TREX CO INC
Form 10-K
March 09, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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

For the transition period from to

Commission file number: 001-14649

Trex Company, Inc.

(Exact name of registrant as specified in its charter)

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

(540) 542-6300

Registrant s telephone number, including area code:

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock, par value $0.01 per share	**New York Stock Exchange**

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

None

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

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

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posed pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes ¨ No þ

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

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

Act. Large accelerated filer ¨ Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting Company) Smaller reporting Company ¨

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

The aggregate market value of the registrant s common equity held by non-affiliates of the registrant at June 30, 2010, which was the last business day of the registrant s most recently completed second fiscal quarter, was approximately $290.8 million based on the closing price of the

common stock as reported on the New York Stock Exchange on such date and assuming, for purposes of this computation only, that the registrant s directors, executive officers and beneficial owners of 10% or more of the registrant s common stock are affiliates.

The number of shares of the registrant s common stock outstanding on March 4, 2011 was 15,545,849.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	**Part of 10-K into which incorporated**
Proxy Statement relating to Registrant s 2011 Annual Meeting of Stockholders	Part III

Table of Contents

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	10
Item 2.	Properties	13
Item 3.	Legal Proceedings	14
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6.	Selected Financial Data	17
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 8.	Financial Statements and Supplementary Data	29
Item 9A.	Controls and Procedures	29
Item 9B.	Other Information	32
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	33
Item 11.	Executive Compensation	33
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	33
Item 13.	Certain Relationships and Related Transactions, and Director Independence	33
Item 14.	Principal Accounting Fees and Services	33
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	34
	Index to Consolidated Financial Statements	F-1

Table of Contents

NOTE ON FORWARD-LOOKING STATEMENTS

This report, including the information it incorporates by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as believe, may, will, anticipate, estimate, expect or intend. We cannot promise you that our expectations in such forward-looking statements will tur to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under Risk Factors in this report.

Table of Contents

PART I

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

Item 1. Business
General

Trex Company, Inc., (the Company), founded as a Delaware corporation in 1998, is the largest U.S. manufacturer of wood-alternative decking and railing products, which are marketed under the brand name Trex®. Our principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and our telephone number at that address is (540) 542-6300.

Products

We offer a comprehensive set of aesthetically durable, low maintenance product offerings in the decking, railing, fencing and trim categories. We believe that the range and variety of our product offerings allow consumers to design much of their outdoor living space using Trex brand products.

The majority of our products are made in a proprietary process that combines waste wood fibers and reclaimed polyethylene. Our decking, railing, fencing and trim products are provided in a wide selection of popular sizes and lengths and are available with several finishes and/or numerous colors.

We market our decking products under seven brand names:

- Trex Transcend®, which features a protective shell for enhanced protection against fading, staining and scratching;
- Trex Accents®, which offers a smooth surface on one side and subtle wood grain on the other;
- Trex Accents Fire Defense®, which is a deck board that meets stringent fire resistant requirements for certain areas of the Western United States;
- Trex Brasilia®, which replicates the look of tropical hardwoods with a smooth surface and subtle, random color variations;
- Trex Contours®, which has a deep, wood grain surface;
- Trex Escapes®, which is an ultra-low maintenance cellular PVC deck board; and
- Trex Origins®, which features a smooth surface.

We also have Trex Hideaway®, which is a hidden fastening system for specially grooved boards.

In January 2011, we announced the introduction of Trex Transcend Porch Flooring and Railing System, which is an integrated system of porch components and accessories, and which is expected to be available at retail beginning in April 2011.

Our two railing products are Trex Transcend Railing and Trex Designer Series Railing®. Trex Transcend Railing is available in the colors of Trex Transcend decking and the finishes that make it appropriate for use with Trex decking products as well as other decking materials, which we believe will enhance the sales prospects of our railing business. This railing product is manufactured with Fibrex® material, which is a patented technology that we license from Andersen Corporation. Our Designer Series Railing system consists of a decorative top and

Table of Contents

bottom rail, refined balusters, our Trex RailPost , and post caps and skirts. In addition to its styling benefits for consumers, this railing is fast and easy to construct for contractors that use our TrexExpress assembly tool and system. The Designer railing is available in finishes and colors that compliment our decking products.

During 2010, we offered two fencing products. Each product consists of structural posts, bottom rail, pickets, top rail and decorative post caps. The Trex Seclusions® fencing product uses interlocking pickets for privacy, and the Trex Surroundings® fencing uses traditional pickets. In 2010, we announced that we are discontinuing the manufacture and sale of our fencing lines.

Our TrexTrim product is a low maintenance cellular PVC residential exterior trim product that offers exceptional workability, durability, visual appeal and a low level of required maintenance.

In late 2010, we announced the introduction of Trex DeckLighting™, a line of energy-efficient LED dimmable deck lighting, which is designed for use on posts, floors and steps. The line will include a post cap light, deck rail light, riser light and a recessed deck light. Trex DeckLighting will be available at retail beginning in March, 2011.

During 2010, we entered into three licensing agreements with third parties to manufacture and sell products under the Trex trademark. Trex Outdoor Furniture™ is a line of outdoor furniture products manufactured and sold by Poly-Wood, Inc. Created from Poly-Wood s unique blend of high-density polyethylene (HDPE) raw materials, the furniture is manufactured from more than 90 percent recycled content including post-consumer materials, such as milk jugs and laundry detergent bottles. Trex DeckEscape® is an above joist deck drainage system manufactured and sold by Dri-Deck Enterprises, LLC. This system creates a dry space beneath the deck that is suitable for the installation of deck lighting, ceiling fans and finished ceilings. Trex CustomCurve™, manufactured and sold by CurveIt, LLC, is an on-site system that will allow contractors to heat and bend Trex products. Net sales recognized during 2010 for licensing agreements have not been material.

Trex products offer a number of significant aesthetic advantages over wood while eliminating many of wood s major functional disadvantages, which include warping, splitting and other damage from moisture. Our products require no staining, are resistant to moisture damage, provide a splinter-free surface and need no chemical treatment against rot or insect infestation. These features eliminate most of the on-going maintenance requirements for a wood deck and make Trex products less costly than wood over the life of the deck. Like wood, Trex products are slip-resistant (even when wet), can be painted or stained and are less vulnerable to damage from ultraviolet rays. Special characteristics (including resistance to splitting, the ability to bend, and ease and consistency of machining and finishing) facilitate deck, railing, fencing and trim installation, reduce contractor call-backs and afford customers a wide range of design options. Trex products do not have the tensile strength of wood and, as a result, are not used as primary structural members in posts, beams or columns used in a deck s substructure.

We have received product building code listings from the major U.S. and Canadian building code listing agencies for both our decking and railing systems. Our listings facilitate the acquisition of building permits by deck builders and promote consumer and industry acceptance of our products as an alternative to wood in decking. In addition, Trex Seclusions privacy fencing has passed the Miami/Dade County wind load testing, a widely regarded standard for assessing a fencing product s performance under extreme environmental conditions.

Growth Strategies

Our long-term goal is to perpetuate our position as the leading producer of branded superior wood-alternative outdoor living products by increasing our market share and expanding into new product categories and geographic markets. To attain this goal, we intend to employ the following long-term strategies:

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

Brand: Continue to build preference and commitment for the Trex brand with both the consumer and trade professional. Deliver on the brand s promise of superior quality, functionality, aesthetics and overall performance in the outdoor living space.

Channels: Achieve comprehensive market segment and geographic coverage for Trex products by increasing the number of stocking dealers and retailers, thereby making our products available wherever our customers choose to purchase their decking, railing, and fencing and trim products.

Quality: Continuously advance the quality of all operational and business processes, with the goal of achieving superior product quality and service levels, thereby giving our Company a sustainable competitive advantage.

Cost: Through capital investments and process engineering, continuously seek to lower the cost to manufacture Trex products. Investments in plastic recycling capabilities will allow us to expand our ability to use a wider breadth of waste streams and, as a result, lower our raw material costs. We plan to concentrate on improving the productivity of our production process, from raw materials preparation through extrusion into finishing and packaging.

Customers and Distribution

We distribute and/or sell our products through wholesale distribution, retail lumber dealers, Home Depot and Lowe s.

Wholesale Distributors. In 2010, we generated most of our net sales through our wholesale distribution network by selling Trex products to wholesale companies. Our distributors, in turn, marketed our products to retail lumber outlets across North America. Although our dealers sell to both homeowners and contractors, they primarily direct their sales at professional contractors, remodelers and homebuilders.

We believe that attracting wholesale distributors, who are committed to our products and marketing approach and can effectively sell higher value products to contractor-oriented lumber yards and other retail outlets, is important to our future growth. Our distributors are able to provide value-added service in marketing our products because they sell premium wood decking products and other innovative building materials that typically require product training and personal selling efforts. We typically appoint a distributor on a non-exclusive basis to distribute Trex products within a specified area. The distributor generally purchases our products at prices in effect at the time we ship the product to the distributor.

Based on our 2010 gross sales, sales to one of our distributors, Boise Cascade, exceeded 10% of our gross sales.

Retail Lumber Dealers. Our products are sold in independent lumber yards and building material specialty dealers that emphasize sales to contractors and builders. Although there is demand for our products from both the do-it-yourself homeowner and contractor, our sales efforts historically have emphasized the contractor-installed market. Contractor-installed decks generally are larger installations with professional craftsmanship. Our retail dealers generally provide sales personnel trained in Trex products, contractor training, inventory commitment and point-of-sale display support.

Home Depot and Lowe s. We sell our products through Home Depot and Lowe s stores. Home Depot and Lowe s purchase products directly from us for stocking on their shelves. They also purchase product through our wholesale distributors for special orders placed by consumers. Although Home Depot and Lowe s serve the contractor market, the largest part of their sales are to do-it-yourself homeowner customers that shop for their materials at Home Depot and Lowe s stores rather than at retail lumber dealers. We believe that brand exposure through Home Depot and Lowe s distribution promotes consumer acceptance and generates sales to contractors that purchase from independent dealers.

Manufacturing Process

We have manufacturing facilities in Winchester, Virginia and Fernley, Nevada, which had floor space of approximately 265,000 square feet and 250,000 square feet, respectively, at December 31, 2010. In September 2007, we suspended operations at our Olive Branch, Mississippi facility and consolidated all of our manufacturing operations into our Winchester and Fernley sites. Our manufacturing capacity utilization rate was 42%, excluding the Olive Branch facility, during the year ended December 31, 2010.

Trex products are primarily manufactured from waste wood fiber and reclaimed polyethylene, which we sometimes refer to as PE material in this report. Our primary manufacturing process involves mixing wood particles with plastic, heating and finally extruding, or forcing, the highly viscous and abrasive material through a profile die. We have many proprietary and skill-based advantages in this process.

Production of a non-wood decking alternative such as ours requires significant capital investment, special process expertise and time to develop. We have continuously invested the capital necessary to expand our manufacturing capacity and improve our manufacturing processes. We have also broadened the range of raw materials that we can use to produce a consistent and high-quality finished product. We maintain research and development operations in the Trex Technical Center adjacent to our Winchester, Virginia manufacturing facilities. In connection with our building code listings, we maintain a quality control testing program that is monitored by an independent inspection agency.

We utilize Six Sigma practices and Standard Lean Manufacturing methodology within our plant operations. We are incorporating the use of these tools throughout our Company in the planning and execution of those projects that are the most important to our success.

Suppliers

The production of most of our products requires the supply of waste wood fiber and PE material.

We fulfill requirements for raw materials under both purchase orders and supply contracts. In the year ended December 31, 2010, we purchased substantially all of our waste wood fiber requirements under purchase orders, which do not involve long-term supply commitments. Substantially all of our PE material purchases are under short-term supply contracts that average approximately two years, for which pricing is negotiated as needed. The PE material supply contracts have not had a material adverse effect on our business.

Waste Wood Fiber. Woodworking plants or mills are our preferred suppliers of waste wood fiber because the waste wood fiber produced by these operations contains little contamination and is low in moisture. These facilities generate waste wood fiber as a byproduct of their manufacturing operations.

If the waste wood fiber meets our specifications, our waste wood fiber supply contracts generally require us to purchase at least a specified minimum and at most a specified maximum amount of waste wood fiber each year. Depending on our needs, the amount of waste wood fiber that we actually purchase within the specified range under any supply contract may vary significantly from year to year.

PE Material. The PE material we consumed in 2010 was primarily composed of recovered plastic film and plastic bags. Approximately two billion pounds of polyethylene resin are used in the manufacture of stretch film and plastic bags in the United States each year. We will continue to seek to meet our future needs for plastic from the expansion of our existing supply sources and the development of new sources, including post-industrial waste and plastic coatings. We believe our use of multiple sources provides us with a cost advantage and facilitates an environmentally responsible approach to our procurement of PE material.

