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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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

For the transition period from_______ to _______

Commission file number: 1-36870

TopBuild Corp.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**47-3096382**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
475 North Williamson Boulevard **Daytona Beach, Florida**	**32114**
(Address of Principal Executive Offices)	(Zip Code)

(386) 304-2200
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price of $78.34 per share as reported on the New York Stock Exchange on June 29, 2018, was approximately $2.8 billion.

Number of shares of common stock outstanding as of February 14, 2019: 34,554,031

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2019 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, are incorporated by reference into Part III of this Form 10-K.

TOPBUILD CORP.
TABLE OF CONTENTS

GLOSSARY

We use acronyms, abbreviations, and other defined terms throughout this annual report on Form 10-K, as defined in the glossary below:

Term	Definition
2016 Repurchase Program	$50 million share repurchase program authorized by the Board on March 1, 2016
2017 ASR Agreement	$100 million accelerated share repurchase agreement with Bank of America, N.A.
2017 Repurchase Program	$200 million share repurchase program authorized by the Board on February 24, 2017
2018 ASR Agreement	$50 million accelerated share repurchase agreement with JPMorgan Chase Bank, N.A.
ADO	ADO Products, LLC
Amended Credit Agreement	Senior secured credit agreement and related security and pledge agreement dated May 5, 2017, as amended March 28, 2018, with the Lenders
Annual Report	Annual report filed with the SEC on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Board	The Board of Directors of TopBuild Corp.
BofA	Bank of America, N.A.
Canyon	Canyon Insulation, Inc.
Capital	Capital Insulation, Inc.
Current Report	Current report filed with the SEC on Form 8-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
EBITDA	Earnings before income taxes, depreciation, and amortization
EcoFoam	Bella Insulutions Inc., DBA EcoFoam/Insulutions
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCCR	Fixed charge coverage ratio is defined in the “Amended Credit Agreement” as the ratio of EBITDA less capital expenditures, and income taxes paid to the sum of cash interest paid, debt principal payments and restricted payments made excluding stock repurchases
GAAP	Generally accepted accounting principles in the United States of America
Guarantors	All wholly-owned domestic subsidiaries of TopBuild Corp.
Lenders	Bank of America, N.A., together with the other lenders party to the “Amended Credit Agreement”
LIBOR	London interbank offered rate
Masco	Masco Corporation or Former Parent
Midwest	Midwest Fireproofing, LLC
MR Insulfoam	MR Insulfoam, LLC
Net Leverage Ratio	As defined in the “Amended Credit Agreement,” the ratio of outstanding indebtedness, less up to $75 million of unrestricted cash, to EBITDA
NYSE	New York Stock Exchange
Old Credit Agreement	Senior secured credit agreement, as amended, and related collateral and guarantee documentation dated June 9, 2015, with PNC Bank, N.A. as administrative agent, and the other lenders and agents party thereto
Owens Corning	Owens Corning Sales, LLC
Quarterly Report	Quarterly report filed with the SEC on Form 10-Q pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Revolving Facility	Senior secured revolving credit facilities available under the Amended Credit Agreement of $250 million with applicable sublimits for letters of credit and swingline loans.
RSA	Restricted stock award
Santa Rosa	Santa Rosa Insulation and Fireproofing, LLC
SEC	United States Securities and Exchange Commission
Secured Leverage Ratio	As defined in the “Amended Credit Agreement,” the ratio of outstanding indebtedness, including letters of credit, to EBITDA
Senior Notes	TopBuild’s 5.625% senior unsecured notes due on May 1, 2026
Separation	Distribution of 100 percent of the outstanding capital stock of TopBuild to holders of Masco common stock
Services Business	Masco’s Installation and Other Services segment, spun-off as TopBuild
Superior	Superior Insulation Products, LLC
TopBuild	TopBuild Corp. and its wholly-owned consolidated domestic subsidiaries. Also, the “Company,” “we,” “us,” and “our”
USI	United Subcontractors, Inc.
Valley	Valley Insulation, Inc.

