Capital Requirements. In October 2021, we announced plans to add a third U.S.-based Trex Residential manufacturing facility located in Little Rock, Arkansas. The new campus will sit on approximately 300 acres of land and will address increased demand for Trex Residential outdoor living products. The development approach for the new campus will be modular and calibrated to demand trends for Trex Residential outdoor living products. Construction began on the new facility in the second quarter 2022, and in July 2022, the Company entered into a design-build agreement. As previously announced, the Company anticipates spending approximately \$400 million on the facility and the budget for the design-build agreement is contained within this amount. Construction for the new facility will be funded primarily through the Company's ongoing cash generation or its line of credit.

Our capital expenditure guidance for 2023 is \$130 million to \$140 million. In addition to the construction of our third facility, which will be located in Arkansas, our capital allocation priorities include expenditures for internal growth opportunities, manufacturing cost reductions, upgrading equipment and support systems, and acquisitions which fit our long-term growth strategy as we continue to evaluate opportunities that would be a good strategic fit for Trex, and return of capital to shareholders.

Inventory in Distribution Channels. We sell our Trex Residential decking and railing products through a tiered distribution system. We have over 50 distributors worldwide and two national retail merchandisers to which we sell our products. The distributors in turn sell the products to dealers and retail locations who in turn sell the products to end users. Significant increases in inventory levels in the distribution channel without a corresponding change in end-use demand could have an adverse effect on future sales.

Product Warranty. We warrant that for the applicable warranty period our Trex Residential products, when properly installed, used and maintained, will be free from material defects in workmanship and materials and our decking, cladding, fascia and railing products will not split, splinter, rot or suffer structural damage from termites or fungal decay.

Products sold on or after January 1, 2023: The warranty period for residential use is 50 years for Transcend® decking, 35 years for Select® decking and Universal Fascia, and 25 years for Enhance® decking and Transcend, Select, Enhance and Signature® railing. The warranty period for commercial use is 10 years, excluding Signature railing and Transcend cladding, which each have a warranty period of 25 years. We further warrant that Trex Transcend, Trex Enhance and Trex Select decking and cladding and Universal Fascia products will not fade in color from light and weathering exposure more than a certain amount and will be resistant to permanent staining from food and beverage substances or mold and mildew, provided the stain is cleaned within seven days of appearance, for the warranty period referred to above. If there is a breach of such warranties, we have an obligation either to replace the defective product or refund the purchase price.

Products sold prior to January 1, 2023: The warranty period is 25 years for residential use and 10 years for commercial use. With respect to Trex Signature railing, the warranty period is 25 years for both residential and commercial use. We further warrant that Trex Transcend, Trex Enhance, Trex Select and Universal Fascia products will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold, provided the stain is cleaned within seven days of appearance, for the warranty period referred to above. If there is a breach of such warranties, we have an obligation either to replace the defective product or refund the purchase price.

We continue to receive and settle claims for decking products manufactured at our Trex Residential Nevada facility prior to 2007 that exhibit surface flaking and maintain a warranty reserve to provide for the settlement of these claims. We monitor surface flaking claims activity each quarter for indications that our estimates require revision. Typically, a majority of surface flaking claims received in a fiscal year are received during the summer outdoor season, which spans the second and third fiscal quarters.

It has been our practice to utilize actuarial techniques during the third quarter, after a significant portion of all claims has been received for the fiscal year and variances to annual claims expectations are more meaningful. Our actuarial analysis is based on currently known facts and a number of assumptions. Projecting future events such as the number of claims to be received, the number of claims that will require payment and the average cost of claims could cause the actual warranty liabilities to be higher or lower than those projected, which could materially affect our financial condition, results of operations or cash flows.

The number of incoming claims received in the three months ended March 31, 2023, was lower than the number of claims received in the three months ended March 31, 2023 and lower than our expectations for 2023. Average cost per claim experienced in the three months ended March 31, 2023 was significantly lower than that experienced in the three months ended March 31, 2022, which was elevated due to the closure of three large claims, and lower than our expectations for the current year. We believe the reserve at March 31, 2023 is sufficient to cover future surface flaking obligations.

[Table of Contents](#)

We estimate that the annual number of claims received will decline over time and that the average cost per claim will increase. If the level of claims received or average cost per claim differs materially from expectations, it could result in additional increases or decreases to the warranty reserve and a decrease or increase in earnings and cash flows in future periods. We estimate that a 10% change in the expected number of remaining claims to be settled with payment or the expected cost to settle claims may result in approximately a \$1.6 million change in the surface flaking warranty reserve.