Table of Contents

Our ability to source and use a wide variety of PE material is important to our cost strategy. We maintain this ability through the continued expansion of our plastic reprocessing operations in combination with the advancement of our proprietary material preparation and extrusion processes.

We own a 35% equity interest in a joint venture, Denplax S.A., which operates a plant in El Ejido, Spain, from which we purchase PE material. The plant accounted for approximately 12% of our supply of PE material in 2009. During 2010, we terminated our purchasing relationship with Denplax and replaced the supply stream with higher quality material purchased from domestic sources at competitive prices.

Third-Party Manufacturing. We outsource the production of certain products to third-party manufacturers under supply contracts that commit us to purchase minimum levels for each year extending through 2011. We are subject to monetary penalties if we fail to purchase a minimum volume as specified in the contracts.

Competition

In decking, we compete with wood and other manufacturers of wood alternative decking products. Many of the conventional lumber suppliers with which we compete have established ties to the building and construction industry and have well-accepted products. In railing, we compete with wood and other manufacturers of composite, non-wood and plastic products, as well as with railings using metal, glass, vinyl and other materials. In privacy fencing, we compete with wood, vinyl and other manufacturers of composites. In trim, we compete against wood, engineered wood, fiber cement, and other manufacturers of cellular PVC and similar plastic products.

Our primary competition consists of wood products, which constituted a substantial majority of 2010 decking and railing sales, as measured by linear feet of lumber. A majority of the lumber used in wooden decks is pressure-treated lumber. Southern yellow pine and fir have a porosity that readily allows the chemicals used in the pressure treating process to be absorbed. The same porosity makes southern yellow pine susceptible to taking on moisture, which causes the lumber to warp, crack, splinter and expel fasteners. In addition to pine and fir, other segments of wood material for decking include redwood, cedar and tropical hardwoods, such as ipe, teak and mahogany. These products are often significantly more expensive than pressure-treated lumber, but do not eliminate many of the disadvantages of other wood products.

Industry studies indicate that we have the leading market share of the wood/plastic composite segment of the decking and railing market. Our principal competitors in the wood/plastic composite decking and railing market include Advanced Environmental Recycling Technologies, Inc., Fiber Composites, LLC, Tamko Building Products, Inc., Timbertech Limited, and Universal Forest Products, Inc.

We also compete with decking products made from 100% plastic lumber that utilizes polyethylene, fiberglass and PVC as raw materials. Although there are several companies in the United States that manufacture 100% plastic lumber, this segment accounted for only a small percentage of 2010 decking sales. We believe a number of factors have limited the success of 100% plastic lumber manufacturers, including poor product aesthetics and physical properties not considered suitable for decking, such as higher thermal expansion and contraction and poor slip resistance. We believe that Trex Escapes, an ultra-low maintenance cellular PVC deck board, is superior, both in terms of product aesthetics and physical properties, to other 100% plastic lumber products available in the market. Our principal competitor in this market is Azek Building Products, Inc.

Our ability to compete depends, in part, on a number of factors outside our control, including the ability of our competitors to develop new non-wood decking and railing alternatives that are competitive with our products. We believe that the principal competitive factors in the decking and railing market include product quality, price, aesthetics, maintenance cost, distribution and brand strength. We believe we compete favorably with respect to these factors. We believe that our products offer aesthetic and cost advantages over the life of a deck when compared to other types of decking and railing materials. Although a contractor-installed deck built

with Trex products in 2010 using a pressure-treated wood substructure generally costs more than a deck made entirely from pressure-treated wood, Trex products eliminate most of the on-going maintenance required for a pressure-treated deck and are, therefore, less costly over the life of the deck. We believe that our manufacturing process and utilization of relatively low-cost raw material sources provide us with a competitive cost advantage relative to other wood/plastic composite and 100% plastic decking products. The scale of our operations also confers cost efficiencies in manufacturing, sales and marketing.

Government Regulation

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

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

Intellectual Property

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

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

We have obtained two patents for complementary methods of preparing the raw materials for the manufacturing phase of production, one patent on an apparatus for implementing one of the methods, and one patent on a tool for use with the installation of the decking board. We intend to maintain our existing patents in effect until they expire, beginning in 2015, as well as to seek additional patents as we consider appropriate.

We consider our trademarks to be of material importance to our business plans. The U.S. Patent and Trademark Office has granted us federal registrations for many of our trademarks. Federal registration of trademarks is effective for as long as we continue to use the trademarks and renew their registrations. We do not generally register any of our copyrights with the U.S. Copyright Office, but rely on the protection afforded to such copyrights by the U.S. Copyright Act. This law provides protection to authors of original works, whether published or unpublished, and whether registered or unregistered. We enter into confidentiality agreements with our employees and limit access to and distribution of our proprietary information. If it is necessary to disclose proprietary information to third parties for business reasons, we require that such third parties sign a confidentiality agreement prior to any disclosure.

Table of Contents

Employees

At December 31, 2010, we had approximately 550 full-time employees, approximately 400 of whom were employed in our manufacturing operations. Our employees are not covered by collective bargaining agreements. We believe that our relationships with our employees are favorable.

Web Sites and Additional Information

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

Executive Officers and Directors

The table below sets forth information concerning our executive officers and directors as of February 16, 2011.

Name	Age	Positions with Company
Ronald W. Kaplan	59	Chairman, President and Chief Executive Officer; Director
James E. Cline	59	Vice President and Chief Financial Officer
J. Mitchell Cox	52	Vice President, Sales
William R. Gupp	51	Chief Administrative Officer, General Counsel and Secretary
F. Timothy Reese	58	Vice President, Operations
Adam D. Zambanini	34	Vice President, Marketing
William F. Andrews	79	Director
Paul A. Brunner	75	Director
Jay M. Gratz	58	Director, Lead Independent Director
Frank H. Merlotti, Jr.	60	Director
Richard E. Posey	64	Director
Patricia B. Robinson	58	Director

Ronald W. Kaplan has served as Chairman, President and Chief Executive Officer of the Company since May 2010. From January 2008 to May 2010, Mr. Kaplan served as a director and President and Chief Executive Officer of the Company. From February 2006 through December 2007, Mr. Kaplan served as Chief Executive Officer of Continental Global Group, Inc., a manufacturer of bulk material handling systems. From July 2005 to February 2006, Mr. Kaplan was an independent consultant. From 1979 to July 2005, Mr. Kaplan was employed by Harsco Corporation, an international industrial services and products company, at which he served in a number of capacities, including as Senior Vice President-Operations, and, from 1994 through June 2005, as President of Harsco s Gas Technologies Group, which manufactures containment and control equipment for the global gas industry. Mr. Kaplan received a B.A. degree in economics from Alfred University and an M.B.A. degree from the Wharton School of Business, University of Pennsylvania.

James E. Cline has served as Vice President and Chief Financial Officer of the Company since March 2008. Mr. Cline served from July 2005 through December 2007 as the President of Harsco GasServ, a subsidiary of Harsco Corporation and a manufacturer of containment and control equipment for the global gas industry. From January 2008 through February 2008, in connection with the purchase of Harsco GasServ by Taylor-Wharton International LLC, which is owned by Windpoint Partners Company, Mr. Cline served as a consultant to the buyers by providing transition management and financial services. From April 1994 through June 2005, Mr. Cline served as the Vice President and Controller of Harsco GasServ. Mr. Cline served in various capacities

Table of Contents

with Huffy Corporation from June 1976 to February 1994, including as the Director of Finance of its True Temper Hardware subsidiary, a manufacturer of lawn care and construction products with nine manufacturing locations in the United States, Canada and Ireland. Mr. Cline received a B.S.B.A. degree in accounting from Bowling Green State University.

J. Mitchell Cox has served as Vice President, Sales of the Company since September 2005. From 1981 to August 2005, Mr. Cox was employed by Kraft Foods Inc., an international manufacturer of packaged food and beverage products, at which he served in a number of capacities, including Region Vice President from 1996 to August 2005; Director of Category Management from 1994 to 1996; and Division Sales Manager Metro New York/New Jersey from 1992 to 1994. Mr. Cox received a B.A. degree in English from the University of North Carolina at Chapel Hill.

William R. Gupp has served as Chief Administrative Officer, General Counsel and Secretary of the Company since October 2009. From May 2001 to October 2009, Mr. Gupp served as Vice President and General Counsel of the Company. From March 1993 to May 2001, Mr. Gupp was employed by Harsco Corporation, an international industrial services and products Company, most recently as Senior Counsel and Director-Corporate Development. From August 1985 to March 1993, Mr. Gupp was employed by the law firm of Harter, Secrest & Emery. Mr. Gupp received a B.S. degree in accounting from Syracuse University and a J.D. from the University of Pennsylvania Law School.

F. Timothy Reese has served as Vice President, Operations of the Company since February 2008. From March 2007 through January 2008, Mr. Reese served as Operations Director for the Americas Region of DuPont Teijin Films, a DuPont Teijin Films U.S. Limited Partnership and producer of polyester films. From 1979 to March 2007, Mr. Reese served in various positions with DuPont, including Global Director, Business and Integrated Operations, DuPont High Performance Films, from November 1995 through November 1998; Director/Plant Manager, Global Operations, Cyrel® Packaging Graphics Products, from December 1998 through May 2000; Director, Global Operations and Six Sigma Champion, Cyrel® Packaging Graphics Products, from June 2000 through February 2001; and Director/Plant Manager in multiple assignments from March 2001 through February 2007, including in Corporate Operations, Human Resources and DuPont Chemical Solutions Enterprise. Mr. Reese served in the U.S. Navy and received a B.S. in ocean engineering with an emphasis on mechanical engineering from the U.S. Naval Academy.

Adam D. Zambanini has served as Vice President, Marketing of the Company since January 2011. From September 2005 through December 2010, Mr. Zambanini served in a number of capacities at the Company, most recently as Director, Marketing. From January 2000 through September 2005, Mr. Zambanini was employed by Rubbermaid Commercial Products, most recently as Product Manager. Mr. Zambanini received a B.S. in mechanical engineering from Penn State University, and a M.B.A. degree from Averett University.

William F. Andrews has served as a director of the Company since April 1999. Mr. Andrews has served as Chairman of Katy Industries, Inc., a manufacturer of maintenance and electrical products, since October 2001, and as Chairman of the Singer Sewing Company, a manufacturer of sewing machines, since 2004. Mr. Andrews served as Chairman of Corrections Corporation of America from 2000 to 2008 and is now the Chairman of the Executive Committee of the Board. Mr. Andrews has been a Principal of Kohlberg & Company, a venture capital firm, since 1994, and served as Chairman of Allied Aerospace Company from 2000 to 2006. Prior to 2002, he served in various positions, including Chairman of Scovill Fasteners Inc.; Chairman of Northwestern Steel and Wire Company; Chairman of Schrader-Bridgeport International, Inc.; Chairman, President and Chief Executive Officer of Scovill Manufacturing Co., where he worked for over 28 years; Chairman and Chief Executive Officer of Amdura Corporation; Chairman of Utica Corporation; and Chairman, President and Chief Executive Officer of Singer Sewing Company. Mr. Andrews also serves as a director of Black Box Corporation and O Charley s Restaurants. Mr. Andrews received a B.S. degree in business administration from the University of Maryland and an M.B.A degree in marketing from Seton Hall University.

Table of Contents

Paul A. Brunner has served as a director of the Company since February 2003. Mr. Brunner is President and Chief Executive Officer of Spring Capital Inc., a merchant bank, which he founded in 1985. From 1982 to 1985, Mr. Brunner served as President and Chief Executive Officer of U.S. Operations of Asea-Brown Boveri, a multi-national Swiss manufacturer of high technology products. In 1967, he joined Crouse Hinds Company, a manufacturer of electronics and electronic equipment, and through 1982 held various positions with that Company, including President and Chief Operating Officer, Executive Vice President of Operations, Vice President of Finance and Treasurer, and Director of Mergers and Acquisitions. From 1959 to 1967, he worked for Coopers & Lybrand, an international accounting firm, as an audit supervisor. Mr. Brunner is a Certified Public Accountant. He received a B.S. degree in accounting from the University of Buenos Aires and an M.B.A. degree in management from Syracuse University.

