TREX CO INC
Form DEF 14A
March 22, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Trex Company, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it is determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

TREX COMPANY, INC.

160 Exeter Drive

Winchester, Virginia 22603-8605

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 1, 2013

To our stockholders:

Notice is hereby given that the 2013 annual meeting of stockholders of Trex Company, Inc. will be held at The George Washington Grand Hotel, 103 East Piccadilly Street, Winchester, Virginia, on Wednesday, May 1, 2013, at 9:00 a.m., local time, for the following purposes:

1. to elect three directors of Trex Company;

2. to approve the compensation of our named executive officers;

3. to approve the material terms for performance-based equity awards under the Trex Company, Inc. 2005 Stock Incentive Plan to qualify such awards as performance-based compensation under Section 162(m) of the Internal Revenue Code;

4. to ratify the appointment of Ernst & Young LLP as Trex Company s independent registered public accounting firm for the 2013 fiscal year; and

5. to transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Only stockholders of record at the close of business on March 4, 2013 will be entitled to notice of and to vote at the annual meeting or any adjournment or postponement thereof.

All stockholders are cordially invited to attend this meeting.

We have elected to adopt the Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing a Notice Regarding the Availability of Proxy Materials (the Notice of Availability) to our stockholders instead of a paper copy of this proxy statement and our 2012 Annual Report. The Notice of Availability contains instructions on how to access and review those documents over the Internet. We believe that this process will allow us to provide our stockholders with the information they need in a more timely manner, while reducing the environmental impact and lowering the costs of printing and distributing our proxy materials. Stockholders who receive a Notice of Availability by mail and would like to receive a printed copy of our proxy materials, should follow the instructions for requesting such materials included on the Notice of Availability.

Your vote is very important to us. Whether or not you plan to attend the meeting in person, your shares should be represented and voted. To vote, please complete and return your proxy card, or vote by telephone or via the Internet by following the instructions on your Notice of Availability. Returning a proxy card or otherwise submitting your proxy does not deprive you of your right to attend the Annual Meeting and vote in person.

By Order of the Board of Directors,

William R. Gupp

Chief Administrative Officer, General

Counsel and Secretary

Dated: March 22, 2013

Table of Contents

TREX COMPANY, INC.

160 Exeter Drive

Winchester, Virginia 22603-8605

Annual Meeting of Stockholders

May 1, 2013

PROXY STATEMENT

GENERAL INFORMATION

Proxy Solicitation

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Trex Company, Inc. (the Company) for use at the Company s 2013 annual meeting of stockholders to be held at The George Washington Grand Hotel, 103 East Piccadilly Street, Winchester, Virginia, on Wednesday, May 1, 2013, at 9:00 a.m., local time. The purpose of the annual meeting and the matters to be acted upon are set forth in the accompanying notice of annual meeting.

Record Date and Voting Securities

Only stockholders of record at the close of business on March 4, 2013, the record date for the annual meeting (the record date), will be entitled to notice of and to vote at the annual meeting. As of the record date, we had 17,185,408 shares of common stock outstanding, which are our only securities entitled to vote at the annual meeting. Each share of common stock is entitled to one vote.

A list of stockholders entitled to vote at the annual meeting will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of ten days before the meeting at the Company s offices at 160 Exeter Drive, Winchester, Virginia, and at the time and place of the meeting during the whole time of the meeting.

Electronic Notice and Mailing

Notice of the Company s annual meeting was mailed on or about March 22, 2013 to all stockholders as of the record date.

Those stockholders entitled to vote may vote their shares via the Proxy Card, or via the Internet, telephone or mail, following the instructions printed on the Notice of Availability.

Stockholders who receive a Notice of Availability and would like to receive a printed copy of our proxy materials should follow the instructions for requesting such materials included in the Notice of Availability.

From the date of the mailing of the Notice of Availability until the conclusion of the annual meeting, all of the proxy materials will be accessible on the Company s web site at www.trex.com/2013proxy.

Revocability of Proxies

Stockholders who execute proxies may revoke them by giving written notice to our Corporate Secretary any time before such proxies are voted. Attendance at the annual meeting shall not have the effect of revoking a proxy unless the stockholder so attending shall, in writing, so notify the Secretary of the annual meeting at any time prior to the voting of the proxy at the annual meeting.

Table of Contents

Other Matters

The Board does not know of any matter that is expected to be presented for consideration at the annual meeting, other than the election of directors, a stockholder advisory vote on the compensation of our named executive officers, the approval of material terms for performance-based equity awards under the Trex Company, Inc. 2005 Stock Incentive Plan to qualify such awards as performance-based compensation under Section 162(m) of the Internal Revenue Code, and ratification of the appointment of our independent registered public accounting firm for the current fiscal year. However, if other matters properly come before the annual meeting, the persons named in the accompanying proxy intend to vote thereon in accordance with their judgment.

Solicitation Expenses

We will bear the cost of the annual meeting and the cost of soliciting proxies, including the cost of mailing any proxy materials. In addition to solicitation by mail, our directors, officers and regular employees (who will not be specifically compensated for such services) may solicit proxies by telephone or otherwise. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to forward proxies and proxy material to their principals, and we will reimburse them for their expenses. In addition, we have retained Broadridge Financial Solutions, Inc., or Broadridge, to assist in the mailing, collection, and administration of the proxy.

The annual report to stockholders and the 2012 Annual Report on Form 10-K are not proxy soliciting materials.

Voting Procedures; Abstentions; Broker Voting

All proxies received pursuant to this solicitation will be voted except as to matters where authority to vote is specifically withheld and, where a choice is specified as to the proposal, they will be voted in accordance with such specification. If no instructions are given, the persons named in the proxy solicited by our Board intend to vote:

FOR the nominees for election of our directors listed herein;

FOR approval of the compensation of our named executive officers;

FOR approval of material terms for performance-based equity awards under the Trex Company, Inc. 2005 Stock Incentive Plan to qualify such awards as performance-based compensation under Section 162(m) of the Internal Revenue Code; and

FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.

A majority of the outstanding shares of common stock entitled to vote on the record date, whether present in person or represented by proxy, will constitute a quorum for the transaction of business at the annual meeting and any adjournment or postponement thereof. Abstentions and broker non-votes (which occur with respect to any proposal when a broker holds shares of a customer in its name and is not permitted to vote on that proposal without instruction from the beneficial owner of the shares and no instruction is given) will be counted as present or represented for purposes of establishing a quorum for the transaction of business.

Abstentions and broker non-votes will have no effect on the election of directors, which is by plurality of the votes cast in person or by proxy. Brokers may vote their shares in favor of directors so long as they have voting instructions from the beneficial owners of the shares.

Approval of the compensation of our named executive officers and the approval of material terms for performance-based equity awards under the Trex Company, Inc. 2005 Stock Incentive Plan to qualify such

Table of Contents

awards as performance-based compensation under Section 162(m) of the Internal Revenue Code require the affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote on the matter at the annual meeting. Abstentions from voting on these proposals will have the same effect as a vote against these proposals. Brokers may vote their shares on these proposals so long as they have voting instructions from the beneficial owners of the shares. Broker non-votes will not be treated as votes cast on these matters, and therefore will not have any effect on determining the outcome. As disclosed later in this proxy statement, the vote on approval of the compensation of our named executive officers is advisory, and therefore not binding on the Company, the Compensation Committee or our Board.

Approval of the appointment of Ernst & Young LLP as our independent registered public accounting firm requires the affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and entitled to vote on the matter at the annual meeting. Abstentions from voting on this proposal will have the same effect as a vote against this proposal. Broker non-votes will not be treated as votes cast on this matter, and therefore will not have any effect on determining the outcome.

EXECUTIVE OFFICERS

See Executive Officers and Directors in Part I, Item 1 of our Report on Form 10-K for the information about our executive officers, which is incorporated herein by reference.

Table of Contents

SECURITY OWNERSHIP

The following table presents, as of March 4, 2013, information based upon the Company s records and filings with the SEC regarding beneficial ownership of its common stock by the following persons:

each person known to the Company to be the beneficial owner of more than 5% of the common stock;

each director and each nominee to the Board;

each executive officer of the Company named in the Summary Compensation Table following the Compensation Discussion and Analysis section of this proxy statement; and

all directors and executive officers of the Company as a group.