PART I

Item 1. BUSINES S

Overview

TopBuild Corp., headquartered in Daytona Beach, Florida, is a leading installer and distributor of insulation and other building products to the United States construction industry. Prior to June 30, 2015, we operated as a subsidiary of Masco, which trades on the NYSE under the symbol "MAS." We were incorporated in Delaware in February 2015 as Masco SpinCo Corp. and we changed our name to TopBuild Corp. on March 20, 2015. On June 30, 2015, the Separation was completed and on July 1, 2015, we began trading on the NYSE under the symbol "BLD."

Segment Overview

We operate in two segments: our Installation segment, TruTeam, which accounts for 67% of our sales, and our Distribution segment, Service Partners, which accounts for 33% of our sales.

We believe that having both TruTeam and Service Partners provides us with a number of distinct competitive advantages. First, the combined buying power of our two business segments, along with our national scale, strengthens our ties to the major manufacturers of insulation and other building products. This helps to ensure we are buying competitively and ensures the availability of supply to our local branches and distribution centers. The overall effect is driving efficiencies through our supply chain. Second, being a leader in both installation and distribution allows us to more effectively reach a broader set of builder customers, regardless of their size or geographic location in the U.S., and leverage housing growth wherever it occurs. Third, during industry downturns, many insulation contractors who buy directly from manufacturers during industry peaks return to purchasing through distributors. As a result, this helps to reduce our exposure to cyclical swings in our business.

Installation (TruTeam)

We provide insulation installation services nationwide through our TruTeam contractor services business which has over 200 installation branches located in 40 states.

Various insulation applications we install include:

- Fiberglass batts and rolls
- Blown-in loose fill fiberglass
- Blown-in loose fill cellulose
- Polyurethane spray foam

In addition to insulation products, which represented 72% of our Installation segment's sales during the year ended December 31, 2018, we also install other building products including rain gutters, glass and windows, fireproofing, garage doors, shower enclosures, and closet shelving.

We handle every stage of the installation process including material procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, and installation quality assurance. The amount of insulation installed in a new home is regulated by various building and energy codes.

Our TruTeam customer base includes the largest single-family homebuilders in the U.S. as well as local/single-family custom builders, multi-family builders, commercial general contractors, remodelers, and individual homeowners.

Through our Home Services subsidiary and our Environments for Living® program, we offer a number of services and tools designed to assist builders with applying the principles of building science to new home construction. We offer pre-construction plan reviews using industry-standard home-energy analysis software, various inspection services, and diagnostic testing. We believe our Home Services subsidiary is one of the largest Home Energy Rating System Index (HERS) raters in the U.S.

Distribution (Service Partners)

We distribute insulation and other building products including rain gutters, fireplaces, closet shelving, and roofing materials through our Service Partners business, which has over 75 distribution centers located in 32 states.

Our Service Partners customer base consists of thousands of insulation contractors of all sizes, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors, and modular home builders.

For further information on our segments, see *Item 8. Financial Statements and Supplementary Data – Note 7. Segment Information.*

Demand for Our Products and Services

Demand for our insulation products and services is driven by new single-family residential and multi-family home construction, commercial construction, remodeling and repair activity, revised building codes that require additional insulation, and the growing need for energy efficiency. Being a leader in both installation and distribution allows us to reach a broader set of customers more effectively, regardless of their size or geographic location within the U.S. We recognize that competition for the installation and sale of insulation and other building products occurs in localized geographic markets throughout the country, and, as such, our operating model is based on our geographically diverse branches building and maintaining local customer relationships. At the same time, our local operations benefit from centralized functions such as purchasing, information technology, sales support, and credit and collections.