Jay M. Gratz has served as a director of the Company since February 2007, and Lead Independent Director since May 2010. Since March 2010, Mr. Gratz has served as the Chief Financial Officer of VisTracks, Inc., a position and movement analytics provider. Mr. Gratz was a partner in Tatum LLC, a national executive services and consulting firm that focuses on the needs of the Office of the CFO between February 2010 and March 2010. From October 2007 through February 2010, Mr. Gratz was an independent consultant. From 1999 through October 2007, Mr. Gratz served as Executive Vice President and Chief Financial Officer of Ryerson Inc., a metals processor and distributor, and as President of Ryerson Coil Processing Division from November 2001 until October 2007. Mr. Gratz served as Vice President and Chief Financial Officer of Inland Steel Industries from 1994 through 1998, and served in various other positions, including Vice President of Finance, within that company since 1975. Mr. Gratz is a Certified Public Accountant. He received a B.A. degree in economics from State University of New York in Buffalo and an M.B.A. degree from Northwestern University Kellogg Graduate School of Management.

Frank H. Merlotti, Jr. has served as a director of the Company since February 2006. Since October 2006, Mr. Merlotti has served as President of Steelcase Design Group, the North American business unit of Steelcase, Inc., a manufacturer of office furniture and furniture systems, and served as President of Steelcase North America from September 2002 through September 2006. Mr. Merlotti served as President and Chief Executive Officer of G&T Industries, a manufacturer and distributor of fabricated foam and soft-surface materials for the marine, office furniture and commercial building industries, from August 1999 to September 2002. From 1991 through 1999, Mr. Merlotti served as President and Chief Executive Officer of Metropolitan Furniture Company, a Steelcase Design Partnership Company. From 1985 through 1999, Mr. Merlotti served as General Manager of the Business Furniture Division of G&T Industries.

Richard E. Posey has served as a director of the company since May 2009. He served as President and Chief Executive Officer of Moen Incorporated, a leading manufacturer in the global faucet market, for six years before retiring in 2007. Prior to joining Moen, Mr. Posey was President and Chief Executive Officer of Hamilton Beach / Proctor Silex, Inc. for five years. Mr. Posey began his career at S.C. Johnson & Son, where for 22 years he served in a series of increasingly responsible management positions, both overseas and in the U.S., culminating with Executive Vice President, Consumer Products, North America. Mr. Posey currently serves on the Board of Directors of The Colman Group, a supply equipment company, is a member of the Visiting Committee, The Ross School of Business, The University of Michigan, and is a Founding Trustee, Virginia Commonwealth University School of Engineering Foundation. He received a B.A. degree in English from The University of Southern California and an M.B.A. degree from The University of Michigan.

Patricia B. Robinson has served as a director of the Company since November 2000. Ms. Robinson has been an independent consultant since 1999. From 1977 to 1998, Ms. Robinson served in a variety of positions with Mead Corporation, a forest products Company, including President of Mead School and Office Products, Vice President of Corporate Strategy and Planning, President of Gilbert Paper, Plant Manager of a specialty machinery facility and Product Manager for new packaging product introductions. Ms. Robinson received a B.A. degree in economics from Duke University and an M.B.A. degree from the Darden School at the University of Virginia.

Table of Contents

Item 1A. Risk Factors
Our business is subject to a number of risks, including the following:

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

Our primary competition consists of wood products, which constitute a substantial majority of decking and railing sales. Our ability to grow will depend largely on our success in converting the current demand for wood in decking, railing, fencing, and trim applications into a demand for Trex products. To increase our market share, we must overcome:

- the consumer lack of awareness of the value of non-wood decking, railing, fencing and trim alternatives in general and Trex brand products in particular;

- the resistance of many consumers and contractors to change from well-established wood products;

- the greater initial expense of Trex decking, railing, fencing and trim compared to wood;

- the established relationships existing between suppliers of wood decking, railing, fencing and trim products and contractors and homebuilders; and

- the competition from other wood alternative manufacturers.

In addition to the above, substantially all of our revenues are derived from sales of our proprietary wood/plastic composite material. Although we have developed, and continue to develop, new products made from other materials, if we should experience significant problems, real or perceived, with product quality or acceptance of the Trex wood/polyethylene composite material, our lack of product diversification could have a significant adverse impact on our net sales levels.

Our prospects for sales growth and profitability may be adversely affected if we fail to maintain product quality and product performance at an acceptable cost.

We will be able to expand our net sales and to sustain and enhance profitable operations only if we succeed in maintaining the quality and performance of our products. If we should not be able to produce high-quality products at standard manufacturing rates and yields, unit costs may be higher. A lack of product performance would negatively affect our profitability by impeding acceptance of our products in the marketplace and by leading to higher product replacement and consumer relations expenses. In recent periods, we have experienced significant warranty expenses related to a small portion of our production manufactured at our Fernley, Nevada facility through mid-2006 and have increased our warranty reserve accordingly. Because the establishment of reserves is an inherently uncertain process involving estimates of the number of future claims and the cost to settle claims, our ultimate losses may exceed our warranty reserve. Increases we ve made to the warranty reserve and payments for related claims in recent years have had a material adverse effect on our profitability and cash flows in those periods. Future increases to the warranty reserve could have a material adverse effect on our profitability and cash flows in the periods in which we make such increases.

Our sales and reputation may be affected by product liability claims or litigation in relation to our products.

Our products are used outdoors and are sometimes subject to heavy use and harsh exposure to the environment. Although our Limited Warranty excludes any conditions attributable to any act of God (such as flooding, hurricane, earthquake, lightning, etc.,), environmental condition (such as air pollution, mold, mildew, etc.), staining from foreign substances (such as dirt, grease, oil, etc.), or normal weathering (defined as exposure to sunlight, weather and atmosphere which will cause any colored surface to gradually fade, chalk, or accumulate dirt or stains), to the extent that our products are affected in any way, this may lead to an increased risk of product liability claims or litigation. Such claims could cause adverse publicity which in turn could result in a

loss of consumer confidence in our products and also reduce our sales. Product liability claims could increase our expenses and have a material adverse effect on demand for our products and, consequently, reduce our sales, net income and liquidity.

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

The production of our product requires substantial amounts of wood fiber and PE material. Our business strategy is to create a substantial cost advantage over our competitors by using recycled plastic and reclaimed wood. Our business could suffer from the termination of significant sources of raw materials, the payment of higher prices for raw materials or the failure to obtain sufficient additional raw materials to meet planned increases in production. Our ability to obtain adequate supplies of PE material depends on our success in developing new sources that meet our quality requirements, maintaining favorable relationships with suppliers and managing the collection of supplies from geographically dispersed distribution centers and off-shore sources.

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

The dynamic nature of our industry can result in substantial fluctuations in inventory levels of Trex products carried in our two-step distribution channel. We have limited ability to control or precisely project inventory build-ups, which can adversely affect our net sales levels in subsequent periods. We make the substantial majority of our sales to wholesale distributors, who, in turn, sell our products to local lumber yards. Because of the seasonal nature of the demand for decking, railing and fencing, our distribution channel partners must forecast demand for our products, place orders for the products, and maintain Trex product inventories in advance of the prime deck-building season, which generally occurs in our late first through third fiscal quarters. Accordingly, our results for the second and third fiscal quarters are difficult to predict and past performance will not necessarily indicate future performance. Inventory levels respond to a number of changing conditions in our industry, including product price increases resulting from escalating raw materials costs, increases in the number of competitive producers and in the production capacity of those competitors, the rapid pace of product introduction and innovation, changes in the levels of home-building and remodeling expenditures, the cost and availability of credit and weather-related demand fluctuations.

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

The demand for our products is correlated to changes in the health of the economy in general, and the level of activity in home improvements and, to a much lesser extent, new home construction. These activity levels, in turn, are affected by such factors as home equity values, consumer spending habits, employment, interest rates and inflation. Market conditions in the housing industry slowed significantly in 2008 and subsequent periods thereafter, particularly in new home construction. Home equity values in many markets that decreased significantly during those time periods have not recovered or have only begun to recover. This devaluation in home equity values has adversely affected the availability of home equity withdrawals, which have resulted in decreased home improvement spending. We cannot predict when the economy will recover and whether the home remodeling and new home construction environment will stabilize or worsen. Any continued economic downturn could reduce consumer income or equity capital available for spending on discretionary items such as decking, railing, fencing or trim, which could adversely affect the demand for our products.

Our performance may suffer if we do not compete effectively in the highly competitive decking, railing, fencing and trim markets.

We must compete with an increasing number of companies in the wood/plastic composites segment of the decking, railing, fencing and trim markets and with wood producers that currently have more production capacity than is required to meet the demand for such products. Our failure to compete successfully in such markets could

have a material adverse effect on our ability to replace wood or increase the market share of wood/plastic composites compared to wood. Many of the conventional lumber suppliers with which we compete have established ties to the building and construction industry and have well-accepted products. Many of our competitors in the decking, railing, fencing and trim markets that sell wood products have significantly greater financial, technical and marketing resources than we do. Our ability to compete depends, in part, upon a number of factors outside our control, including the ability of competitors to develop new non-wood alternatives that are more competitive with Trex products.

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

At December 31, 2010, we had $126.9 million of net property, plant and equipment. The improvement we seek to make to our manufacturing processes sometimes involves the implementation of new technology and replacement of equipment at our manufacturing facilities, which may result in charges to our earnings if the existing equipment is not fully depreciated. In September 2007, we suspended operations at our Olive Branch facility and consolidated all of our manufacturing operations into our Winchester and Fernley sites. In September 2009, we recorded a pre-tax impairment charge of $23.3 million related to the long-lived assets held at the facility. Of our net property, plant and equipment at December 31, 2010, approximately $10.9 million is located at our Olive Branch, Mississippi manufacturing facility. We do not currently anticipate further impairments on the remaining assets. However, changes in the expected cash flows related to the facility could result in additional impairment charges and reduced earnings in future periods.

Our level of indebtedness could adversely affect our financial health and ability to compete.

As of December 31, 2010, we had $100.4 million of total indebtedness. Our level of indebtedness could have important consequences. For example, it may:

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

In addition, our senior secured credit facility imposes operating and financial restrictions that may limit our discretion on some business matters, which could make it more difficult for us to expand, finance our operations and engage in other business activities that may be in our interest. These restrictions may limit our ability to:

- incur additional indebtedness and additional liens on our assets;
- engage in mergers or acquisitions or dispose of assets;

enter into sale-leaseback transactions;

pay dividends or make other distributions;

voluntarily prepay other indebtedness;

enter into transactions with affiliated persons;

make investments; and

change the nature of our business.

We may incur indebtedness in addition to our current indebtedness. Any additional indebtedness we may incur in the future could subject us to similar or even more restrictive conditions.

Our ability to refinance our indebtedness will depend on our ability in the future to generate cash flows from operations and to raise additional funds, including through the offering of equity or debt securities. We may not be able to generate sufficient cash flows from operations or to raise additional funds in amounts necessary for us to repay our indebtedness when such indebtedness becomes due and to meet our other cash needs.

Our ability to make scheduled principal and interest payments on our real estate loans, convertible notes, borrow and repay amounts under our revolving credit facility and continue to comply with our loan covenants will depend primarily on our ability to generate sufficient cash flow from operations. Our failure to comply with our loan covenants might cause our lenders to accelerate our repayment obligations under our credit facility, which may be declared payable immediately based on a default and which could result in a cross-default under our $97.5 million principal amount of outstanding convertible notes. Our ability to borrow under our revolving credit facility is tied to a borrowing base that consists of specified receivables and inventory. To remain in compliance with our credit facility, and real estate loans, we must maintain specified financial ratios based on our levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of our business.

Item 2. Properties

We lease our corporate headquarters in Winchester, Virginia, which consists of 32,517 square feet of office space, under a lease that expires in March 2020. In anticipation of relocating our corporate headquarters to Dulles, Virginia, we entered into a lease agreement in 2005, which expires in 2019. The Dulles lease agreement provides for our initial occupancy of 55,047 square feet of office space, which will increase during the lease term to 64,656 square feet in mid-2012. We reconsidered our decision to relocate our corporate headquarters in 2005 and decided not to move. We have executed subleases for the entire space we currently lease. The terms of the existing subleases extend through years 2012 to 2015. For a description of our financial reporting in connection with the Dulles lease agreement, see Note 15 to our consolidated financial statements appearing elsewhere in this report.

We own approximately 74 contiguous acres of land in Winchester, Virginia and the buildings on this land. The site includes our original manufacturing facility, which contains approximately 115,000 square feet of space, our research and development technical facility, which contains approximately 30,000 square feet of space, a mixed-use building, which contains approximately 173,000 square feet of space, and an additional manufacturing facility, which contains approximately 150,000 square feet of space. We own the land and the manufacturing facility on the Fernley, Nevada site, which contains approximately 250,000 square feet of manufacturing space. Our Fernley site is located on approximately 37 acres, which includes outside open storage. We own approximately 102 acres of land in Olive Branch, Mississippi and the buildings on this land. The site contains four buildings with approximately 200,000 square feet for manufacturing and raw material handling operations. In September 2007, we suspended operations at our Olive Branch facility and consolidated all of our manufacturing operations into our Winchester and Fernley sites.