As of March 4, 2013, there were 17,185,408 shares of common stock outstanding.

The following information has been presented in accordance with SEC rules and is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules, beneficial ownership of a class of capital stock as of any date includes any shares of such class as to which a person, directly or indirectly, has or shares voting power or investment power as of such date and also any shares as to which a person has the right to acquire such voting or investment power as of or within 60 days after such date through the exercise of any stock option, warrant or other right, without regard to whether such right expires before the end of such 60-day period or continues thereafter. If two or more persons share voting power or investment power with respect to specific securities, all of such persons may be deemed to be the beneficial owners of such securities.

Name of Beneficial Owner	**Amount and Nature of Beneficial Ownership**	**Percent of Class (%)(1)**
BlackRock, Inc. (2) 40 East 52nd Street New York, New York 10022	1,318,934	7.7
Barrow, Hanley, Mewhinney & Strauss, LLC (3) 2200 Ross Avenue, 31st Floor Dallas, TX 75201-2761	1,276,375	7.4
Westwood Management Corp (4) 200 Crescent Court, Suite 1200 Dallas, TX 75201	1,062,381	6.2
Investco Ltd. (5) 1555 Peachtree Street NE Atlanta, GA 30309	876,787	5.1
JPMorgan Chase & Co. (6)	875,050	5.1

270 Park Ave. New York, NY 10017		
Ronald W. Kaplan (7)	296,734	1.7
F. Timothy Reese (8)	99,954	*
William R. Gupp (9)	97,129	*
James E. Cline (10)	89,922	*
Patricia B. Robinson (11)	27,434	*
Frank H. Merlotti, Jr. (12)	22,069	*
Richard E. Posey (13)	15,933	*
William F. Andrews (14)	15,238	*
Jay M. Gratz (15)	12,980	*
Paul A. Brunner (16)	3,560	*
Michael F. Golden (17)	2,355	*
All directors and executive officers as a group (14 persons) (18)	700,689	3.9

* Less than 1%.

(1) The percentage of beneficial ownership as to any person as of March 4, 2013 is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power as of or within 60 days after March 4, 2013, by the sum of the number of shares outstanding as of March 4, 2013 plus the number of

shares as to which such person has the right to acquire voting or investment power as of or within 60 days after March 4, 2013. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, the Company believes that the beneficial owners of the Company s common stock listed in the table have sole voting and investment power with respect to the shares shown.

(2) The information concerning BlackRock, Inc. is based on a Schedule 13G filed with the SEC on February 8, 2013, in which the reporting person reports that it has sole voting power and sole dispositive power with respect to all of the shares shown.

(3) The information concerning Barrow, Hanley, Mewhinney & Strauss, LLC is based on a Schedule 13G filed with the SEC on February 11, 2013, in which the reporting person reports that it has sole voting power with respect to 654,585 of the shares shown, shared voting power with respect to 621,790 of the shares shown, and sole dispositive power with respect to all of the shares shown.

(4) The information concerning Westwood Management Corp. is based on a Schedule 13G filed with the SEC on February 12, 2013, in which the reporting person reports that it has sole voting power with respect to 952,858 of the shares shown, shared voting power with respect to 24,123 of the shares shown, and sole dispositive power with respect to all of the shares shown.

(5) The information concerning Investco Ltd. is based on a Schedule 13G filed with the SEC on February 13, 2013, in which the reporting person reports that it has sole voting power with respect to 750,096 of the shares shown, and sole dispositive power with respect to all of the shares shown.

(6) The information concerning JPMorgan Chase & Co. is based on a Schedule 13G filed with the SEC on February 1, 2013, in which the reporting person reports that it has sole voting power with respect to 832,755 of the shares shown, shared voting power with respect to 15 of the shares shown, sole dispositive power with respect to 873,657 of the shares shown and shared dispositive power with respect to 1,393 of the shares shown.

(7) The shares of common stock shown as beneficially owned by Mr. Kaplan include 187,191 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(8) The shares of common stock shown as beneficially owned by Mr. Reese include 57,146 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(9) The shares of common stock shown as beneficially owned by Mr. Gupp include 7,941 shares of common stock that Mr. Gupp has the right to purchase pursuant to the exercise of stock options, and 48,067 stock appreciation rights he has the right to exercise, as of or within 60 days after March 4, 2013.

(10) The shares of common stock shown as beneficially owned by Mr. Cline include 36,002 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(11) The shares of common stock shown as beneficially owned by Ms. Robinson include 5,718 shares of common stock that Ms. Robinson has the right to purchase pursuant to the exercise of stock options, and 20,478 stock appreciation rights he has the right to exercise, as of or within 60 days after March 4, 2013.

(12) The shares of common stock shown as beneficially owned by Mr. Merlotti include 20,831 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(13) The shares of common stock shown as beneficially owned by Mr. Posey include 13,690 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(14) The shares of common stock shown as beneficially owned by Mr. Andrews include 2,000 shares of common stock that Mr. Andrews has the right to purchase pursuant to the exercise of stock options as of or within 60 days after March 4, 2013.

(15) The shares of common stock shown as beneficially owned by Mr. Gratz include 11,742 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(16) The shares of common stock shown as beneficially owned by Mr. Brunner include 2,322 shares of common stock that Mr. Brunner has the right to purchase pursuant to the exercise of stock options as of or within 60 days after March 4, 2013.

(17) The shares of common stock shown as beneficially owned by Mr. Golden include 2,355 stock appreciation rights he has the right to exercise as of or within 60 days after March 4, 2013.

(18) The shares of common stock shown as beneficially owned by all directors and executive officers as a group include a total of 17,981 shares of common stock that they have the right to purchase pursuant to the exercise of stock options, and 402,216 stock appreciation rights they have the right to exercise, as of or within 60 days after March 4, 2013.

Table of Contents

ELECTION OF DIRECTORS

(Proposal 1)

Nominees for Election as Directors

The Company s certificate of incorporation provides that the Board is to be divided into three classes of directors, with the classes to be as nearly equal in number as possible. The current terms of office of the three current classes of directors expire at this annual meeting, at the annual meeting of stockholders in 2014 and at the annual meeting of stockholders in 2015, respectively. Upon the expiration of the term of office of each class, the nominees for such class will be elected for a term of three years to succeed the directors whose terms of office expire.

In accordance with the recommendation of the Nominating/Corporate Governance Committee, Paul A. Brunner, Michael F. Golden and Richard E. Posey have been nominated by the Board for election to the class with a three-year term that will expire at the annual meeting of stockholders in 2016. These nominees are incumbent directors. Mr. Brunner has served on the Board since his appointment as a director in February 2003. Mr. Golden has served on the Board since his appointment as a director in February 2013. Mr. Posey has served on the Board since his appointment as a director in May 2009.

On February 12, 2013, William F. Andrews, whose current term of service on the Board expires on the date of this annual meeting, informed the Board of his decision not to stand for re-election. The number of authorized directors of the Company is currently set at eight. Immediately following the annual meeting, as a result of Mr. Andrew s decision not to stand for re-election, the number of authorized directors will be reduced to seven.

Approval of Nominees

Approval of the nominees requires the affirmative vote of a plurality of the votes cast at the annual meeting. Unless authority to do so is withheld, it is the intention of the persons named in the proxy to vote such proxy **FOR** the election of each of the nominees. If any of the nominees should become unable or unwilling to serve as a director, the persons named in the proxy intend to vote for the election of such substitute nominee for director as the Board may recommend. It is not anticipated that any of the nominees will be unable or unwilling to serve as a director.

The Board unanimously recommends that the stockholders of the Company vote FOR the election of the nominees to serve as directors.

Information About Nominees and Continuing Directors

Biographical information concerning each of the nominees and each of the directors continuing in office is presented below.

Nominees for Election for Three-Year Terms

Name	Age	Director Since
Paul A. Brunner	77	2003
Michael F. Golden	59	2013
Richard E. Posey	66	2009

Paul A. 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

Table of Contents

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. Mr. Brunner served as a director of Johnson Controls, Inc. from 1983 through 2007, and as Chairman of its Audit Committee from 1989 to 2005. 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.

Mr. Brunner was nominated by the Nominating/Corporate Governance Committee in 2003 and renominated this year specifically due to his professional experience as a Certified Public Accountant and his past involvement as Chairman of Johnson Controls, Inc. s Audit Committee. In addition, the Committee believed he would benefit the Board in serving as Chairman of the Audit Committee.