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

	Three Months Ended March 31,	
	2023	2022
Claims open, beginning of period	1,729	1,759
Claims received (1)	81	121
Claims resolved (2)	(81)	(145)
Claims open, end of period	1,729	1,735
Average cost per claim (3)	\$ 4,114	\$ 6,362

- (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.

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.

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, 2022. There were no material changes to the Company’s market risk exposure during the three months ended March 31, 2023.

Item 4. Controls and Procedures

The Company’s management, with the participation of its President and Chief Executive Officer, who is the Company’s principal executive officer, and its Senior Vice President and Chief Financial Officer, who is the Company’s principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2023. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective. There have been no changes in the Company’s internal control over financial reporting during the three-month period ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings

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

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

(c) The following table provides information relating to the purchases of our common stock during the three months ended March 31, 2023 in accordance with Item 703 of Regulation S-K:

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased (1)</u>	<u>(b) Average Price Paid per Share (or Unit) (\$)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>(d) Maximum number of Shares (or Units) that May Yet Be Purchased Under the Plan or Program</u>
January 1, 2023 – January 31, 2023	1,929	\$ 51.69	—	1,476,314
February 1, 2023 – February 28, 2023	22,477	\$ 55.75	—	1,476,314
March 1, 2023 – March 31, 2023	4,779	\$ 50.40	—	1,476,314
Quarterly period ended March 31, 2023	<u>29,185</u>		<u>—</u>	

- (1) During the three months ended March 31, 2023, 29,185 shares were withheld by, or delivered to, the Company pursuant to provisions in agreements with recipients of restricted stock granted under the Trex 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 Trex Board of Directors authorized a common stock repurchase program of up to 11.6 million shares of its outstanding common stock (Stock Repurchase Program). The Stock Repurchase Program was publicly announced on February 21, 2018. The Company did not purchase shares of its common stock under the Stock Repurchase Program during the three months ended March 31, 2023. On May 4, 2023, the Trex Board of Directors adopted a new stock repurchase program of up to 10.8 million shares of its outstanding common stock, and terminated the existing Stock Repurchase Program. This repurchase program has no set expiration date.

Item 5. Other Information

Adoption of Trex Company, Inc. 2023 Stock Incentive Plan

At the annual meeting of stockholders of the Company held on May 4, 2023, the Company’s stockholders approved the Trex Company, Inc. 2023 Stock Incentive Plan (Plan). The Company’s board of directors unanimously approved the Plan on April 10, 2023, subject to stockholder approval. The Plan amends and restates in its entirety the Trex Company, Inc. 2014 Stock Incentive Plan (2014 Plan), which was last approved by the Company’s stockholders at the annual meeting held on April 30, 2014. The Plan, which will be administered by the compensation committee of the board of directors, provides for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights and unrestricted stock, which are referred to collectively as “awards.” Awards may be granted under the Plan to officers, directors (including non-employee directors) and other employees of the Company or any subsidiary thereof, to any adviser, consultant or other provider of services to the Company (and any employee thereof), and to any other individuals who are approved by the board of directors as eligible to participate in the Plan. Only employees of the Company or any subsidiary thereof are eligible to receive incentive stock options. Subject to certain adjustments as provided in the Plan, the total number of shares of common stock available for future grants under the Plan is 4,000,000 shares. Under the 2014 Plan, which is amended and restated by the Plan, as of March 31, 2023 the total number of shares of common stock available for future grants was 10,429,800 shares. Accordingly, the Plan decreases the total number of shares available for future grants by 6,429,800 shares. The Plan modifies certain provisions including but not limited to extending the time period in which grantees or their heirs have to exercise SARs from 5 years from death or retirement to the original 10-year term (assuming it is longer), and vesting PSUs at target in the event of death, disability or retirement, or dissolution of the Company, which was already provided in the Company’s form grant agreements but now has been formally made part of the Plan. The foregoing description of certain terms and conditions of the Plan is qualified in its entirety by reference to the full text of the Plan, which is filed as Exhibit 10.1 to this Form 10-Q and is incorporated herein by reference in its entirety.

[Table of Contents](#)

Submission of Matters to a Vote of Security Holders

Trex held its Annual Meeting of Stockholders on May 4, 2023. Only holders of Trex common stock at the close of business on March 8, 2023 (Record Date) were entitled to vote at the Annual Meeting. As of the Record Date, there were 108,795,012 shares of common stock entitled to vote. A total of 99,005,634 shares of common stock (91%), constituting a quorum, were represented in person or by valid proxies at the Annual Meeting.

The stockholders voted on five proposals at the Annual Meeting. The proposals are described in detail in the Company's definitive proxy statement dated March 21, 2023. The final results for the votes regarding each proposal are set forth below.