We lease a total of approximately 1.0 million square feet of storage warehouse space under leases with expiration dates ranging from 2011 to 2015. For information about these leases, see Note 12 to our consolidated financial statements appearing elsewhere in this report.

Table of Contents

The equipment and machinery we use in our operations consist principally of plastic and wood conveying and processing equipment. We own all of our manufacturing equipment. We lease most of our forklift equipment at our facilities under operating leases.

We regularly evaluate our various facilities and equipment and make capital investments where necessary. In 2010, we spent a total of $10.0 million on capital expenditures, primarily to make process and productivity improvements. We estimate that our capital expenditures in 2011 will be in approximately $15 million. We expect to use these expenditures principally to make process and productivity improvements and upgrade systems.

Item 3. Legal Proceedings

On January 19, 2009, a purported class action case was commenced against the Company in the Superior Court of California, Santa Cruz County, by the lead law firm of Lieff, Cabraser, Heimann & Bernstein, LLP and certain other law firms (the Lieff Cabraser Group) on behalf of Eric Ross and Bradley S. Hureth and similarly situated plaintiffs. These plaintiffs generally allege certain defects in the Company s products, and that the Company has failed to provide adequate remedies for defective products. On February 13, 2009, the Company removed this case to the United States District Court, Northern District of California. On January 21, 2009, a purported class action case was commenced against the Company in the United States District Court, Western District of Washington by the law firm of Hagens Berman Sobol Shapiro LLP (the Hagens Berman Firm) on behalf of Mark Okano and similarly situated plaintiffs, generally alleging certain product defects in the Company s products, and that the Company has failed to provide adequate remedies for defective products. This case was transferred by the Washington Court to the California Court as a related case to the Lieff Cabraser Group s case.

On July 30, 2009, the U.S. District Court for the Northern District of California preliminarily approved a settlement of the claims of the lawsuit commenced by the Lieff Cabraser Group involving surface flaking of the Company s product, and on March 15, 2010, it granted final approval of the settlement. On April 14, 2010, the Hagens Berman Firm filed a notice to appeal the District Court s ruling to the United States Court of Appeals for the Ninth Circuit. On July 9, 2010, the Hagens Berman Firm dismissed their appeal, effectively making the settlement final.

On March 25, 2010, the Lieff Cabraser Group amended its complaint to add claims relating to alleged defects in the Company s products and alleged misrepresentations relating to mold growth. The Hagens Berman firm has alleged similar claims in its original complaint. In its Final Order approving the surface flaking settlement, the District Court consolidated the two pending actions relating to the mold claims, and appointed the Hagens Berman Firm as lead counsel in this case. The Company believes that these claims are without merit, and will vigorously defend this lawsuit.

On December 15, 2010, a purported class action case was commenced against the Company in the United States District Court, Western District of Kentucky, by the lead law firm of Cohen & Malad, LLP on behalf of Richard Levin and similarly situated plaintiffs. These plaintiffs generally allege certain defects in the Company s products and alleged misrepresentations relating to mold growth. The Company believes that these claims are without merit, and will vigorously defend this lawsuit.

The Company has other 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 other 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.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for Common Stock

Our common stock has been listed on the New York Stock Exchange, or NYSE since April 8, 1999. Between April 8, 1999 and November 22, 2009, it was listed under the symbol TWP . Effective November 23, 2009, the symbol changed to TREX . The table below shows the reported high and low sale prices of our common stock for each quarter during 2009 and 2010 as reported by the New York Stock Exchange:

2010	High	Low
First Quarter	$ 22.00	$ 15.39
Second Quarter	26.51	18.94
Third Quarter	23.01	18.42
Fourth Quarter	24.67	16.38

2009	High	Low
First Quarter	$ 19.50	$ 5.11
Second Quarter	14.85	7.24
Third Quarter	21.22	11.51
Fourth Quarter	20.98	15.46

Dividend Policy

We have never paid cash dividends on our common stock. We intend to retain future earnings, if any, to finance the development and expansion of our business and, therefore, do not anticipate paying any cash dividends on the common stock in the foreseeable future. Under the terms of our credit agreement there are restrictions on our ability to pay dividends.

Table of Contents

Stockholder Return Performance Graph

The following graph and table show the cumulative total stockholder return on Trex Company s common stock for the last five fiscal years compared to the Russell 2000 Index and the Standard and Poor s 600 Building Products Index. The graph assumes $100 was invested on December 31, 2005 in (1) Trex Company common stock, (2) the Russell 2000 Index and (3) the S&P 600 Building Products Index, and assumes reinvestment of dividends and market capitalization weighting as of December 31, 2006, 2007, 2008, 2009 and 2010.

	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008	December 31, 2009	December 31, 2010
Trex Company	$ 100.00	$ 81.60	$ 30.34	$ 58.68	$ 69.88	$ 85.42
Russell 2000	$ 100.00	$ 118.37	$ 116.51	$ 77.14	$ 98.10	$ 124.44
S&P 600 BPI	$ 100.00	$ 105.41	$ 90.48	$ 68.79	$ 86.30	$ 98.02

Other Stockholder Matters

As of March 4, 2011, there were approximately 237 holders of record of our common stock.

In 2010, we submitted to the NYSE in a timely manner the annual certification that our Chief Executive Officer was not aware of any violation by us of the NYSE corporate governance listing standards.

Table of Contents

Item 6. Selected Financial Data

The following table presents selected financial data as of December 31, 2006, 2007, 2008, 2009 and 2010 and for each of the years in the five-year period ended December 31, 2010.

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

	Year Ended December 31,				
	2006	2007 (2) As Adjusted (1)	2008 As Adjusted (1)	2009 (3) As Adjusted (1)	2010 (4)
	(In thousands, except share and per share data)				
Statement of Operations Data:					
Net sales	$ 336,956	$ 328,952	$ 329,194	$ 272,286	$ 317,690
Cost of sales	257,671	302,311	242,349	191,759	244,875
Gross profit	79,285	26,641	86,845	80,527	72,815
Selling, general and administrative expenses	73,223	119,439	66,958	65,257	67,764
Impairment of long-lived assets				23,251	
Income (loss) from operations	6,062	(92,798)	19,887	(7,981)	5,051
Interest expense, net	3,011	11,503	15,282	14,699	15,288
Income (loss) before income taxes	3,051	(104,301)	4,605	(22,680)	(10,237)
Provision (benefit) for income taxes	708	(26,105)	(750)	(5,811)	(171)
Net income (loss)	$ 2,343	$ (78,196)	$ 5,355	$ (16,869)	$ (10,066)
Basic earnings (loss) per share	$ 0.16	$ (5.25)	$ 0.36	$ (1.12)	$ (0.66)
Basic weighted average shares outstanding	14,829,832	14,884,174	14,956,927	15,061,603	15,187,028
Diluted earnings (loss) per share	$ 0.16	$ (5.25)	$ 0.35	$ (1.12)	$ (0.66)
Diluted weighted average shares outstanding	14,892,966	14,884,174	15,113,083	15,061,603	15,187,028
Cash Flow Data:					
Cash provided by (used in) operating activities	$ (4,038)	$ (1,163)	$ 33,042	$ 35,063	$ 18,994
Cash used in investing activities	(27,743)	(24,035)	(8,594)	(6,638)	(9,773)
Cash provided by (used in) financing activities	31,058	24,592	(1,325)	(32,100)	(1,465)
Other Data (unaudited):					
EBITDA (5)	$ 26,324	$ (70,307)	$ 44,763	$ 38,172	$ 24,666
Balance Sheet Data:					
Cash and cash equivalents and restricted cash	$ 672	$ 66	$ 23,189	$ 19,514	$ 27,270
Working capital	29,559	37,923	54,086	49,214	66,057
Total assets	352,317	310,067	296,085	244,543	247,815

Total debt (including derivatives)		104,637		98,002		103,563		77,571		85,095
Total stockholder s equity	$	169,415	$	115,603	$	122,868	$	110,198	$	102,922

(1) See Note 2 to the Company s consolidated financial statements appearing elsewhere in this report.

(2) Year ended December 31, 2007 was materially affected by pre-tax increases to the warranty reserve of $46.7 million and tax valuation allowance of $19.4 million as disclosed in the Company s previous filings.

(3) Year ended December 31, 2009 was materially affected by pre-tax impairment of long-lived assets at idle Olive Branch facility of $23.3 million.

(4) Year ended December 31, 2010 was materially affected by a pre-tax increase of $15.0 million to the warranty reserve.

(5) EBITDA represents net income before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States, or GAAP. The Company has included data with respect to EBITDA because management evaluates and projects the performance of the Company s business using several measures, including EBITDA. Management considers EBITDA to be an important supplemental indicator of the Company s operating performance, particularly as compared to the operating performance of the Company s competitors, because this measure eliminates many differences among companies in capitalization and tax structures, capital investment cycles and ages of related assets, as well as some recurring non-cash and non-operating charges to net income or loss. For these reasons, management believes that EBITDA provides important supplemental information to investors regarding the operating performance of the Company and facilitates comparisons by investors between the operating performance of the Company and the operating performance of its competitors. Management believes that consideration of EBITDA should be supplemental, because EBITDA has limitations as an analytical financial measure. These limitations include the following:

EBITDA does not reflect the Company s cash expenditures, or future requirements for capital expenditures, or contractual commitments;

EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on the Company s indebtedness;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA does not reflect any cash requirements for such replacements;

EBITDA does not reflect the effect of earnings or charges resulting from matters the Company considers not to be indicative of its ongoing operations; and

not all of the companies in the Company s industry may calculate EBITDA in the same manner in which the Company calculates EBITDA, which limits its usefulness as a comparative measure.

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

	Year Ended December 31,				
	2006	2007 As Adjusted (1)	2008 As Adjusted (1)	2009 As Adjusted (1)	2010
			(In thousands)		
Net income (loss)	$ 2,343	$ (78,196)	$ 5,355	$ (16,869)	$ (10,066)
Plus interest expense, net	3,011	11,503	15,282	14,699	15,288
Plus income tax provision (benefit)	708	(26,105)	(750)	(5,811)	(171)
Plus depreciation and amortization	20,262	22,491	24,876	22,902	19,615
Plus impairment of long-lived assets				23,251	

EBITDA	$ 26,324	$ (70,307)	$ 44,763	$ 38,172	$ 24,666

(1) See Note 2 to the Company s consolidated financial statements appearing elsewhere in this report.

Table of Contents

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

This management s discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements regarding our expected financial position and operating results, our business strategy, our financing plans, forecasted demographic and economic trends relating to our industry and similar matters are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, will, anticipate, estimate, expect, intend or similar expressions. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Our actual results could be materially different from our expectations because of various factors, including the factors discussed under Item 1A. Risk Factors. These statements are also subject to risks and uncertainties that could cause the Company s actual operating results to differ materially. Such risks and uncertainties include the extent of market acceptance of the Company s products; the sensitivity of the Company s business to general economic conditions; the Company s ability to obtain raw materials at acceptable prices; the Company s ability to maintain product quality and product performance at an acceptable cost; the level of expenses associated with product replacement and consumer relations expenses related to product quality; and the highly competitive markets in which the Company operates.

Explanatory Note

Effective December 31, 2010, the Company elected to change its method of valuing inventory from the LIFO Specific Goods method using the average purchase price method to determine current cost (LIFO Specific Goods) to the LIFO Link Chain method using the most recent acquisition price method to determine current cost (LIFO Link Chain). The new method has been applied retrospectively to January 1, 2007 and the financial information set forth in the Management s Discussion and Analysis of Financial Condition and Results of Operations have been adjusted to give effect to the new method.

Overview

General. Trex Company, Inc., (the Company), is the largest U.S. manufacturer of wood-alternative decking and railing products, which are marketed under the brand name Trex®. We offer a comprehensive set of aesthetically durable, low maintenance product offerings in the decking, railing, fencing and trim categories. We believe that the range and variety of our product offerings allow consumers to design much of their outdoor living space using Trex brand products.

We have seven decking products: Trex Transcend®, Trex Accents®, Trex Accents Fire Defense®, Trex Brasilia®, Trex Contours®, Trex Escapes®, Trex Origins®; two railing products: Trex Designer Series Railing® and Trex Transcend Railing; two fencing products, Trex Seclusions® and Trex Surroundings®; and a cellular PVC outdoor trim product, TrexTrim . In addition, we offer Trex Hideaway®, which is a hidden fastening system for specially grooved boards.

Highlights related to the fourth quarter and full year 2010 include:

- In the fourth quarter of 2010, net sales increased 47% over the fourth quarter of 2009; in 2010, net sales increased 16.6% from the prior year driven by strong demand for our Trex Transcend collection.