Michael F. Golden currently serves as Co-Vice Chairman of the Board of Directors of Smith and Wesson Holding Corporation, a manufacturer of firearms and firearms-related products and accessories, and served as President and Chief Executive Officer of such company from December 2004 until his retirement in September 2011. Mr. Golden was employed in various executive positions with the Kohler Company, which manufactures kitchen and bath plumbing fixtures, furniture, tile, engines, and generators, and operates resorts, from February 2002 until December 2004, with his most recent position being the President of its Cabinetry Division. Mr. Golden was the President of Sales for the Industrial/Construction Group of the Stanley Works Company, which manufactures tools and hardware, from 1999 until 2002; Vice President of Sales for Kohler s North American Plumbing Group from 1996 until 1998; and Vice President, Sales and Marketing for a division of The Black & Decker Corporation, which manufactures tools and hardware, where he was employed from 1981 until 1996. Mr. Golden also serves on the Board of Directors of Infinity Resources Holding Company. He received a B.S. degree in Marketing from Pennsylvania State University and a M.B.A. degree from Emory University.

Mr. Golden was appointed by the Board, upon recommendation of the Nominating/Corporate Governance Committee, on February 12, 2013, specifically because the Committee felt it was important to find and include an additional member with experience as a chief executive officer and experience in growing branded consumer products companies.

Richard E. Posey served as President and Chief Executive Officer of Moen Incorporated, a manufacturer of faucets, 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., a manufacturer of small kitchen appliances, for five years. Mr. Posey began his career at S.C. Johnson & Son, a supplier of cleaning and other household products, 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 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.

Mr. Posey was appointed by the Board, upon recommendation of the Nominating/Corporate Governance Committee, on May 6, 2009, specifically because the Committee felt it was important to find and include a member with consumer product experience. Mr. Posey was primarily chosen due to his professional experience as a chief executive of a number of consumer product companies, and his experience in sales and marketing of consumer products.

Directors Whose Terms Expire in 2014

Name	Age	Director Since
Jay M. Gratz	60	2007
Ronald W. Kaplan	61	2008

Table of Contents

Jay M. Gratz has served as the Chief Financial Officer of VisTracks, Inc., an application enabling platform service provider, since March 2010, and a director of such company since April 2010. 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, a steel company, 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.

Mr. Gratz was nominated by the Nominating/Corporate Governance Committee in 2007 specifically because the Committee felt it was important to find a member with extensive financial experience. Mr. Gratz was nominated by the Committee because he was a Certified Public Accountant, a chief financial officer of another respected public company, and had experience dealing with a wide-range of financial issues that the Committee felt would be beneficial to the Company. Mr. Gratz was also chosen because the Committee believed that Mr. Gratz could potentially serve as Chairman of the Audit Committee in the future.

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 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. For 26 years prior to this, he 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 2005, as President of Harsco s Gas Technologies Group, which manufactures containment and control equipment for the global gas industry. He received a B.A. in economics from Alfred University and an M.B.A. degree from the Wharton School of Business, University of Pennsylvania.

Mr. Kaplan was hired by the Company in January 2008 as its President and Chief Executive Officer. The Nominating/Corporate Governance Committee believed that the Board would greatly benefit from someone with extensive manufacturing experience and believed that the Chief Executive Officer of the Company should serve on the Board. Therefore, Mr. Kaplan was nominated by the Nominating/Corporate Governance Committee in 2008 due to his professional experience as a chief executive of a number of manufacturing companies, including leading companies through financial and operational turnarounds , which the Committee felt was important experience for the Company at that time.

Directors Whose Terms Expire in 2015

Name	Age	Director Since
Frank H. Merlotti, Jr.	62	2006
Patricia B. Robinson	60	2000

Frank H. Merlotti, Jr. has served as President of the Coalesse business unit of Steelcase, Inc., a manufacturer of office furniture and furniture systems, since October 2006, and 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.

Table of Contents

Mr. Merlotti was nominated by the Nominating/Corporate Governance Committee in 2006 due to his professional experience as a chief executive of a consumer product company, and his experience in sales and marketing of consumer products.

Patricia B. 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. She 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.

Ms. Robinson was nominated by the Nominating/Corporate Governance Committee in 2000 as one of the first outside independent directors of the Company due to her professional experience as a President of a consumer products company and her experience with strategic planning and new product introductions.

As previously reported, commencing on July 8, 2005, two lawsuits, both of which sought certification as a class action, were filed in the United States District Court for the Western District of Virginia naming as defendants the Company, Robert G. Matheny, a director and the former Chairman and Chief Executive Officer, and Paul D. Fletcher, the former Senior Vice President and Chief Financial Officer. Following agreement by the plaintiffs and the defendants that the two lawsuits should be consolidated, the plaintiffs filed a consolidated class action complaint. The complaints principally alleged that the Company, Mr. Matheny and Mr. Fletcher violated Sections 10(b) and 20(a) of and Rule 10b-5 under the Securities Exchange Act of 1934 by, among other things, making false and misleading public statements concerning the Company s operating and financial results and expectations. The complaints also alleged that certain directors of the Company sold shares of the Company s common stock at artificially inflated prices. On October 6, 2006, the District Court granted the Company s Motion to Dismiss the claim. Two separate derivative lawsuits were filed in the United States District Court for the Western District of Virginia on or about August 5, 2005 naming as defendants Mr. Matheny, Mr. Fletcher, and each of the directors of the Company. The filed complaints were based upon the same factual allegations as the complaints in the class action lawsuits, and alleged that the directors and Mr. Fletcher breached their fiduciary duties by permitting the Company to issue false and misleading public statements concerning the Company s operating and financial results, and also alleged that directors of the Company sold shares of the Company s common stock at artificially inflated prices. On December 22, 2005, the two derivative actions were consolidated. On February 19, 2007, the plaintiffs signed a Stipulation of Dismissal dismissing the derivative lawsuits, and on March 26, 2007, the Court issued an Order of Dismissal.

Board of Directors and Committees of the Board of Directors

The Board currently consists of eight directors. Mr. Golden was appointed by the Board, upon recommendation of the Nominating/Corporate Governance Committee, on February 12, 2013. On February 12, 2013, William F. Andrews, whose current term of service on the Board expires on the date of this annual meeting, informed the Board of his decision not to stand for re-election. Immediately following the annual meeting, as a result of Mr. Andrew s decision not to stand for re-election, the Board shall consist of seven members.

The Board has a standing Audit Committee, a standing Compensation Committee and a standing Nominating/Corporate Governance Committee. The Board held six meetings during the Company s 2012 fiscal year. During 2012, each director attended at least 75% of the aggregate of the total number of meetings of the Board and of each committee of the Board on which such director served.

It is the Company s policy that all directors should attend the annual meetings of the Company s stockholders. All of the directors attended the annual meeting of stockholders in 2012.

Table of Contents

The Board does not have a strict retirement age for directors. However, the Board does believe that once a director attains a certain age, the Board should carefully consider whether such director s continued service on the Board is in the best interests of the Company. Accordingly, in December 2012, the Board amended the Company s Corporate Governance Principles to provide that at the adjournment of each annual meeting of stockholders, any director who is then age 75 or older shall tender his or her resignation to the Board, at which time the Board may elect to either accept such resignation or request that such director continue to serve on the Board. Mr. Brunner will be age 77 if elected at this annual meeting. However, the Board has indicated to Mr. Brunner that it will not accept his resignation at the adjournment of this annual meeting and shall request that Mr. Brunner continue to serve on the Board.