Proposal 1: Trex stockholders elected three directors to the Board to serve for a three-year term until the 2026 annual meeting of stockholders and until their successors are duly elected and qualified. The votes regarding this proposal were as follows:

	For	Against	Abstain	Broker Non-Votes
Jay M. Gratz	84,713,220	6,585,649	105,770	7,600,995
Ronald W. Kaplan	85,285,307	6,013,060	106,272	7,600,995
Gerald Volas	88,825,612	2,474,465	104,562	7,600,995

Proposal 2: Trex stockholders approved, on an advisory basis, the compensation of the Company's executive officers named in the Company's definitive proxy statement dated March 21, 2023. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
83,190,144	7,986,703	227,792	7,600,995

Proposal 3: Trex stockholders approved, on an advisory basis, the frequency of future stockholder advisory votes on the compensation of the Company's executive officers. The votes regarding this proposal were as follows:

EVERY:

One Year	Two Years	Three Years	Abstain	Broker Non-Votes
89,189,527	56,749	1,622,557	535,806	7,600,995

Proposal 4: Trex stockholders approved the Trex Company, Inc. 2023 Stock Incentive. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
83,986,867	7,330,226	87,546	7,600,995

[Table of Contents](#)

Proposal 5: Trex stockholders ratified the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2023. The votes regarding this proposal were as follows:

For	Against	Abstain	Broker Non-Votes
93,917,287	5,011,585	76,762	—

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.

Date: May 8, 2023

TREX COMPANY, INC.

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

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by reference</u>			
		<u>Form</u>	<u>Exhibit</u>	<u>Filing Date</u>	<u>File No.</u>
3.1	Restated Certificate of Incorporation of Trex Company, Inc. dated July 28, 2021.	10-Q	3.6	August 2, 2021	001-14649
3.2	First Certificate of Amendment to the Restated Certificate of Incorporation of Trex Company, Inc. dated May 5, 2022	10-Q	3.2	May 9, 2022	001-14649
3.3	Amended and Restated By-Laws of the Company	8-K	3.2	May 1, 2019	001-14649
10.1* / **	Trex Company, Inc. 2023 Stock Incentive Plan				
31.1*	Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
31.2*	Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.				
32***	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350).				
101.INS*	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104.1	Cover Page Interactive Data File—The cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.				

* Filed herewith.

** Management contract or compensatory plan or agreement.

*** Furnished herewith.

**TREX COMPANY, INC.
AMENDED AND RESTATED
2023 STOCK INCENTIVE PLAN**

TABLE OF CONTENTS

	<u>Page</u>
1. PURPOSE	1
2. DEFINITIONS	1
3. ADMINISTRATION OF THE PLAN	4
3.1 Committee	4
3.2 Grants	4
3.3 No Liability	5
3.4 Applicability of Rule 16b-3	5
3.5 Termination of Employment or Other Relationship	5
4. STOCK SUBJECT TO THE PLAN	6
4.1 Aggregate Limitation	6
4.2 Application of Aggregate Limitation	7
4.3 Per-Grantee Limitation	7
5. EFFECTIVE DATE AND TERM OF THE PLAN	8
5.1 Effective Date	8
5.2 Term	8
6. PERMISSIBLE GRANTEES	8
6.1 Employees and Service Providers	8
6.2 Multiple Grants	8
6.3 Limitations on Grants of Incentive Stock Options	8
7. AWARD AGREEMENT	9
8. OPTIONS	9
8.1 Option Price	9
8.2 Vesting	9
8.3 Option Term	9
8.4 Termination of Employment or Other Relationship for a Reason Other than Retirement, Death or Disability	10
8.5 Rights in the Event of Death	10
8.6 Rights in the Event of Disability	10
8.7 Rights in the Event of Retirement	10
8.8 Limitations on Exercise of Option	11
8.9 Method of Exercise	11
8.10 Rights as a Stockholder	11
8.11 Delivery of Stock Certificates	11
9. STOCK APPRECIATION RIGHTS	12
9.1 SAR Price	12
9.2 Vesting, and Terms and Conditions Governing SARs	12
9.3 SAR Term	12
9.4 Termination of Employment or Other Relationship for a Reason Other than Retirement, Death or Disability	12
9.5 Rights in the Event of Death	13
9.6 Rights in the Event of Disability	13
9.7 Rights in the Event of Retirement	13