- During the year, we began international direct to retail sales, entered into licensing partnerships for Trex RainEscape®, Trex Outdoor Furniture and Trex CustomCurve , and continued new product introductions, including new Transcend styles inspired by tropical hardwoods and an energy-efficient LED outdoor lighting collection.

- During 2010, we continued our aggressive branding campaign with a focus on supporting our Transcend product launch and extending our reach in the marketplace.

- We generated positive operating cash flow, despite reduced earnings. At the end of 2010 our cash balance was $27 million and we had no outstanding balance on our revolving lines of credit.

During 2010, we recorded a $15 million increase to the warranty reserve to support future warranty claim obligations related to product produced at our Fernley, Nevada facility prior to mid-2006.

During the fourth quarter of 2010, we met our productivity and cost targets for Transcend as we steadily improved margins.
Net Sales. Net sales consist of sales and freight, net of returns and discounts. The level of net sales is principally affected by sales volume and the prices paid for Trex products. Our branding and product differentiation strategy enables us to command premium prices over wood products.

Sales Incentives / Early Buy Program: As part of our normal business practice and consistent with industry practices, we have historically provided our distributors and dealers incentives to build inventory levels before the start of the prime deck-building season to ensure adequate availability of product to meet anticipated seasonal consumer demand and to enable production planning. These incentives, which together we reference as our early buy program, include prompt payment discounts or favorable payment terms. In addition, from time to time we may offer price discounts or volume rebates on specified products and other incentives based on increases in distributor purchases as part of specific promotional programs.

We launched our early buy program for the 2011 decking season in December 2010. The timing and terms of the 2011 program are generally consistent with the timing and terms of the 2010 program launched in December 2009. To qualify for early buy program incentives, customers must commit to the terms of the program which specify eligible products and quantities, order deadlines and available terms, discounts and rebates. There are no product return rights granted to our distributors except those granted pursuant to the warranty provisions of our agreements with distributors. We generally do not extend the payment terms beyond those offered in the program. In addition, our products are not susceptible to rapid changes in technology that may cause them to become obsolete. The early buy program can have a significant impact on our sales, receivables and inventory levels. We have provided further discussion of our receivables and inventory in the liquidity and capital resources section.

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

Selling, General and Administrative Expenses. The largest components of selling, general and administrative expenses are branding and other sales and marketing costs, which we use to build brand awareness of Trex in the decking, railing, fencing and trim markets. Sales and marketing costs consist primarily of salaries, commissions and benefits paid to sales and marketing personnel, consumer relations, advertising expenses and other promotional costs. General and administrative expenses include salaries and benefits of personnel engaged in research and development, procurement, accounting and other business functions, office occupancy costs attributable to these functions, and professional fees. As a percentage of net sales, selling, general and administrative expenses have varied from quarter to quarter due, in part, to the seasonality of our business.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 3 to our consolidated financial statements appearing elsewhere in this report. Critical accounting policies include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly affect our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As a result, we are required to make estimates, judgments and assumptions that we believe are reasonable based upon

the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Inventories. We account for inventories at the lower of cost (last-in, first-out, or LIFO) or market value. We believe that our current inventory of finished goods will be saleable in the ordinary course of business and, accordingly, have not established significant reserves for estimated slow moving products or obsolescence. At December 31, 2010, the excess of the replacement cost of inventory over the LIFO value of inventory was approximately $28.6 million. We cannot estimate at this time the effect of future reductions, if any, in inventory levels on future operating results.

Product Warranty. We warrant that our products will be free from material defects in workmanship and material and will not check, split, splinter, rot or suffer structural damage from termites or fungal decay. With respect to our new Transcend product, we further warrant that the product will not fade in color more than a certain amount and will be resistant to permanent staining from food substances or mold (provided the stain is cleaned within seven days of appearance). Each of these warranties generally extends for a period of 25 years for residential use and 10 years for commercial use. If there is a breach of such warranties, we have an obligation either to replace the defective product or refund the purchase price. We establish warranty reserves to provide for estimated future expenses as a result of product defects that result in claims. Reserve estimates are based on management s judgment, considering such factors as cost per claim, historical experience, anticipated rates of claims, and other available information. We review and adjust these estimates, if necessary, on a quarterly basis based on the differences between actual experience and historical estimates.

We continue to receive and settle claims related to material produced at our Nevada facility through mid-2006 that exhibits surface flaking. During 2010, the number of warranty claims received related to surface flaking exceeded our expectations. We believe that the increased number of claims received over what the Company expected is primarily the result of our involvement in, and related public announcements about, a recently settled class action suit related to surface flaking. The settlement of the suit also introduced a new category of claims to provide for partial labor payments for claims that were previously settled with material only. In addition, the increased claims activity resulting from the lawsuit, which included many invalid claims, distorted previously emerging trends and complicated analysis of the claims data. As a result of these developments, we recorded increases to the warranty reserve of $15.0 million during the twelve months ended December 31, 2010. We anticipate that the effects of the lawsuit will diminish and the number of claims will substantially decrease. If the level of claims does not diminish consistent with our expectations, it could result in additional increases to the warranty reserve and reduced earnings in future periods. We estimate that a 10% change in the expected number of remaining claims or the expected cost to settle claims may result in approximately a $1.4 million change in the warranty reserve. For additional information about product warranties, see Notes 3 and 15 to the consolidated financial statements appearing elsewhere in this report.

Contract Termination Costs. In anticipation of relocating our corporate headquarters, we entered into a lease agreement in 2005. We reconsidered and decided not to move our headquarters. The lease, which began on January 1, 2006 and extends through June 30, 2019, currently obligates us to lease 55,047 square feet and increases to 64,656 square feet in 2012. We have executed subleases for the entire 55,047 square feet we currently lease. The terms of the existing subleases extend through years 2012 to 2015. We estimate that the present value of the estimated future sublease rental receipts, net of transaction costs, will be less than our remaining minimum lease payment obligations under our lease for the office space. Accordingly, we account for the expected shortfall as contract termination costs and have recorded a liability in accordance with FASB ASC Topic 420, *Exit or Disposal Cost Obligations.*

To estimate future sublease receipts for the periods beyond the term of the existing subleases and for the additional space we are obligated to lease, we have assumed that the existing subleases will be renewed or new subleases will be executed at rates consistent with rental rates in the current subleases. However, management

Table of Contents

cannot be certain that the timing of future subleases or the rental rates contained in future subleases will not differ from current estimates. Factors such as the delivery of a significant amount of new office space or poor economic conditions could have a negative effect on vacancy rates and rental rates in the area. The inability to sublet the office space in the future or unfavorable changes to key management assumptions used in the estimate of the future sublease receipts may result in material charges to selling, general and administrative expenses in future periods.

Revenue Recognition. We recognize revenue when title is transferred to customers, which is generally upon shipment of the product to the customer. We do not grant contractual product return rights to customers other than pursuant to our product warranty. We do not expect future product returns to be material and, consequently, do not maintain an allowance for product returns.

We record all shipping and handling fees in sales and record all of the related costs in cost of sales. We offer several sales incentive programs to dealers and distributors, including rebates, pricing discounts, favorable payment terms and cooperative advertising, many of which result in cash consideration made to dealers and distributors. We account for consideration made pursuant to these programs in accordance with accounting guidance that governs consideration given by a vendor to a customer. With the exception of cooperative advertising, we classify sales incentives as a reduction in revenue in Net sales. Sales incentives are recorded in the period in which they are earned by customers. Our cooperative advertising program meets the requirements for exclusion from net sales and the costs are recorded as expenses in Selling, general and administrative expenses in the accompanying consolidated statements of operations. Cooperative advertising costs are accrued as incurred.

Valuation of Deferred Tax Assets. We account for income taxes and the related accounts in accordance with FASB ASC Topic 740, *Income Taxes*. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes in estimates in the valuation allowance. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. At December 31, 2010, we had a valuation allowance of $21.1 million primarily attributable to the uncertainty related to the realizability of our excess deferred tax assets. We considered all available evidence, both positive and negative, in determining the need for a valuation allowance. Based upon this analysis, including a consideration of our cumulative loss history in the three-year period ended December 31, 2010, we determined that it is not more likely than not that our excess deferred tax assets will be realized.

Stock-Based Compensation. Under the provisions of FASB ASC Topic 718, Stock Compensation, we calculate the grant date fair value of share-based awards using the Black-Scholes valuation model for grants subsequent to the adoption of ASC 718. Determining the fair value of share-based awards is judgmental in nature and involves the use of significant estimates and assumptions, including the term of the share-based awards, risk-free interest rates over the vesting period, expected dividend rates, the price volatility of our shares and forfeiture rates of the awards. Prior to adopting ASC 718, we recognized forfeitures only as they occurred. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. Actual future results may differ from those estimates.

Table of Contents

Results of Operations

The following table shows, for the last three years, selected statement of operations data as a percentage of net sales:

	Year Ended December 31,		
	2008 As Adjusted (1)	2009 As Adjusted (1)	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	73.6	70.4	77.1
Gross profit	26.4	29.6	22.9
Selling, general and administrative expenses	20.3	24.0	21.3
Impairment of long-lived assets		8.5	
Income (loss) from operations	6.0	(2.9)	1.6
Interest expense, net	4.6	5.4	4.8
Income (loss) before taxes and extraordinary item	1.4	(8.3)	(3.2)
Provision (benefit) for income taxes	(0.2)	(2.1)	
Net income (loss)	1.6%	(6.2%)	(3.2%)

(1) See Note 2 to the company s consolidated financial statements appearing elsewhere in this report.

2010 Compared to 2009

Net Sales. Net sales in 2010 increased 16.6% to $317.7 million from $272.3 million in 2009. The increase in net sales was primarily the result of an 11% increase in sales volume and a 6% increase in average price per unit in 2010 compared to 2009. The increase in sales volume primarily reflected a strong demand for the Company s products, particularly its new Transcend decking and railing product offerings, which the Company launched in early 2010 and supported with a robust marketing campaign. The sales volumes in late 2010 were favorably influenced by customers purchasing ahead of the announced 2011 Transcend price increase; however, the Company cannot quantify the effects of this factor. The increase in average price per unit in 2010 resulted primarily from a shift in sales mix toward higher priced products, specifically the Company s new Transcend products. The increase in railing sales reflects a concerted effort by the Company to improve its railing offerings and capture more of the railing market.

Gross Profit. Gross profit decreased 9.6% to $72.8 million in 2010 from $80.5 million in 2009. Gross profit as a percentage of net sales decreased to 22.9% in 2010 from 29.6% in 2009. Gross profit in 2010 was adversely affected by $18.9 million of charges including a $15.0 million increase to the warranty reserve and $3.9 million for minimum purchase penalties the Company expects to incur under supply contracts. Excluding the aforementioned charges, gross profit in 2010 was $91.7 million, an $11.2 million increase compared to 2009 and gross margin was 28.9%. The Company recognized a combined 480 basis points of margin improvement from the following three categories in 2010: increased capacity utilization, which contributed 270 basis points of margin improvement; sales of PE materials, which resulted in 105 basis points of margin improvement as the global plastics market stabilized; and improved manufacturing efficiencies. This combined 480 basis point margin improvement was fully offset by the start-up costs associated with our 2010 introduction of Transcend, which resulted in 550 basis points of margin deterioration.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 3.8% to $67.8 million in 2010 from $65.3 million in 2009. The increase in selling, general and administrative expenses in 2010 was primarily related to higher branding expenses and the write-off of the investment in Denplax, partially offset by a decrease in research and development expenses and lower costs related to the idled Olive Branch facility. Branding expenses increased $4.3 million in 2010. The increased branding costs in 2010 were

23

principally driven by costs incurred to support the release of Trex Transcend, a new product line released during the year. During the year, the company took a $2.4 million charge against its investment in and note receivable from Denplax, a foreign owned subsidiary. Research and development expenses decreased $1.4 million in 2010 due to higher 2009 costs related to developing Trex Transcend. Expenses related to the idle Olive Branch facility decreased $3.6 million in 2010 primarily due to reduced depreciation expense related to long-lived assets that were impaired during 2009. As a percentage of net sales, total selling, general and administrative expenses decreased to 21.3% in 2010 from 24% in 2009.

Impairment of long-lived assets. During 2009, based on changes in economic conditions, expected demand, available capacity and manufacturing efficiencies at its other facilities, the Company determined that certain assets groups were not recoverable and reduced the carrying value of those groups to their estimated fair value by recording a $23.3 million impairment related to the long-lived assets held at the idle Olive Branch, Mississippi manufacturing facility. At December 31, 2010, $10.9 million of the Company s net property, plant and equipment is located at the idle Olive Branch facility. Management does not currently anticipate further impairments on the remaining assets. However, changes in the expected cash flows related to the facility could result in additional impairment charges and reduced earnings in future periods.