Board Leadership Structure and Risk Oversight

Our board leadership structure is currently composed of a combined Chairman of the Board of Directors and Chief Executive Officer, a Lead Independent Director, an independent Audit Committee Chairman, an independent Compensation Committee Chairman, and an independent Nominating/Corporate Governance Committee Chairman. Mr. Kaplan is the Company s President, Chief Executive Officer and Chairman of the Board, and he was hired by the Company in January 2008. Mr. Kaplan has served as President and Chief Executive Officer since January 2008, and Chairman since the retirement in May 2010 of Andrew U. Ferrari, the former Chief Executive Officer of the Company. After careful consideration and considering Mr. Kaplan s strong leadership since he joined the Company in January 2008, the Board determined it appropriate for the Chairman and the CEO to be the same individual following Mr. Ferrari s retirement. In making this determination, the Board also considered the relative size of the Company, the size of the Board and the fact that all remaining members of the Board are independent. The Board believes that having a combined role enhances the ability to provide insight and direction on important strategic initiatives to both management and the Board and increases the likelihood that the Company acts with a common purpose. Separating the roles would potentially result in less effective management and governance processes through undesirable duplication of work and, in worst case, lead to a blurring of the current clear lines of accountability and responsibility. The Company s overall corporate governance policies and practices adequately address any governance concerns raised by the dual CEO and Chairman role. In addition, the Board determined that there are other members of the executive management team that are well versed in all aspects of the Company and who are familiar with the roles and responsibilities of the Chairman/CEO in the event that the Chairman/CEO is unavailable.

Mr. Gratz is the Company s Lead Independent Director, and he is currently serving a term of two years, which ends May 2014. Mr. Gratz is an experienced former public company Executive Vice President and Chief Financial Officer. (For additional information regarding Mr. Gratz s professional experience, please see *Proposal 1 Election of Directors* .) As our Lead Independent Director, and pursuant to the Company s Corporate Governance Principles, the responsibilities of the Lead Independent Director may include: presiding at executive sessions of the independent directors; presiding at Board meetings in the absence of the Chairman; making recommendations and consulting with management with regard to Board meeting agendas, materials and schedules; and serving as a liaison between the independent directors and members of senior management.

Our Board also has three key committees: the Audit Committee, chaired by Mr. Brunner; the Compensation Committee, chaired by Mr. Andrews; and the Nominating/ Corporate Governance Committee, chaired by Ms. Robinson. Each of these committees plays an important role in the governance and leadership of our Board and each is chaired by an independent director with significant business experience.

The Board of Directors Role in Risk Oversight. Our Board recognizes the importance of effective risk oversight in running a successful business and in fulfilling its fiduciary responsibilities to the Company and its stockholders. While the Chairman and Chief Executive Officer and other members of our senior leadership team are responsible for the day-to-day management of risk, our Board is responsible for ensuring that an appropriate culture of risk management exists within the Company and for setting the right tone at the top, overseeing our aggregate risk profile, and assisting management in addressing specific risks, such as strategic and competitive risks, financial risks, brand and reputation risks, legal risks, regulatory risks, and operational risks.

Table of Contents

The Board believes that its current leadership structure best facilitates its oversight of risk by combining independent leadership, through the Lead Independent Director, independent board committees, and majority independent board composition, with an experienced Chairman and Chief Executive Officer who has intimate knowledge of our business, history, and the complex challenges we face. The Chairman and Chief Executive Officer s in-depth understanding of these matters and involvement in the day-to-day management of the Company uniquely positions him to promptly identify and raise key business risks to the Board, call special meetings of the Board when necessary to address critical issues, and focus the Board s attention on areas of concern. The Lead Independent Director, independent committee chairs and other directors also are experienced professionals or executives who can and do raise issues for Board consideration and review, and are not hesitant to challenge management. The Board believes there is a well-functioning and effective balance between the Lead Independent Director, non-executive independent board members and the Chairman and Chief Executive Officer, which enhances risk oversight.

The Board exercises its oversight responsibility for risk both directly and through its three standing committees. Throughout the year, the Board and each committee spend a portion of their time reviewing and discussing specific risk topics. The full Board is kept informed of each committee s risk oversight and related activities through regular oral reports from the committee chairs, and committee meeting minutes are available for review by all directors. Strategic, operational and competitive risks also are presented and discussed at the Board s quarterly meetings, and more often as needed. On at least an annual basis, the Board conducts a review of our long-term strategic plans and members of senior management report on our top risks and the steps management has taken or will take to mitigate these risks. In addition, at each quarterly meeting, or more often as necessary, the General Counsel updates the Board on material legal and regulatory matters. On a regular basis between Board meetings, our Chairman and Chief Executive Officer provides written reports to the Board on the critical issues we face and recent developments in each of our principal operating areas. These reports include a discussion of business risks as well as a discussion regarding enterprise risk.

The Audit Committee is responsible for reviewing the framework by which management discusses our risk profile and risk exposures with the full Board and its committees. The Audit Committee meets regularly with our Chief Financial Officer, independent auditor, internal auditor, General Counsel, and other members of senior management to discuss our major financial risk exposures, financial reporting, internal controls, credit and liquidity risk, compliance risk, and key operational risks. The Audit Committee meets regularly in separate executive sessions with the independent auditor and internal auditor, as well as with committee members only, to facilitate a full and candid discussion of risk and other issues.

The Compensation Committee is responsible for overseeing human capital and compensation risks, including evaluating and assessing risks arising from our compensation policies and practices for all employees and ensuring executive compensation is aligned with performance. The Compensation Committee also is charged with monitoring our incentive and equity-based compensation plans, including employee pension and benefit plans.

The Nominating/ Corporate Governance Committee oversees risks related to our overall corporate governance, including Board and committee composition, Board size and structure, Board compensation, director independence, and our corporate governance profile and ratings. The Committee also is actively engaged in overseeing risks associated with succession planning for the Board and management.

Director Independence. The Board has affirmatively determined that all of the current directors, other than Mr. Kaplan, who is the Company s Chairman, President and Chief Executive Officer, are independent of the Company within the meaning of the rules governing companies listed on the New York Stock Exchange, or NYSE . For a director to be independent under the NYSE rules, the Board must affirmatively determine that the director has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company.

Table of Contents

The Board has adopted the following categorical standards of independence to assist it in determining whether a director has a material relationship with the Company. The following relationships between a director and the Company will not be considered material relationships that would preclude a finding by the Board that the director is independent under the NYSE rules:

employment of the director or the director s immediate family member by another company that makes payments to, or receives payments from, the Company or any of its subsidiaries for property or services in an amount which, in any single fiscal year, does not exceed the greater of $1 million or 2% of such other company s consolidated gross revenues; and

a relationship of the director or the director s immediate family member with a charitable organization, as an executive officer, board member, trustee or otherwise, to which the Company or any of its subsidiaries has made charitable contributions of not more than $50,000 annually in any of the last three years.

Consistent with the NYSE rules, the Company s corporate governance principles require the Company s non-management directors to meet at least once each quarter without management present and, if the group of non-management directors includes any director who is not independent under NYSE rules, to meet at least once each year with only the independent directors present. During 2012, all of the Company s non-management directors were independent under NYSE rules. The Company s non-management directors held five executive sessions in 2012. Mr. Gratz, as Lead Independent Director, acted as presiding director for each such executive session of non-management directors, and was responsible for advising the Chairman of the Board of decisions reached, and of recommendations for action by the Board made, at each such meeting.

Audit Committee. The Audit Committee of the Board is a standing committee composed of four non-employee directors who meet the independence and expertise requirements of the NYSE listing standards. Pursuant to SEC rules, the Board has designated Paul A. Brunner as its audit committee financial expert, as such term is defined for purposes of Item 407 of Regulation S-K promulgated by the SEC, and is independent of management. The Audit Committee, which held six meetings during 2012, currently consists of Mr. Brunner, who is the Chairman, Mr. Gratz, Mr. Merlotti and Mr. Posey.

The Audit Committee operates under a written charter that is reviewed annually. The Audit Committee is responsible, among its other duties, for engaging, overseeing, evaluating and replacing the Company s independent registered public accounting firm, pre-approving all audit and non-audit services by the independent registered public accounting firm, reviewing the scope of the audit plan and the results of each audit with management and the independent registered public accounting firm, reviewing the internal audit function, reviewing the adequacy of the Company s system of internal controls over financial reporting and disclosure controls and procedures, reviewing the financial statements and other financial information included in the Company s annual and quarterly reports filed with the SEC, and exercising oversight with respect to the Company s code of conduct and ethics and other policies and procedures regarding adherence with legal requirements. The Audit Committee has the authority to retain and terminate any third-party consultants and to obtain advice and assistance from internal and external legal, accounting and other advisers. The Audit Committee is authorized to delegate its authority to subcommittees as determined to be necessary or advisable. A current version of the Audit Committee charter is available through the Company s web site at www.trex.com.