9.8	Limitations on Exercise of SAR	13
9.9	Rights as a Stockholder	13
9.10	Delivery of Stock Certificates	14
10.	TRANSFERABILITY OF OPTIONS AND SARS	14
10.1	General Rule	14
10.2	Family Transfers	14
11.	RESTRICTED STOCK	14
11.1	Grant of Restricted Stock or Restricted Stock Units	14
11.2	Restrictions	15
11.3	Restricted Stock Certificates	15
11.4	Rights of Holders of Restricted Stock	16
11.5	Rights of Holders of Restricted Stock Units	16
11.6	Termination of Employment or Other Relationship for a Reason Other than Death, Disability or Retirement	16
11.7	Rights in the Event of Death	16
11.8	Rights in the Event of Disability	16
11.9	Rights in the Event of Retirement	17
11.10	Delivery of Shares and Payment Therefor	17
12.	UNRESTRICTED STOCK	17
13.	PARACHUTE LIMITATIONS	17
14.	REQUIREMENTS OF LAW	18
14.1	General	18
14.2	Rule 16b-3	19
15.	AMENDMENT AND TERMINATION OF THE PLAN	19
16.	EFFECT OF CHANGES IN CAPITALIZATION	19
16.1	Changes in Stock	19
16.2	Reorganization, Sale of Assets or Sale of Stock	20
16.3	Adjustments	21
16.4	No Limitations on Company	21
17.	DISCLAIMER OF RIGHTS	21
18.	NONEXCLUSIVITY OF THE PLAN	21
19.	WITHHOLDING TAXES	22
20.	CAPTIONS	22
21.	OTHER PROVISIONS	22
22.	NUMBER AND GENDER	22
23.	SEVERABILITY	23
24.	GOVERNING LAW	23
25.	SECTION 409A	23

TREX COMPANY, INC.
AMENDED AND RESTATED
2023 STOCK INCENTIVE PLAN

Trex Company, Inc., a Delaware corporation (the “Company”), sets forth herein the terms of the Trex Company, Inc. Amended and Restated 2023 Stock Incentive Plan (the “Plan”), which amends and restates the Trex Company, Inc. 2014 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 13, 2023, 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. 2023 Stock Incentive Plan, which amends and restates the Trex Company, Inc. 2014 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) Subject to adjustment as provided in Section 16 hereof, the aggregate number of shares of Stock available for issuance under the Plan on or after the Effective Date pursuant to Options or other Grants shall be four million (4,000,000) 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 on or after the Effective Date shall not exceed four million (4,000,000), 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 14, 2023 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. Amended and Restated 2014 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. Notwithstanding the foregoing, in no event shall the vesting period stated in an Award Agreement be less than one (1) year. 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 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 at any time prior to termination of the Option pursuant to 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 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.

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.

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 9.3 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. Notwithstanding the foregoing, in no event shall the vesting period stated in an Award Agreement be less than one (1) year.

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 prior to termination of the SAR pursuant to Section 9.3 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 at any time prior to termination of the SAR pursuant to Section 9.3 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 prior to termination of the SAR pursuant to Section 9.3 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.

9.9 Rights as a Stockholder.

An individual holding or exercising a SAR 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.

9.10 Delivery of Stock Certificates.

Promptly after the exercise of a SAR by a Grantee and the payment in full of the SAR 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 SAR. 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.

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). Notwithstanding the foregoing, in no event shall the vesting period stated in an Award Agreement be less than one (1) year. 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, operating cash flow, pretax income, 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. The holders of Restricted Stock shall not have the right to receive any dividends declared or paid with respect to such shares of 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.

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.

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. If vesting is based in whole or part on performance, the Restricted Stock or Restricted Stock Unit shall vest at the target amount (regardless of the amount of the relevant performance period that precedes death or the level of performance to date). 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. If vesting is based in whole or part on performance, the Restricted Stock or Restricted Stock Unit shall vest at the target amount (regardless of the amount of the relevant performance period that precedes Disability or the level of performance to date).

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. If vesting is based in whole or part on performance, the Restricted Stock or Restricted Stock Unit shall vest at the target amount (regardless of the amount of the relevant performance period that precedes Retirement or the level of performance to date).

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, if vesting is based solely on continued service, 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, if vesting is based in whole or part on performance, shall vest at the target amount (regardless of the amount of the relevant performance period that precedes the event or the level of performance to date), 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. An amended and restated Plan was approved by the Board of Directors on February 14, 2023 and by the stockholders of the Company on May 4, 2023.

CERTIFICATION

I, Bryan H. Fairbanks, certify that:

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

Date: May 8, 2023

/s/ Bryan H. Fairbanks

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

CERTIFICATION

I, Dennis C. Schemm, certify that:

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

Date: May 8, 2023

/s/ Dennis C. Schemm

Dennis C. Schemm

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

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

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

- (a) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2023 filed on the date hereof with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2023

/s/ Bryan H. Fairbanks

Bryan H. Fairbanks
President and Chief Executive Officer

Date: May 8, 2023

/s/ Dennis C. Schemm

Dennis C. Schemm
Senior Vice President and Chief Financial Officer