Interest Expense. Net interest expense increased 4.0% to $15.3 million in 2010 compared to $14.7 million in 2009. The increase in 2010 was due to a $1.3 million increase in the amortization of the debt discount related to the Company s convertible bonds offset, in part, by a decrease in interest expense as a result of lower average debt levels in 2010 compared to 2009.

Provision for Income Taxes. We recorded a benefit for income taxes of $0.2 million in 2010 compared to a benefit for income taxes of $5.8 million in 2009. The related effective tax rates were 1.7% in 2010 and 25.6% in 2009. The higher benefit and related effective tax rate for 2009 resulted, primarily, from the net effects of a refund claim related to newly enacted legislation providing for a special 5-year net operating loss carryback election.

2009 Compared to 2008

Net Sales. Net sales in 2009 decreased 17.3% to $272.3 million from $329.2 million in 2008. The decrease in net sales was primarily attributable to a 28% decrease in sales volume, which was partially offset by a 13% increase in the average price per product unit sold. The decrease in sales volume was principally related to lower consumer demand attributable to poor macroeconomic conditions, which includes suppressed repair and remodeling expenditures and lower housing starts, as compared to 2008. The increase in average price per product unit resulted from a price increase, effective January 2009, of approximately 8% and increased sales of higher unit priced products.

Gross Profit. Gross profit decreased 7.3% to $80.5 million in 2009 from $86.8 million in 2008. The decrease was primarily attributable to reduced sales volume. Gross profit as a percentage of net sales, gross margin, increased to 29.6% in 2009 from 26.4% in 2008. Sales related items including the effect of the 2009 price increase and sales mix of higher revenue per product unit resulted in an increase in gross margin in 2009 of approximately 7% from 2008. Gross margin was positively affected by an increase in production rates and yields and cost reductions due to our continued focus on process and productivity improvements, which contributed to a 4% increase in gross margin. The positive effect of the foregoing factors on gross margin in 2009 was partially offset by the negative impact on gross margin of 7% from operating at reduced levels of capacity utilization and 1% related to sales of excess poly at reduced prices. The excess poly sales were principally driven by operating at reduced levels of capacity utilization. The reduced sales price of poly was primarily driven by weak global demand early in the year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 2.5% to $65.3 million in 2009 from $67.0 million in 2008. The reduction in selling, general and administrative expenses in 2009 was primarily related to lower personnel, branding and legal expenses partially offset by an

increase in research and development expenses. Personnel-related expenses declined $1.0 million in 2009. The reduced personnel-related expenses in 2009 were principally driven by reduced incentive compensation. Branding expenses decreased $1.6 million in 2009. Legal expense decreased $0.8 million in 2009 primarily as a result of the costs incurred in 2008 related to a patent infringement legal proceeding. Research and development expenses increased $2.0 million in 2009 to support the development and launch of Trex Transcend. As a percentage of net sales, total selling, general and administrative expenses increased to 24.0% in 2009 from 20.3% in 2008.

Impairment of long-lived assets. During 2009, based on changes in economic conditions, expected demand, available capacity and manufacturing efficiencies at its other facilities, the Company determined that certain assets groups were not recoverable and reduced the carrying value of those groups to their estimated fair value by recording a $23.3 million impairment related to the long-lived assets held at the idle Olive Branch, Mississippi manufacturing facility.

Interest Expense. Net interest expense decreased 3.8% to $14.7 million in 2009 from $15.3 million in 2008. Compared to 2008, interest expense in 2009 was lower by $1.1 million as a result of a favorable year-over-year variance related to interest accrued on uncertain tax positions and by approximately $1.1 million primarily due to reduced average debt levels. These favorable variances were partially offset by a $1.1 million increase in the non-cash amortization of the debt discount related to our convertible debt and $0.6 million of charges resulting from the change in our capital structure in 2009, which included the replacement of the revolving credit facility.

Provision for Income Taxes. We recorded a benefit for income taxes of $5.8 million in 2009 compared to a benefit for income taxes of $0.8 million in 2008. The related effective tax rates were 25.6% in 2009 and -16.3% in 2008. The higher benefit and related effective tax rate for 2009 resulted, primarily, from the net effects of a refund claim related to newly enacted legislation providing for a special 5-year net operating loss (NOL) carryback election.

Liquidity and Capital Resources

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

S*ources and Uses of Cash.* Net cash provided by operating activities totaled $19.0 million in 2010 compared to net cash provided by operating activities of $35.1 million in 2009. The $16.1 million year-over-year reduction in cash provided by operating activities was primarily driven by unfavorable changes in cash flows related to inventories and accounts receivable, partially offset by a $7.6 million income tax refund collected in 2010. During 2009, we successfully reduced inventories $24.3 million from previous levels as part of a focused strategy to improve cash flow, while inventories were reduced by $1 million in 2010.

Accounts receivable balances increased to $53.3 million at December 31, 2010 compared to $31.4 million at December 31, 2009 due to increased sales in the late 2010, driven by a strong demand for our Transcend products and customers purchasing ahead of the announced 2011 Transcend price increase. We launched our pre-decking season early buy incentive program in December 2010. The program offers customers a choice of discounts or favorable payment terms and was consistent with the incentives contained in the program launched in December 2009. Substantially all of the accounts receivable balances at December 31, 2010 were subject to the terms of our early buy program. In the aggregate, customers chose indicated a preference to take discounts rather than favorable payment terms for the December 2010 early buy purchases which resulted in collection of approximately three-fourths of the December 31, 2010 accounts receivable balances in January of 2011. We expect to collect all remaining outstanding accounts receivable balances, net of existing allowances, by April 2011.

Net cash used in investing activities totaled $9.8 million in 2010 compared to cash used in investing activities of $6.6 million in 2009. Capital expenditures in 2010 consisted primarily of manufacturing equipment for process and productivity improvements, including retrofitting lines to produce new products. In 2009, net cash used in investing activities totaled $6.6 million compared to $8.6 million in 2008.

Net cash used in financing activities was $1.5 million in 2010 compared to cash used in financing activities of $32.1 million in 2009. In 2009, we reduced net debt by $31.1 million, including the redemption of $25.0 million of Mississippi Business Finance Corporation Bonds and certain real estate notes, and had no borrowings under the revolving credit facility. In 2010, we reduced net debt by $0.5 million and repaid borrowings under the revolving credit facility. Net cash used in financing activities was $32.1 million in 2009, compared to net cash used in financing activities of $1.3 million in 2008.

Inventory in Distribution Channels. We sell our products through a two-tier distribution system. We have approximately 20 distributors (with an aggregate of approximately 100 distribution sites) and two mass merchandisers to which we sell our products. These distributors in turn sell our products to approximately 3,000 dealers in the aggregate who in turn sell the products to the end users. Consistent with industry practices, to ensure adequate availability of product to meet anticipated seasonal consumer demand and to enable production planning, we have historically provided our distributors and dealers incentives to build inventory levels before the start of the prime deck-building season. These incentives include prompt payment discounts or favorable payment terms. In addition, from time to time, we may offer price discounts on specified products and other incentives based on increases in distributor purchases as part of specific promotional programs. There are no product return rights granted to our distributors except those granted pursuant to the warranty provisions of our agreements with distributors. While we do not typically receive any information regarding inventory in the distribution channel from any dealers, we occasionally receive limited information from some but not all of our distributors regarding the inventory in the distribution channel. Because only a few distributors provide us with any information regarding their inventory, we cannot definitively determine the level of inventory in the distribution channel at any time. Our sales in the fourth quarter of 2010 were significantly higher than our sales in the fourth quarter of 2009 as customers purchased product ahead of the 2011 price increase. The increase in sales could have the effect of increasing the inventory volume in the distribution channel at December 31, 2010 as compared to December 31, 2009. Changes in inventory levels in the distribution channel without a corresponding change in end-user demand could have an adverse effect on future sales.

We seek to maintain favorable relationships with our distributors. However, it is possible that, on occasion, we may need to replace a distributor. Historically, we have had little difficulty replacing a distributor and have experienced little or no disruption to operations or liquidity. We believe that in the event we needed to replace a distributor, it would not have an adverse effect on our profitability or liquidity.

Product Warranty. The Company continues to settle claims for material previously produced at the Nevada facility that exhibits surface defects. During 2010, the Company paid approximately $12 million to settle claims and class action legal fees and expenses against the warranty reserve which has had a material adverse effect on cash flow from operations. Management anticipates that the number of claims will substantially decrease. If the level of claims does not diminish consistent with the Company s expectations, it could result in additional increases to the warranty reserve and continued material adverse effects on future cash flows.

Indebtedness. At December 31, 2010, our total indebtedness, including the fair value of the interest rate swap and excluding the unamortized debt discount, was $100.4 million and the annualized overall weighted average interest rate of such indebtedness, including the effect of the interest rate swap, was approximately 6.07%.

Compliance with Debt Covenants. Our ability to make scheduled principal and interest payments on the real estate loan, convertible notes, borrow and repay amounts under the revolving credit facility, and continue to comply with loan covenants will depend primarily on our ability to generate substantial cash flow from

Table of Contents

operations. To remain in compliance with financial covenants in the credit facility, we must maintain specified financial ratios based on levels of debt, capital, net worth, fixed charges, and earnings (excluding extraordinary gains and extraordinary non-cash losses) before interest, taxes, depreciation and amortization, all of which are subject to the risks of the business, some of which are discussed in this report under Risk Factors.

We were in compliance with all covenants contained in our loan agreements at December 31, 2010. Failure to comply with our loan covenants, which contain cross-default provisions, could be considered a default of our repayment obligations under our credit facility. Among other remedies, a default in our repayment obligations could accelerate payment of the outstanding balance on our credit facility and could result in a cross-default under our $97.5 million principal amount of outstanding convertible notes. The types of events which might trigger a cross-default include without limitation:

(a) a failure to make any payment in respect of debt, other than the Company s promissory notes, of more than $250,000 after expiration of any applicable cure or grace period;

(b) an event or condition which (i) results in the acceleration of the maturity of a debt outstanding of more than $250,000 (ii) results in the mandatory prepayment or purchase of such debt prior to the scheduled maturity, or (iii) enables the holders of such debt or commitment to provide such debt to accelerate the maturity, terminate any such commitment or require the mandatory prepayment or purchase prior to the scheduled maturity;

(c) a material default or event of default that occurs and is continuing under any material contract or any failure to perform any material obligation under any material contract which remains uncured beyond any applicable cure or grace period;

(d) the occurrence of any default or event of default occurring under any indenture or senior subordinated notes; and

(e) a default under any other lien or encumbrance placed on the property, or any interest therein (legal or equitable), or any part thereof, either inferior or superior in right to the lien of a deed of trust beyond any applicable grace period.

Effective November 4, 2009, financial covenants related to the Credit Agreement with BB&T Capital Markets, as lead arranger, Branch Banking and Trust Company, as administrative agent and letter of credit issuer, and TD Bank, N.A. are as follows:

(a) Minimum Consolidated Tangible Net Worth. Trex will maintain Consolidated Tangible Net Worth (as defined in the credit agreement) of not less than the sum of (i) $87,000,000, plus (ii) 50% of Consolidated Net Income (as defined in the credit agreement) after December 31, 2008 (taken as one accounting period), but excluding from such calculation of Consolidated Net Income any quarter in which Consolidated Net Income is negative, measured as of the end of each fiscal quarter commencing with the fiscal quarter ending September 30, 2009.

(b) Fixed Charge Coverage Ratio. Trex will not permit the Fixed Charge Coverage Ratio (as defined in the credit agreement) to be less than 1.1 to 1.0, measured as of the end of each fiscal quarter, commencing with the fiscal quarter ending September 30, 2009, for the four-quarter period then ended; provided, however, that if Excess Availability (as defined in the credit agreement) exceeds $35,000,000, measurement of the Fixed Charge Coverage Ratio shall be made as of the end of each fiscal year.

(c) Consolidated Debt to Consolidated EBITDA Ratio. Trex will not permit the Consolidated Debt to Consolidated EBITDA Ratio (as defined in the credit agreement) to exceed: (i) 6.0 to 1.0 as of December 31, 2009 and December 31, 2010, (ii) 5.5 to 1.0 as of December 31, 2011, and (iii) 4.5 to 1.0 as of December 31, 2012, and as of the end of each fiscal year thereafter.