Compensation Committee. The Compensation Committee of the Board is a standing committee composed of four non-employee directors who meet the independence requirements of the NYSE listing standards. The Compensation Committee, which held five meetings during 2012, currently consists of Mr. Andrews, who is the Chairman, Mr. Gratz, Mr. Posey and Ms. Robinson. Mr. Posey became a member of the Compensation Committee on May 2, 2012, and Mr. Merlotti, who was formerly a member of the Compensation Committee, ceased to be a member of the Compensation Committee on May 2, 2012.

The Compensation Committee operates under a written charter that is reviewed annually. Pursuant to its charter, the principal functions of the Compensation Committee are to review, determine and approve the

Table of Contents

compensation and benefits of the Company s Chief Executive Officer, or CEO, and the other executive officers named in the Summary Compensation Table following the Compensation Discussion and Analysis section of this proxy statement, or named executive officers, as well as Vice Presidents who report directly to the CEO, and to administer the Company s employee benefit programs, including its 2005 Stock Incentive Plan, 1999 Employee Stock Purchase Plan, annual cash incentive plan, long-term equity incentive plan and other incentive compensation plans, benefits plans and equity-based plans. The Compensation Committee has the authority to retain and terminate any third-party compensation consultant and to obtain advice and assistance from internal and external legal, accounting and other advisers. (See the *Compensation Discussion and Analysis* section of this proxy statement for information regarding the practices of the Compensation Committee, including the role of the executive officers and the Compensation Committee s compensation consultant in determining or recommending the amount and form of compensation paid to the named executive officers.) The Compensation Committee is authorized to delegate its authority to subcommittees as determined to be necessary or advisable. A current version of the Compensation Committee charter is available through the Company s web site at www.trex.com.

Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee of the Board is a standing committee composed of four non-employee directors who meet the independence requirements of the NYSE listing standards. The Nominating/Corporate Governance Committee, which held five meetings during 2012, currently consists of Ms. Robinson, who is the Chairman, Mr. Andrews, Mr. Brunner and Mr. Merlotti. Mr. Merlotti became a member of the Nominating/Corporate Governance Committee on May 2, 2012, and Mr. Posey, who was formerly a member of the Nominating/Corporate Governance Committee, ceased to be a member of the Nominating/Corporate Governance Committee on May 2, 2012.

The Nominating/Corporate Governance Committee operates under a written charter that is reviewed annually. The Nominating/Corporate Governance Committee is responsible for recommending candidates for election to the Board and for making recommendations to the Board regarding corporate governance matters, including Board size and membership qualifications, Board committees, corporate organization, non-employee director compensation, succession planning for officers and key executives, programs for training and development of executive-level employees, and stockholder proposals regarding these matters. The Nominating/Corporate Governance Committee has the authority to retain and terminate any search firm engaged to identify director candidates, and to obtain advice and assistance from outside counsel and any other advisors, as it deems appropriate in its sole discretion. The Nominating/Corporate Governance Committee is authorized to delegate its authority to subcommittees as determined to be necessary or advisable. A current version of the Nominating/Corporate Governance Committee charter is available through the Company s web site at www.trex.com.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee was an officer or employee of the Company or any subsidiary of the Company during 2012. There are no interlock relationships as defined in the applicable SEC rules.

Director Nominations Policy

The Board has, by resolution, adopted a director nominations policy. The purpose of the nominations policy is to set forth the process by which candidates for possible inclusion in the Company s recommended slate of director nominees are selected. The nominations policy is administered by the Nominating/Corporate Governance Committee of the Board.

The Board does not currently prescribe any minimum qualifications for director candidates. Consistent with the criteria for the selection of directors approved by the Board, the Nominating/Corporate Governance Committee will take into account the Company s current needs and the qualities needed for Board service, including experience and achievement in business, finance, technology or other areas relevant to the Company s activities; reputation, ethical character and maturity of judgment; diversity of viewpoints, backgrounds and experiences; absence of conflicts of interest that might impede the proper performance of the responsibilities of a

Table of Contents

director; independence under SEC and NYSE rules; service on other boards of directors; sufficient time to devote to Board matters; ability to work effectively and collegially with other Board members; and diversity. In considering the diversity of candidates, the Committee considers an individual s background, professional experience, education and skill, race, gender and/or national origin. In the case of incumbent directors whose terms of office are set to expire, the Nominating/Corporate Governance Committee will review such directors overall service to the Company during their term, including the number of meetings attended, level of participation, quality of performance and any transactions of such directors with the Company during their term. For those potential new director candidates who appear upon first consideration to meet the Board s selection criteria, the Nominating/Corporate Governance Committee will conduct appropriate inquiries into their background and qualifications and, depending on the result of such inquiries, arrange for in-person meetings with the potential candidates.

The Nominating/Corporate Governance Committee may use multiple sources for identifying director candidates, including its own contacts and referrals from other directors, members of management, Trex Company s advisers, and executive search firms. The Committee will consider director candidates recommended by stockholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources. The Nominating/Corporate Governance Committee has used in the past, and may use in the future, the services of an executive search firm to help identify candidates for directors who meet the qualifications outlined above. The search firm screens the candidates, conducts reference checks, prepares a biography of each candidate for committee review and assists in arranging interviews. In making recommendations for director nominees for the annual meeting of stockholders, the Nominating/Corporate Governance Committee will consider any written recommendations of director candidates by stockholders received by the Secretary of the Company no later than 120 days before the anniversary of the previous year s annual meeting of stockholders. Recommendations must include the candidate s name and contact information and a statement of the candidate s background and qualifications, and must be mailed to Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605, Attention: Secretary.

The nominations policy is intended to provide a flexible set of guidelines for the effective functioning of the Company s director nominations process. The Nominating/Corporate Governance Committee intends to review the nominations policy as it considers advisable and anticipates that modifications may be necessary from time to time as the Company s needs and circumstances evolve, and as applicable legal or listing standards change. The Nominating/Corporate Governance Committee may amend the nominations policy at any time.

The Company s bylaws provide that any stockholder wishing to nominate persons for election as directors at an annual meeting must deliver to the Secretary of the Company at the Company s principal office in Winchester, Virginia a written notice of the stockholder s intention to make such a nomination. The stockholder generally is required to furnish the notice no earlier than 120 days and no later than 90 days before the first anniversary of the preceding year s annual meeting. The notice must include the following information: (1) such information regarding each proposed nominee as would be required to be disclosed under SEC rules and regulations in solicitations of proxies for the election of directors in an election contest or otherwise; (2) the written consent of each proposed nominee to serve as a director of the Company; and (3) as to the stockholder giving the notice and the beneficial owner, if any, of common stock on whose behalf the nomination is made, (a) the name and address of record of such stockholder and the name and address of such beneficial owner, (b) the class and number of shares of the Company s capital stock that are owned beneficially and of record by such stockholder and such beneficial owner, (c) a representation that the stockholder is a holder of record of the Company s capital stock entitled to vote at such meeting and intends to appear, in person or by proxy, at the meeting to propose such nomination, and (d) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group that intends to (A) deliver a proxy statement or form of proxy to holders of at least the percentage of the Company s outstanding capital stock required to elect the nominee, or (B) otherwise solicit proxies for stockholders in support of such nomination. The Company may require any proposed nominee to furnish such other information as the Company may reasonably require to determine the eligibility of such proposed nominee to serve as a director of Trex Company.

Table of Contents

Communications with the Board of Directors

The Board welcomes communications from its stockholders and other interested parties and has adopted a procedure for receiving and addressing those communications. Stockholders and other interested parties may communicate any concerns they may have about the Company directly and confidentially to the full Board, to the non-management directors as a group, or to any individual director, at the following address: Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605, Attention: Secretary. A stockholder or other interested party may also call the Company s governance hotline at 1-800-719-4916. An independent third-party vendor maintains the Company s governance hotline, and all calls are forwarded to the Chairman of the Audit Committee, the Company s Secretary and the Company s Chief Financial Officer. To maintain the caller s anonymity, calls are passed through proprietary filters to mask the caller s voice and the originating phone number is removed from the associated audio file. A caller wishing to be identified may indicate his or her name in the message. If the caller wishes to submit relevant documents, the documents should be mailed to the following address: Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605, Attention: Secretary. The Company s Secretary will review and forward all stockholder communications and other communications from interested parties to the intended recipient, except for those communications that are outside the scope of Board matters or duplicative of other communications by the applicable person.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers and persons who own more than 10% of the Company s common stock to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. The reporting persons are required by rules of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon a review of Section 16(a) reports furnished to the Company for fiscal 2012 or written representations that no other reports were required, the Company believes that the foregoing reporting persons complied with all filing requirements for fiscal 2012.

Availability of Corporate Governance Principles, Code of Conduct and Ethics, and Committee Charters

The Company makes available on its web site at www.trex.com and in paper form without charge, copies of its corporate governance principles, its code of conduct and ethics, and the charters of each standing committee of its Board. Requests for copies of these documents should be directed to Trex Company, Inc., 160 Exeter Drive, Winchester, Virginia 22603-8605, Attention: Secretary.

Director Compensation

Non-employee directors of the Company receive cash and stock-based compensation under the Trex Company, Inc. Amended and Restated 1999 Incentive Plan for Outside Directors, or Outside Director Plan. The Outside Director Plan is administered by the Nominating/Corporate Governance Committee. All stock-based grants awarded as compensation to non-employee directors are issued under the Trex Company, Inc. 2005 Stock Incentive Plan, or 2005 Stock Incentive Plan, which was approved by stockholders at the Company s 2005 annual meeting.

The Nominating/Corporate Governance Committee is responsible for making recommendations to the Board regarding non-employee director compensation. In accordance with this authority, the Nominating/Corporate Governance Committee utilized the Compensation Committee s compensation consultant, Hay Group, in 2012 to advise the Nominating/Corporate Governance Committee on matters related to director compensation. Hay Group s engagement with the Company does not create any conflicts of interest with any of Hay Group s existing or former clients.

The Company s director compensation program was reviewed by Hay Group in 2012, and such review indicated that the non-employee directors total annual compensation (consisting of cash and stock-based compensation) was approximately at the 25th percentile of the Company s peer group. (See discussion of our peer

Table of Contents

group under the *Benchmarking* section of *Compensation Discussion and Analysis* under *How do we determine executive pay*.) Based upon the Nominating/Corporate Governance s desire to have director compensation approximate the median of its peer group, Hay Group provided pay level and pay structure alternatives for the Committee s consideration. Based on Hay Group s analysis, the Board approved certain modifications to the Outside Director Plan in July 2012. Such modifications were as follows:

The annual fee for service on the Board was increased from $27,500 to $40,000. The provision for meeting fees of $1,000 for each Board meeting held personally and $500 for each Board meeting held telephonically was deleted. The annual fee for any non-employee director serving as Chairman of the Board was increased from $54,000 to $70,000 (which is paid in lieu of the $40,000 otherwise payable).

The annual equity award for service on the Board was increased from a total value of $30,000, split evenly between restricted shares and stock appreciation rights, or SARs , or stock options, to $55,000, to be comprised entirely of restricted shares. The provision that any non-employee director serving as Chairman of the Board would receive $25,361 in cash in lieu of the equity grant was deleted.

The annual fee for membership on the Audit Committee was increased from $6,500 to $7,500, the annual fee for membership on the Compensation Committee was increased from $4,000 to $5,000, and the annual fee for membership on the Nominating and Corporate Governance Committee was increased from $3,500 to $5,000. The provision for meeting fees of $1,000 for each Committee meeting held personally and $500 for each Committee meeting held telephonically, in each case not held in conjunction with a Board meeting, was deleted.

The initial equity grant to directors when first elected to the Board, comprised of SARs or stock options, was increased from $28,800 to $55,000.

As a result of these modifications, the elements of the non-employee director compensation package under the Outside Director Plan are as follows:

Upon initial appointment to the Board, non-employee directors receive awards of SARs or stock options valued at $55,000 (based on the Black-Scholes valuation model of the Company s shares).

For service on the Board, each non-employee director receives an annual fee of $40,000, and an annual award of restricted shares valued at $55,000 based upon the closing market price of the Company stock on the day of the grant. Any non-employee director who serves as Chairman of the Board will receive $70,000, in lieu of the $40,000 annual fee. Any director serving as Lead Independent Director will receive an additional $12,500.

The chairman of the Audit Committee receives an annual committee fee of $12,500, and the chairman of the Compensation Committee and the Nominating/Corporate Governance Committee each receive an annual committee fee of $7,500.

Each member of the Audit Committee (other than the chairman) receives an annual committee fee of $7,500, and each member of the Compensation Committee and the Nominating/Corporate Governance Committee (other than the respective chairman) receives an annual committee fee of $5,000.

The $40,000 annual director fee and the annual committee fees are paid in four equal quarterly installments in arrears on the first business day following each quarter of the fiscal year in which the eligible director completes board or committee service. Such fees are paid in the form of cash, provided that a director may elect to receive all or any portion of such fees in the form of grants of 50%

SARs or stock options (based on the Black-Scholes valuation model of the Company s shares) and 50% restricted shares (based upon the closing market price of the Company s stock on the day of the grant). The fiscal year of the Outside Director Plan is July 1 through June 30.

The annual grants of restricted shares are made in arrears on the date of the first regularly scheduled Board meeting after June 30 of each year.

16

Table of Contents

All grants of restricted shares vest one year after grant provided that the grants will immediately vest in the event of death, disability, retirement at the end of a term, or termination in connection with a change in control. All grants of SARs or stock options vest immediately upon grant and have a term of ten years (provided that the term is extended for one year if the director dies during the tenth year of the SAR or stock option term). Upon the termination of a non-employee director s service for any reason (other than for cause), the director will have the right, at any time within five years after the date of termination of service and before the termination of the SAR or stock option, to exercise any SAR or stock option held by the director on the service termination date.

All fees described above paid in arrears are pro-rated for any partial periods served.

The Outside Director Plan, as amended in 2012, is designed to deliver annual cash compensation at the median, and equity compensation slightly above the median, of the Company s peer group. The Outside Director Plan, as amended, is designed to deliver compensation approximately 50% in cash and 50% in equity (assuming a director does not elect to receive additional equity in lieu of cash, as discussed above), with the objective of appropriately balancing the pay of non-employee directors for their service while linking their compensation closely to returns to stockholders through the potential for enhanced value from future stock price appreciation. Directors are also reimbursed for actual travel expenses.

The Company does not provide pensions, medical benefits or other benefit programs to non-employee directors.

The table below shows compensation paid to the non-employee directors for their service in 2012.

2012 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	SAR Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
William F. Andrews (2)	48,500	15,000	15,000				78,500
Paul A. Brunner (3)	53,000	15,000	15,000				83,000
Jay M. Gratz (4)	60,750	15,000	15,000				90,750
Frank H. Merlotti Jr. (5)	47,750	15,000	15,000				77,750
Richard E. Posey (6)	24,002	27,000	27,000				78,002
Patricia B. Robinson (7)	48,750	15,000	15,000				78,750

(1) Amounts represent the grant date fair value determined in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in note 8 to the Company s audited financial statements in the 2012 Form 10-K, as filed with the SEC.

(2) Mr. Andrews served as the chairman of the Compensation Committee and as a member of the Nominating/Corporate Governance Committee in 2012. Mr. Andrews did not elect to receive any of his cash compensation in the form of SARs or restricted shares.

(3) Mr. Brunner served as the chairman of the Audit Committee and as a member of the Nominating/Corporate Governance Committee in 2012. Mr. Brunner did not elect to receive any of his cash compensation in the form of SARs or restricted shares.

(4) Mr. Gratz served as a member of the Audit Committee and the Compensation Committee, and as Lead Independent Director, in 2012. Mr. Gratz did not elect to receive any of his cash compensation in the form of SARs or restricted shares.

Table of Contents

(5) Mr. Merlotti served as a member of the Audit Committee, the Compensation Committee and the Nominating/Corporate Governance Committee in 2012. Mr. Merlotti did not elect to receive any of his cash compensation in the form of SARs or restricted shares.

(6) Mr. Posey served as member of the Audit Committee, the Nominating/Corporate Governance Committee and the Compensation Committee in 2012. Mr. Posey elected to receive $24,000 of his cash compensation in the form of SARs and restricted shares.

(7) Ms. Robinson served as the chairman of the Nominating/Corporate Governance Committee and as a member of the Compensation Committee in 2012. Ms. Robinson did not elect to receive any of her cash compensation in the form of SARs or restricted shares.