Table of Contents

Contractual Obligations. The following tables show, as of December 31, 2010, our contractual obligations and commercial commitments, which consist primarily of long-term debt, interest payments on long-term debt, purchase commitments and operating leases (in thousands):

Contractual Obligations

Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt (1)	$ 100,353	$ 741	$ 98,980	$ 632	$
Interest payments on long-term debt (2)	11,813	5,900	5,913		
Purchase commitments (3)	25,693	24,193	1,500		
Product warranties (4)	14,472	7,003	7,469		
Operating leases	40,773	7,545	12,211	10,140	10,877
Total contractual cash obligations	$ 193,104	$ 45,382	$ 126,073	$ 10,772	$ 10,877

(1) Long-term debt includes the debt related derivative.
(2) A portion of the interest expense disclosed is subject to variable interest rates. The amounts disclosed above assume that variable interest rates are equal to rates at December 31, 2010.
(3) Purchase commitments represent supply contracts with third-party manufacturers and raw material vendors.
(4) Product warranties represent estimated amounts accrued for surface flaking claims related to material produced at the Nevada manufacturing facility prior to mid-2006. The timing of actual payments is dependent upon the timing of claims submitted by customers, which is beyond the control of the Company.

We use interest rate swaps to manage exposure to fluctuations in the interest rates on variable-rate debt. At December 31, 2010, the fair value of the debt-related derivative was $0.3 million and was classified as a long-term liability.

We do not have off-balance sheet financing arrangements other than operating leases.

Capital and Other Cash Requirements. We made capital expenditures of $7.8 million in 2008, $6.9 million in 2009 and $10.0 million in 2010, primarily to make process and productivity improvements. We currently estimate that capital expenditures in 2011 will be approximately $15 million. Capital expenditures in 2011 are expected to be used primarily to make process and productivity improvements and upgrade systems.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to changing interest rates. At December 31, 2010, we had outstanding debt of $100.0 million, $97.5 million of which is fixed-rate debt. The remaining $2.5 million was effectively converted to a fixed rate through the use of a fixed-for-floating interest rate swap. We also have an $85 million revolving line of credit under which borrowings are subject to variable interest rates. At December 31, 2010, we had no borrowings on the line of credit.

Changes in interest rates affect the fair value of our fixed-rate debt. The fair value of our long-term fixed-rate debt at December 31, 2010, consisting of convertible notes, was approximately $118.8 million. This fair value was based on an analysis of actual market transactions. Prices for transactions vary with market conditions and can be affected by trade size and other factors. Thus, this fair value may not be indicative of the value at which the debt may ultimately settle. Based on balances outstanding at December 31, 2010, a 1% change in interest rates would change the fair value of our long-term fixed-rate debt by approximately $1.3 million.

The foregoing sensitivity analysis provides only a limited view as of a specific date regarding the sensitivity of some of our financial instruments to market risk. The actual impact of changes in market interest rates on the financial instruments may differ significantly from the impact shown in this sensitivity analysis.

Item 8. Financial Statements and Supplementary Data

The financial statements listed in Item 15 and appearing on pages F-2 through F-32 are incorporated by reference in this Item 8 and are filed as part of this report.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer, who is our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2010. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010.

Management s Report on Internal Control Over Financial Reporting

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

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

We assessed the Company s internal control over financial reporting as of December 31, 2010, based on criteria for effective internal control over financial reporting established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Based on this assessment, we concluded that, as of December 31, 2010, our internal control over financial reporting was effective, based on the COSO Framework.

The effectiveness of our internal control over financial reporting as of December 31, 2010, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which follows hereafter.

TREX COMPANY, INC.

March 9, 2011	By:	/s/ Ronald W. Kaplan **Ronald W. Kaplan** **Chairman, President and Chief Executive Officer** **(Principal Executive Officer)**
March 9, 2011	By:	/s/ James E. Cline **James E. Cline** **Vice President and Chief Financial Officer** **(Principal Financial Officer)**

Changes in Internal Control Over Financial Reporting

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

Table of Contents

Report of Independent Registered Public Accounting Firm

On Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Trex Company, Inc.

We have audited Trex Company, Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Trex Company, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Trex Company, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Trex Company, Inc., as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2010, and our report dated March 9, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia

March 9, 2011

Table of Contents

Item 9B. Other Information

On March 7, 2011, the Company and Ronald W. Kaplan executed an Amendment and Restatement of Mr. Kaplan s Employment Agreement dated as of January 1, 2008. The Amended and Restated Employment Agreement amended the original Employment Agreement in the following respects:

- extends Mr. Kaplan s employment term from December 31, 2012 until August 16, 2015 and provides for successive one year renewal terms thereafter unless either party provides 90 days prior written notice of termination;
- provides that if Company elects not to renew the Employment Agreement for a one-year renewal term upon expiration of the initial term on August 16, 2015, the Company shall pay Mr. Kaplan 1.5 times his base salary plus target bonus;
- provides that upon termination of the Agreement for any reason on or after August 16, 2015, except by the Company for cause, all unvested restricted stock grants, stock appreciation rights, options, or any other form of equity grant accelerate, and each stock appreciation right and option would be exercisable for a period ending on the earlier of five years after the date of termination of employment or the expiration of the original term of the grant;
- provides that if Mr. Kaplan is terminated by the Company without cause or by Mr. Kaplan for good reason, all unvested restricted stock grants, stock appreciation rights, options, or any other form of equity grant accelerate, and each stock appreciation right and option would be exercisable for a period ending on the earlier of five years after the date of termination of employment or the expiration of the original term of the grant.

Except as noted above, Mr. Kaplan s Employment Agreement remained unchanged. The Amended and Restated Employment Agreement is attached to this Annual Report on Form 10-K as Exhibit 10.15 and is incorporated by reference herein.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

See Executive Officers and Directors in Part I, Item 1 of this report for the information about our executive officers, which is incorporated by response in this Item 10. Other information responsive to this Item 10 is incorporated herein by reference to our definitive proxy statement for our 2011 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2010 fiscal year-end.

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

Item 11. Executive Compensation

Information responsive to this Item 11 is incorporated herein by reference to our definitive proxy statement for our 2011 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2010 fiscal year-end.

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

Information responsive to this Item 12 is incorporated herein by reference to our definitive proxy statement for our 2011 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2010 fiscal year-end.

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

Information responsive to this Item 13 is incorporated herein by reference to our definitive proxy statement for our 2011 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2010 fiscal year-end.

Item 14. Principal Accounting Fees and Services

Information responsive to this Item 14 is incorporated herein by reference to our definitive proxy statement for our 2011 annual meeting of stockholders, which we will file with the SEC on or before 120 days after our 2010 fiscal year-end.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following consolidated financial statements of the Company appear on pages F-2 through F-32 of this report and are incorporated by reference in Part II, Item 8:

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2009 and 2010	F-3
Consolidated Statements of Operations for the three years ended December 31, 2010	F-4
Consolidated Statements of Stockholders Equity and Comprehensive Income for the three years ended December 31, 2010	F-5
Consolidated Statements of Cash Flows for the three years ended December 31, 2010	F-6
Notes to Consolidated Financial Statements	F-7
Schedule II Valuation and Qualifying Accounts and Reserves	F-33

(a)(2) Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable or not material and therefore have been omitted.

(a)(3) The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. The Company s Securities Exchange Act file number is 001-14649.

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of Trex Company, Inc. (the Company). Filed as Exhibit 3.1 to the Company s Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
3.2	Amended and Restated By-Laws of the Company. Filed as Exhibit 3.2 to the Company s Current Report on Form 8-K filed May 7, 2008 and incorporated herein by reference.
4.1	Specimen certificate representing the Company s common stock. Filed as Exhibit 4.1 to the Company s Registration Statement on Form S-1 (No. 333-63287) and incorporated herein by reference.
4.2	Indenture, dated as of June 18, 2007, between Trex Company, Inc. and The Bank of New York, as trustee. Filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed on June 19, 2007 and incorporated herein by reference.
4.3	Supplemental Indenture, dated as of June 18, 2007, between Trex Company, Inc. and The Bank of New York, as trustee, including the form of 6.00% Convertible Senior Subordinated Note due 2012. Filed as Exhibit 4.2 to the Company s Current Report on Form 8-K filed on June 19, 2007 and incorporated herein by reference.
4.4	Credit Agreement dated as of November 4, 2009 between the Company and Branch Banking and Trust Company as Administrative Agent and Letter of Credit Issuer, BB&T Capital Markets as Lead Arranger and the Lenders listed on the signature pages thereof. Filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.5	Amended and Restated Security Agreement between the Company and Branch Banking and Trust Company as Collateral Agent for the Lenders, dated as of November 4, 2009. Filed as Exhibit 4.7 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.

Table of Contents

Exhibit Number	Exhibit Description
4.6	Amended and Restated Credit Line Deed of Trust, dated November 4, 2009, by and among the Company, as grantor, BB&T-VA Collateral Service Corporation, as trustee, and Branch Banking and Trust Company, as Collateral Agent for the Lenders, as Beneficiary relating to real property partially located in the County of Frederick, Virginia and partially located in the City of Winchester, Virginia. Filed as Exhibit 4.8 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.7	Deed of Trust, dated November 4, 2009, by and among the Company, as grantor, Eric L. Sappenfield, as trustee, and Branch Banking and Trust Company, as Collateral Agent for the Lenders, as Beneficiary relating to real property located in the County of De Soto, Mississippi. Filed as Exhibit 4.9 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.8	Revolver Note dated November 4, 2009 payable by the Company to Branch Banking and Trust Company in the amount of the lesser of $38,823,529.41 or the outstanding revolver advances made by Branch Banking and Trust Company. Filed as Exhibit 4.2 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.9	Revolver Note dated November 4, 2009 payable by the Company Inc. to TD Bank, N.A. in the amount of the lesser of $21,176,470.59 or the outstanding revolver advances made by TD Bank, N.A. Filed as Exhibit 4.3 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.10	Reducing Revolver Note dated November 4, 2009 payable by the Company Inc. to Branch Banking and Trust Company in the amount of the lesser of $16,176,470.59 or the outstanding reducing revolver advances made by Branch Banking and Trust Company. Filed as Exhibit 4.4 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.11	Reducing Revolver Note dated November 4, 2009 payable by the Company Inc. to TD Bank, N.A. in the amount of the lesser of $8,823,529.41 or the outstanding reducing revolver advances made by TD Bank, N.A. Filed as Exhibit 4.5 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
4.12	Swing Advance Note dated November 4, 2009 payable by the Company Inc. to Branch Banking and Trust Company in the amount of the lesser of $5,000,000 or the outstanding swing advances made by Branch Banking and Trust Company. Filed as Exhibit 4.6 to the Company s Current Report on Form 8-K filed on November 6, 2009 and incorporated herein by reference.
10.1	Description of Management Compensatory Plans and Arrangements. Filed as Exhibit 10.1 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Filed herewith.
10.2	Trex Company, Inc. 2005 Stock Incentive Plan. Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on May 7, 2008 and incorporated herein by reference.
10.3	Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors. Filed as Exhibit 10.4 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and incorporated herein by reference.
10.4	Form of Trex Company, Inc. 2005 Stock Incentive Plan Non-Incentive Stock Option Agreement. Filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 and incorporated herein by reference.

Table of Contents

Exhibit Number	Exhibit Description
10.5	Form of Trex Company, Inc. 2005 Stock Incentive Plan Stock Appreciation Rights Agreement. Filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 and incorporated herein by reference.
10.6	Form of Trex Company, Inc. 2005 Stock Incentive Plan Performance Award Agreement. Filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 and incorporated herein by reference.
10.7	Form of Trex Company, Inc. 2005 Stock Incentive Plan Restricted Stock Agreement, as amended. Filed as Exhibit 10.8 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and incorporated herein by reference.
10.8	Form of Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors Non-Incentive Stock Option Agreement for Directors. Filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 and incorporated herein by reference.
10.9	Form of Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors Stock Appreciation Rights Agreement. Filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 and incorporated herein by reference.
10.10	Form of Change in Control Severance Agreement for Officers of Trex Company, Inc. other than the Chief Executive Officer. Filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 and incorporated herein by reference.
10.11	Amended and Restated Stock Appreciation Rights Agreement, between Trex Company, Inc. and Anthony J. Cavanna dated August 14, 2007. Filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference.
10.12	Amended and Restated Stock Appreciation Rights Agreement, between Trex Company, Inc. and Anthony J. Cavanna dated August 14, 2007. Filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference.
10.13	Amended and Restated Restricted Stock Agreement, between Trex Company, Inc. and Anthony J. Cavanna dated August 14, 2007. Filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007 and incorporated herein by reference.
10.14	Employment Agreement, dated as of January 1, 2008, between Trex Company, Inc. and Ronald W. Kaplan. Filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on January 2, 2008 and incorporated herein by reference.
10.15	Amended and Restated Employment Agreement, dated as of March 7, 2011, between Trex Company, Inc. and Ronald W. Kaplan. Filed herewith.
10.16	Change in Control Severance Agreement, dated as of January 1, 2008, between Trex Company, Inc. and Ronald W. Kaplan. Filed as Exhibit 10.2 to the Company s Current Report on Form 8-K filed on January 2, 2008 and incorporated herein by reference.
10.17	Form of Indemnity Agreement for Directors. Filed as Exhibit 10.19 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.
10.18	Form of Indemnity Agreement for Officers. Filed as Exhibit 10.20 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.