2012 DIRECTOR EQUITY AWARDS

Name	Grant Date	Number of Securities Underlying Options (#)(1)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards ($)(2)	Number of Shares of Stock or Units (#)(3)	Grant Date Fair Value of Stock or Units ($)(2)
William F. Andrews	7/24/2012(4)	964	28.35	15,000	529	15,000
Paul A. Brunner	7/24/2012(4)	964	28.35	15,000	529	15,000
Jay M. Gratz	7/24/2012(4)	964	28.35	15,000	529	15,000
Frank H. Merlotti	7/24/2012(4)	964	28.35	15,000	529	15,000
Richard E. Posey	1/3/2012(5)	215	23.06	2,719	117	2,719
	4/1/2012(5)	154	31.91	2,719	85	2,719
	7/2/2012(5)	159	31.07	2,719	87	2,719
	7/24/2012(4)	964	28.35	15,000	529	15,000
	10/1/2012(5)	174	34.52	3,281	95	3,281
Patricia B. Robinson	7/24/2012(4)	964	28.35	15,000	529	15,000

(1) All grants of SARs vest immediately upon grant and have a term of ten years (provided that the term is extended for one year if the director dies during the tenth year of the SAR term).

(2) Amounts represent the grant date fair value determined in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in note 8 to the Company s audited financial statements in the 2012 Form 10-K, as filed with the SEC.

(3) All grants of restricted shares vest one year after grant provided that the grants will immediately vest in the event of death, disability, retirement at the end of a term, or termination in connection with a change in control.

(4) Reflects annual award of SARs and restricted stock to the Board.

(5) Reflects an award of SARs and restricted stock received in lieu of a percentage of cash compensation as elected by the director prior to the beginning of the fiscal year.

18

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This section describes the Company s compensation program for its Chief Executive Officer (CEO), its Chief Financial Officer (CFO), and its three other mostly highly compensated executive officers for fiscal year 2012, all of whom are referred to collectively as its named executive officers. For fiscal 2012, the Company s named executive officers were:

Ronald W. Kaplan, Chairman, President and Chief Executive Officer;

James E. Cline, Vice President and Chief Financial Officer;

F. Timothy Reese, Vice President, Operations;

William R. Gupp, Chief Administrative Officer, General Counsel and Secretary; and

J. Mitchell Cox, Vice President, Sales. (Mr. Cox s employment with the Company terminated on June 21, 2012.)

This Compensation Discussion and Analysis focuses on the material elements of our executive compensation program in effect for the 2012 fiscal year. It also provides an overview of our executive compensation philosophy and why we believe the program is appropriate for the Company and its stockholders. Finally, we discuss the Compensation Committee s methodology for determining appropriate and competitive levels of compensation for the named executive officers. Details of compensation paid to the named executive officers can be found in the tables below.

Our executive compensation program is intended to align our named executive officers interests with those of our stockholders by rewarding performance that meets or exceeds the goals the Compensation Committee establishes with the objective of increasing stockholder value. In line with our pay for performance philosophy, the total compensation received by our named executive officers will vary based on individual and corporate performance measured against annual and long-term performance goals. Our named executive officers total compensation is comprised of a mix of base salary, annual cash incentive compensation and long-term equity incentive awards.

2012 Say on Pay Results and Considerations

The Company provides its stockholders the opportunity to cast an annual non-binding advisory vote on executive compensation (a say-on-pay proposal). The Company and the Company s Compensation Committee consider the outcome of the Company s say-on-pay proposal when making future compensation decisions for the executive officers of the Company. In connection with the Company s 2012 annual meeting of stockholders, the proposal to approve the executive compensation of the Company s executive officers named in the Company s proxy statement dated March 23, 2012 received 11,820,624 votes in favor, or 96.7% of votes cast. Although these votes are advisory (and therefore not binding on the Company), the Company and the Compensation Committee carefully review these results each year and consider them, along with other communications from stockholders relating to our compensation practices, in making future compensation decisions for executive officers of the Company.

Compensation Philosophy and Objectives

What person or group is responsible for determining the compensation levels of named executive officers?

The Role of the Compensation Committee. The Compensation Committee, pursuant to its charter, reviews, determines and approves the compensation, including base salary, and annual and long term incentive compensation, of the Company s CEO and the other named executive officers, as well as Vice Presidents who report directly to the CEO. Additionally, the Compensation Committee administers the Company s employee

benefit programs, including its 2005 Stock Incentive Plan, 1999 Employee Stock Purchase Plan, annual cash incentive plan, long-term equity incentive plan and other incentive compensation plans, benefit plans and equity-based plans.

The Role of Consultants. The Compensation Committee has the authority to retain and terminate any third-party compensation consultant and to obtain advice and assistance from internal and external legal, accounting and other advisers. The Compensation Committee has the authority to compensate its outside advisers without obtaining approval of the Board. In accordance with this authority, the Compensation Committee retained Hay Group in 2012 as the committee s outside compensation consultant to advise the Compensation Committee on matters related to CEO and other named executive officer compensation. Hay Group s engagement with the Company does not create any conflicts of interest with any of Hay Group s existing or former clients.

The consultant s assignments are determined by the chairman of the Compensation Committee. At the request of the chairman, the current consultant assists in developing the peer group of companies and compensation surveys to be used for the competitive analyses, prepares the market analysis of both named executive officer and board compensation, prepares a financial analysis of the Company s performance vis-à-vis the peer group and analyzes the relationship between CEO pay and company performance, constructs market competitive ranges of pay opportunity for base salaries, annual cash incentive targets, and long-term equity incentive awards for named executive officers, and reviews the annual cash incentive and long-term equity incentive plans for linkage to key business objectives and company performance. The consultant advises the Compensation Committee as to the compensation of officers of the Company, but does not recommend any specific pay level changes for named executive officers.

The Role of Executives. The Company s CEO and Chief Administrative Officer, General Counsel and Secretary, or CAO, are actively involved in the executive compensation process. Historically, the CEO reviews the performance of each of the named executive officers (other than his own performance) and, within the defined program parameters, recommends to the Compensation Committee base salary increases and annual cash incentive and long-term incentive awards for such individuals. He provides the Compensation Committee with both annual and long-term recommended financial performance goals for the Company that are used to link pay with performance. The CEO also provides his views to the Compensation Committee and the consultant with respect to the executive compensation program s ability to attract, retain and motivate the level of executive talent necessary to achieve the Company s business goals. The CAO works with the CEO to develop the recommended base salary increases, annual cash incentive levels and long-term equity incentive awards, and provides analysis on the ability of the executive compensation program to attract, retain, and motivate the Company s executive team and potential executive hires. The CEO and the CAO attend the meetings of the Compensation Committee, but do not participate in the Compensation Committee s executive sessions.

What are the Company s executive compensation principles and objectives?

The Compensation Committee believes that the structure of the compensation program for named executive officers should be designed to attract, motivate, and retain key talent to promote the long-term success of the Company, and to balance these objectives with a strong link to stockholder return and other measures of performance that drive total stockholder return.

The Company s overall executive compensation philosophy is that pay should be competitive with the relevant market for executive talent, be performance-based, vary with the attainment of specific objectives, and be closely aligned with the interests of the Company s stockholders. The core principles of the Company s executive compensation program include the following:

Pay competitively: The Compensation Committee believes in positioning executive compensation at competitive levels necessary to attract and retain exceptional leadership talent. An individual s performance and importance to the Company can result in that individual s total compensation being higher or lower than the Company s target market position. The Compensation Committee regularly utilizes the assistance of a compensation consultant to provide information on market practices, programs, and compensation levels.

Pay-for-performance: The Compensation Committee structures executive compensation programs to balance annual and long-term corporate objectives, including specific measures which focus on financial performance, with the goal of fostering stockholder value creation in the short- and long-term.

Create an ownership culture: The Compensation Committee believes that using compensation to instill an ownership culture effectively aligns the interests of management and the stockholders. To promote this alignment, the Compensation Committee granted equity-based compensation in 2012, including SARs, and time-based restricted shares, or restricted shares, to provide incentives for named executive officers to enhance stockholder value.

Utilize a total compensation perspective: The Compensation Committee considers all of the compensation components base salary, annual cash incentives, long-term equity incentives, and benefits and perquisites in total.