Table of Contents

Exhibit Number	Exhibit Description
10.19	Form of Indemnity Agreement for Director/Officers. Filed as Exhibit 10.21 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.
10.20	Form of Distributor Agreement of TREX Company, Inc. Filed as Exhibit 10.5 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference.
10.21	Form of Distributor Agreement of TREX Company, Inc. Filed as Exhibit 10.23 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and incorporated herein by reference.
10.22	Form of Trex Company, Inc. Fencing Agreement for Installers/Retailers. Filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 and incorporated herein by reference.
10.23	Deed of Lease, dated June 15, 2000, between TREX Company, LLC and Space, LLC. Filed as Exhibit 10.16 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and incorporated herein by reference.
10.24	Amendment, dated February 22, 2010, of Deed of Lease dated as of June 15, 2000, between Trex Company, Inc, as successor by merger to Trex Company, LLC, and TC.V.LLC, as successor to Space, LLC. Filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 and incorporated herein by reference.
10.25	Deed of Lease, dated as of July 27, 2005, between the Company and 1 Dulles Town Center, L.L.C. Filed as Exhibit 10.34 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and incorporated herein by reference.*
18	Preferability Letter of Ernst & Young LLP, Independent Registered Public Accounting Firm. Filed herewith.
21	Subsidiaries of the Company. Filed herewith.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. Filed herewith.
31.1	Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
31.2	Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. Filed herewith.
32	Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350. Filed herewith.

* Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

Table of Contents

TREX COMPANY, INC.

Index to Consolidated Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2009 and 2010	F-3
Consolidated Statements of Operations for the three years ended December 31, 2010	F-4
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income for the three years ended December 31, 2010	F-5
Consolidated Statements of Cash Flows for the three years ended December 31, 2010	F-6
Notes to Consolidated Financial Statements	F-7

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

	Page
Schedule II Valuation and Qualifying Accounts and Reserves	F-33

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Trex Company, Inc.

We have audited the accompanying consolidated balance sheets of Trex Company, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trex Company, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company elected to change its method of accounting for inventory from the last in, first out (LIFO) specific goods method determining current cost based on an average cost method to a LIFO link chain method determining current cost based on the most recent acquisition method effective December 31, 2010

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Trex Company Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Richmond, Virginia

March 9, 2011

Table of Contents

TREX COMPANY, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009 As Adjusted (See Note 2)	2010
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 19,514	$ 27,270
Accounts receivable (net of allowance for doubtful accounts of $1.5 million and $0.3 million at December 31, 2009 and 2010, respectively)	31,429	53,332
Inventories	30,104	29,021
Prepaid expenses and other assets	2,368	1,539
Income taxes receivable	7,775	70
Deferred income taxes	3,465	1,004
Total current assets	94,655	112,236
Property, plant and equipment, net	137,027	126,857
Goodwill	6,837	6,837
Other assets	6,024	1,885
Total Assets	$ 244,543	$ 247,815
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 16,514	$ 15,107
Accrued expenses	19,126	23,479
Accrued warranty	9,256	7,003
Current portion of long-term debt	545	590
Total current liabilities	45,441	46,179
Deferred income taxes	5,875	3,614
Accrued taxes	3,735	3,126
Non-current accrued warranty	2,268	7,469
Debt-related derivative	392	312
Long-term debt	76,634	84,193
Total Liabilities	134,345	144,893
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, 40,000,000 shares authorized; 15,397,093 and 15,458,002 shares issued and outstanding at December 31, 2009 and 2010, respectively	154	155
Additional paid-in capital	96,197	98,905
Accumulated other comprehensive loss	(265)	(184)
Retained earnings	14,112	4,046
Total Stockholders Equity	110,198	102,922

Total Liabilities and Stockholders Equity	$ 244,543	$ 247,815

See accompanying notes to financial statements.

F-3

Table of Contents

TREX COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008 As Adjusted (See Note 2)	2009 As Adjusted (See Note 2)	2010
	(In thousands, except share and per share data)		
Net sales	$ 329,194	$ 272,286	$ 317,690
Cost of sales	242,349	191,759	244,875
Gross profit	86,845	80,527	72,815
Selling, general, and administrative expenses	66,958	65,257	67,764
Impairment of long-lived assets		23,251	
Income (loss) from operations	19,887	(7,981)	5,051
Interest expense, net	15,282	14,699	15,288
Income (loss) before provision for income taxes	4,605	(22,680)	(10,237)
Benefit for income taxes	(750)	(5,811)	(171)
Net income (loss)	$ 5,355	$ (16,869)	$ (10,066)
Basic earnings (loss) per common share	$ 0.36	$ (1.12)	$ (0.66)
Basic weighted average common shares outstanding	14,956,927	15,061,603	15,187,028
Diluted earnings (loss) per common share	$ 0.35	$ (1.12)	$ (0.66)
Diluted weighted average common shares outstanding	15,113,083	15,061,603	15,187,028

See accompanying notes to financial statements.

Table of Contents

TREX COMPANY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS

EQUITY AND COMPREHENSIVE INCOME

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount				
			(Dollars in thousands)			
Balance, December 31, 2007 as adjusted (See Note 2)	15,083,520	$ 151	$ 90,383	$ (557)	$ 25,626	$ 115,603
Comprehensive income:						
Net income					5,355	5,355
Net unrealized losses on derivatives, net of tax				(718)		(718)
Net derivative losses reclassified to earnings, net of tax				183		183
Total comprehensive income						4,820
Employee stock purchase and option plans	27,298		229			229
Repurchases of common stock	(9,816)	2	(77)			(75)
Stock-based compensation	219,610		2,290			2,290
Balance, December 31, 2008 as adjusted (See Note 2)	15,320,612	153	92,825	(1,092)	30,981	122,867
Comprehensive loss:						
Net loss					(16,869)	(16,869)
Net unrealized losses on interest rate swaps, net of tax				(55)		(55)
Net derivative losses reclassified to earnings, net of tax				882		882
Total comprehensive loss						(16,042)
Employee stock purchase and option plans	42,352	1	416			417
Repurchases of common stock	(38,938)		(572)			(572)
Stock-based compensation	73,067		3,528			3,528
Balance, December 31, 2009 as adjusted (See Note 2)	15,397,093	154	96,197	(265)	14,112	110,198
Comprehensive loss:						
Net loss					(10,066)	(10,066)
Net unrealized losses on interest rate swaps, net of tax				(110)		(110)
Net derivative losses reclassified to earnings, net of tax				191		191
Total comprehensive loss						(9,985)
Employee stock purchase and option plans	27,140	1	169			170
Repurchases of common stock	(54,922)		(1,089)			(1,089)
Stock-based compensation	88,691		3,628			3,628
Balance, December 31, 2010	15,458,002	$ 155	$ 98,905	$ (184)	$ 4,046	$ 102,922

See accompanying notes to financial statements.

Table of Contents

TREX COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2008 As Adjusted (See Note 2)	2009 As Adjusted (See Note 2)	2010
	(in thousands)		
Operating Activities			
Net income (loss)	$ 5,355	$ (16,869)	$ (10,066)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	25,876	24,485	20,788
Debt discount amortization	5,730	6,833	8,149
Impairment of long-lived assets		23,251	
Deferred income taxes	(155)	997	200
Derivatives	667	(827)	
Stock-based compensation	2,290	3,528	3,628
Equity method losses	40	252	1,224
Loss on disposal of property, plant and equipment	500	29	436
Changes in operating assets and liabilities:			
Accounts receivable	(6,967)	(17,413)	(21,914)
Inventories	25,351	24,332	1,083
Prepaid expenses and other assets	(2,665)	2,950	2,474
Accounts payable	(4,349)	1,087	(1,407)
Accrued expenses and other liabilities	(18,453)	(12,367)	6,604
Income taxes receivable (payable)	(178)	(5,205)	7,796
Net cash provided by operating activities	33,042	35,063	18,994
Investing Activities			
Expenditures for property, plant and equipment	(7,814)	(6,919)	(9,966)
Proceeds from sales of property, plant and equipment	45	45	85
Notes receivable, net	(825)	236	108
Net cash used in investing activities	(8,594)	(6,638)	(9,773)
Financing Activities			
Financing costs	(286)	(798)	
Principal payments under mortgages and notes	(1,194)	(31,147)	(545)
Borrowings under line of credit	44,178		44,000
Principal payments under line of credit	(44,178)		(44,000)
Repurchases of common stock	(74)	(572)	(1,089)
Proceeds from employee stock purchase and option plans	229	417	169
Net cash used in financing activities	(1,325)	(32,100)	(1,465)
Net increase (decrease) in cash and cash equivalents	23,123	(3,675)	7,756
Cash and cash equivalents at beginning of year	66	23,189	19,514
Cash and cash equivalents at end of year	$ 23,189	$ 19,514	$ 27,270

Supplemental disclosures of cash flow information:

Cash paid for interest, net of capitalized interest	$ 7,820	$ 7,002	$ 6,526
Cash paid (received) for income taxes, net	$ 93	$ (2,301)	$ (7,553)

See accompanying notes to financial statements.

Table of Contents

TREX COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND ORGANIZATION

Trex Company, Inc. (together with its subsidiaries, the Company), a Delaware corporation, was incorporated on September 4, 1998. The Company manufactures and distributes wood/plastic composite products primarily for residential and commercial decking and railing applications. The majority of our products are manufactured in a proprietary process that combines waste wood fibers and reclaimed polyethylene (PE material). The Company operates in one business segment.

2. CHANGE IN METHOD OF ACCOUNTING FOR INVENTORY VALUATION

Effective December 31, 2010, the Company elected to change its method of valuing inventory from the LIFO Specific Goods method using the average purchase price method to determine current cost (LIFO Specific Goods) to the LIFO Link Chain method using the most recent acquisition price method to determine current cost (LIFO Link Chain). The Company believes that the LIFO Link Chain method of inventory valuation is preferable as the LIFO Link Chain costing method provides a better matching of current costs with current revenues and is more practicable as it improves the efficiency of our reporting process. The Company determined that it is impracticable to determine the cumulative effect of applying this change retrospectively because complete records of inventory purchases are no longer available for all prior periods. Sufficient information exists to apply LIFO Link Chain beginning January 1, 2007. As such, the new method has been applied retrospectively to January 1, 2007 and comparative financial statements of prior years have been adjusted to give effect to the new method. The following financial statement captions for fiscal years 2008 and 2009 were affected by the change in accounting principle.

CONSOLIDATED BALANCE SHEET

December 31, 2009

(In thousands)

	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
ASSETS			
Current assets:			
Inventories	$ 45,485	$ (15,381)	$ 30,104
Deferred income taxes		3,465	3,465
Total current assets	106,571	(11,916)	94,655
Total assets	256,459	(11,916)	244,543
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Deferred income taxes	485	(485)	
Total current liabilities	45,926	(485)	45,441
Deferred income taxes	1,925	3,950	5,875
Total liabilities	130,880	3,465	134,345
Stockholders equity:			
Retained earnings	29,493	(15,381)	14,112
Total stockholders equity	125,579	(15,381)	110,198
Total liabilities and stockholders equity	$ 256,459	$ (11,916)	$ 244,543

The income tax effects of the change in accounting principle presented above include the impact of the change in the allocation of the Company s valuation allowance between current and long-term deferred tax balances.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31, 2008

(In thousands, except per share data)

	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
Cost of sales	$ 240,170	$ 2,179	$ 242,349
Gross profit	89,024	(2,179)	86,845
Income (loss) from operations	22,066	(2,179)	19,887
Income (loss) before income taxes	6,784	(2,179)	4,605
Net income (loss)	7,534	(2,179)	5,355
Basic earnings (loss) per common share	0.50	(0.14)	0.36
Diluted earnings (loss) per common share	$ 0.50	$ (0.14)	$ 0.35

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31, 2009

(In thousands, except per share data)

	As Previously Reported	Effect of Change in Accounting Principle	As Adjusted
Cost of sales	$ 191,339	$ 420	$ 191,759
Gross profit	80,947	(420)	80,527
Income (loss) from operations	(7,561)	(420)	(7,981)
Income (loss) before income taxes	(22,260)	(420)	(22,680)
Net income (loss)	(16,449)	(420)	(16,869)
Basic earnings (loss) per common share	(1.09)	(0.03)	(1.12)
Diluted earnings (loss) per common share	$ (1.09)	$ (0.03	