Improved financial performance: Since early 2008, the Company has been aggressively pursuing strategies intended to improve its financial and operational performance by expanding its product offerings, enhancing its sales channels, improving production performance, including quality, efficiency and capacity, and lowering costs. The Compensation Committee believes in utilizing a compensation program that appropriately rewards executives for the achievement of these objectives.

The CEO and the Compensation Committee regularly review the executive compensation program and philosophy to assess whether the program promotes the objectives of enabling the Company to attract and retain exceptionally talented executives and to link total compensation to the Company s ability to meet its annual financial and non-financial goals and, in the longer term, to produce enhanced levels of total stockholder return. Based on such reviews, programmatic changes have been implemented at various times to enhance consistency of the various compensation elements with the program s philosophy.

How do we determine executive pay?

Benchmarking: Benchmarking in comparison to the peer group (see below) is one of several factors considered in the compensation process but is not in and of itself determinative. The relative position of individual named executive officers in comparison to the peer group is based on their respective competencies, experience and performance. While the Company does not establish executive pay based solely on benchmarking data, we believe that our pay levels and practices should be within a range of competitiveness with the peer group and benchmarking provides us with an assessment of reasonableness and competitiveness. To that end, the Company generally views the median of the market as a reference point against which to evaluate the competitiveness of its target total direct compensation. However, each individual s actual compensation is based on numerous factors including the individual s level of experience in the role and the annual and long-term performance of both the Company and the individual.

The Compensation Committee benchmarks target total direct compensation, which consists of base salary, target annual cash incentive, and the value of long-term equity incentives to the competitive marketplace, including to a peer group of companies (the peer group). The Compensation Committee benchmarks its named executive officer compensation because the Compensation Committee believes this is the best way to determine whether such compensation is competitive with the Company s labor market for executive talent.

Table of Contents

As discussed below, the Compensation Committee adjusted the peer group in June 2012. Prior to such adjustment, the peer group consisted of the following companies:

American Woodmark Corp.	Movado Group Inc.
Blount International, Inc.	Park Electrochemical Corp.
Deltic Timber Corp.	Raven Industries Inc.
Drew Industries, Inc.	RC2 Corp.
Hooker Furniture Corp.	Smith & Wesson Holding Corp.
Insteel Industries, Inc.	Steinway Musical Instruments Inc.
Kadant Inc.	Sturm, Ruger & Co., Inc.
K-Swiss, Inc.	Volcom, Inc.
Landec Corp.	Zoltek Corp.

In June 2012, Hay Group reviewed the Company s peer group and provided the Compensation Committee with a set of considerations for change, including proposed additions and deletions to the peer group. Based on Hay Group s analysis, the Compensation Committee refined its peer group taking into account a number of factors for each potential peer company including, but not limited to, size (revenues, market capitalization and number of employees), nature of business (business comparators and similar customer base), organizational complexity and business model (span and scope of the organization), competition for executive talent (organizations from which executives may be recruited to and from) and location. While all of the aforementioned factors are taken in account, Hay Group considers the most important to be size and competition for executive talent as these provide the most meaningful insight into competitive practices.

In June 2012, with input from Hay Group, the Compensation Committee identified a publicly-traded peer group consisting of the following fifteen companies:

AAON Inc.	Landec Corp.
American Woodmark Corp.	L.B.Foster Company
Apogee Enterprises Inc.	PGT, Inc.
Deltic Timber Corp.	Simpson Manufacturing, Inc.
Drew Industries, Inc.	Twin Disc, Inc.
Hooker Furniture Corp.	U.S. Home Systems, Inc.
Insteel Industries, Inc.	Zoltek Corp.
Kadant Inc.	

In December 2012, Hay Group completed an executive compensation benchmarking study. Hay Group assessed the Company s executive compensation program against the peer group both with respect to competitiveness and mix of the elements of compensation. Hay Group compared the following elements of compensation of the Company against the peer group for 2011 (the last reported compensation for the peer group): (1) base salary; (2) target total cash compensation (base salary plus target annual cash incentive compensation); and (3) target total direct compensation (base salary plus target annual cash incentive compensation plus the value of long term equity incentive compensation). Based on such comparison, Hay Group determined that the Company s respective elements of compensation compared against the peer group were as follows:

	Percent of Median (all NEOs)
Base Salary	104%
Target Total Cash Compensation	113%
Target Total Direct Compensation	134%

With respect to the mix of target compensation for the named executive officers, Hay Group found that the Company grants a higher percentage of variable compensation (annual cash incentives and long-term equity incentives) and a lower percentage of fixed compensation (base salary), compared to total compensation, than the

Table of Contents

peer group. This means that a higher percentage of the Company s named executive officers compensation is at risk than the peer group. This is consistent with one of the major principles of the Compensation Committee; namely, that a material portion of the executive officers total compensation should be dependent on performance.

Hay Group also compared these elements of compensation on an actual basis for 2011, and determined that the Company s respective elements of actual compensation compared against the peer group were as follows:

	Percent of Median (all NEOs)
Base Salary	105%
Actual Total Cash Compensation	76%
Actual Total Direct Compensation	119%

Actual total cash compensation was substantially below median for 2011 because the executive officers only received 16.15% of their target payout for the annual cash incentive plan due to financial performance that was substantially below plan in 2011. This again highlights the Company s focus on pay for performance.

In order to gauge performance in the context of total stockholder return or TSR , Hay Group compared the Company s TSR to each peer group company and determined that the Company substantially outperformed relative to the peer group. Hay Group analyzed both 1- and 3-year TSR and their analysis showed that the Company s performance ranked at the 85th and 93rd percentile, respectively (as of October 30, 2012). Given these results, we believe our compensation program aligns with the core principles described above, namely pay for performance, and supports the Company s competitive pay positioning relative to peers.

What are the elements of executive compensation, why do we use these elements, how are the elements values determined, and, if applicable, what are the mechanics of each program?

Base Salary

Base salary is annual fixed cash compensation, and is a standard element of compensation, necessary to attract and retain talent, and provides fixed compensation that an employee can rely upon for his or her ordinary living expenses. Base salary is the principal non-variable element of the Company s total compensation program.

Base salaries reflect each named executive officer s responsibilities, the impact of each named executive officer s position, and the contributions each named executive officer delivers to the Company.

Base salaries are determined by competitive levels in the market, based on the Company s peer group and the results of executive compensation surveys, for executives with comparable responsibilities and job scope. Base salary increases, if any, are based on individual performance, market conditions and company performance. To gauge market conditions, the Compensation Committee evaluates the peer group and market data compiled by its consultant. Base salaries are set following review of this data upon consideration of the named executive officer s experience, tenure, performance, and potential.

In December 2011, the Compensation Committee approved a 2.5% increase in the 2012 base salaries for the named executive officers. The Compensation Committee considered information publicly available on the prevalent levels of salary increases and made these adjustments based on what it determined to be appropriate.

Table of Contents

In December 2012, as discussed above, Hay Group completed an executive compensation benchmarking study of the Company s executive compensation. The Compensation Committee approved a 2.5% increase in the 2013 base salaries for the named executive officers. Hay Group advised the Compensation Committee that such percentage increase was slightly below planned 2013 fiscal year increases in the industrial industry of 3%. The base salaries of the named executive officers for 2012 and 2013 are as follows:

Executive Officer	2012 Base Salary	2013 Base Salary
Ronald W. Kaplan Chairman, President and Chief Operating Officer	$ 527,900	$ 541,100
James E. Cline Vice President and Chief Financial Officer	$ 289,100	$ 296,400
F. Timothy Reese Vice President, Operations	$ 289,100	$ 296,400
William R. Gupp Chief Administrative Officer, General Counsel and Secretary	$ 273,700	$ 280,600
J. Mitchell Cox Vice President, Sales (1)	$ 273,700	

(1) Mr. Cox s employment with the Company terminated on June 21, 2012.

Annual Cash Incentive Compensation

The annual cash incentive plan provides named executive officers with the opportunity to gain financially from the results they help to generate annually. The annual cash incentive plan provides for a cash payment based on the achievement of annual corporate financial goals.

We believe that it is necessary to provide annual incentive compensation, because short-term incentives provide an immediate benefit paid in cash based on the achievement of immediate results, thereby promoting the achievement of short-term goals. A performance-based incentive motivates management to enhance the short-term (one fiscal year) financial results in specific targeted areas determined at the beginning of each year.