Competitive Advantages

The market for the distribution and installation of building products is highly fragmented and competitive. Barriers to entry for local competitors are relatively low, increasing the risk that additional competitors will emerge. Our ability to maintain our competitive position in our industry depends on a number of factors including our national scale, sales channels, diversified product lines, strong local presence, reduced exposure to residential housing cyclicality and strong cash flows.

National scale. With our national footprint, we provide products and services to each major construction line of business in the U.S. Our national scale, together with our centralized TopBuild executive management team, allow us to compete locally by:

- Providing national and regional builders with broad geographic reach, while maintaining consistent policies and practices that enable reliable, high-quality products and services across many geographies and building sites
- Establishing strong ties to major manufacturers of insulation and other building products that help ensure we are buying competitively, have availability of supply to our local branches and distribution centers, and are driving efficiencies throughout our supply chain
- Providing consistent, customized support and geographic coverage to our customers
- Maintaining an operating capacity that allows us to ramp-up rapidly, without major incremental investment, to target forecasted growth in housing starts and construction activity in each of our lines of business anywhere in the U.S.
- Leveraging investments in systems and processes and sharing best practices across both our installation and distribution businesses

Two avenues to reach the builder. We believe that having both installation and distribution businesses provides a number of advantages to reaching our customers and driving share gains. Our installation business customer base includes builders of all sizes. Our branches go to market with the local brands that small builders recognize and value, and our national footprint is appealing to large builders who value consistency across a broad geography. Our distribution business focuses on selling to small contractors who are particularly adept at cultivating local relationships with small custom builders. Being a leader in both installation and distribution allows us to more effectively reach a broader set of builder customers, regardless of their size or geographic location within the U.S., and leverage new construction housing growth wherever it occurs.

Diversified lines of business. In response to the housing downturn in prior years and to mitigate the cyclicality of residential new home construction, we expanded and enhanced our ability to serve the commercial construction line of business. This included expanding our commercial operations and sales capacity, adding commercial product offerings, developing relationships with commercial general contractors and building our expertise and reputation for quality service for both light and heavy commercial construction projects. Although the commercial construction is affected by many of the same macroeconomic and local economic factors that drive residential new construction, commercial construction has historically followed different cycles than residential new construction.

Strong local presence. Competition for the installation and sale of insulation and other building products to builders occurs in localized geographic markets throughout the country. Builders and contractors in each local market have different options in terms of choosing among insulation installers and distributors for their projects, and value local relationships, quality, and timeliness. Our installation branches are locally branded businesses that are recognized within the communities in which they operate. Our distribution centers service primarily local contractors, lumberyards, retail stores and others who, in turn, service local homebuilders and other customers. Our operating model, in which individual branches and distribution centers maintain local customer relationships, enables us to develop local, long-tenured relationships with these customers, build local reputations for quality, service and timeliness, and provide specialized products and personalized services tailored to a geographic region. At the same time, our local operations benefit from centralized functions, such as purchasing, information technology, sales support, and credit and collections, and the resources and scale efficiencies of an installation and distribution business that has a presence across the U.S.

Reduced exposure to residential housing cyclicality. During industry downturns many insulation contractors, who buy directly from manufacturers during industry peaks, return to purchasing through distributors for small, “Less Than Full Truckload” shipments, reduced warehousing needs, and access to purchases on credit. This drives incremental customers to Service Partners during these points in the business cycle, offsetting decreases in demand for installation services at TruTeam as a result of a downturn. We believe that our leadership position in both installation and distribution helps to reduce exposure to cyclical swings in our lines of business.

Strong cash flow, low capital investment, and favorable working capital fund organic growth. Over the last several years, we have reduced fixed costs and improved our labor utilization. As a result, we can achieve profitability at lower levels of demand as compared to historical periods. For further discussion on our cash flows and liquidity, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources*.

Major Customers

We have a diversified portfolio of customers and no single customer accounted for three percent or more of our total revenues for the year ended December 31, 2018. Our top ten customers accounted for approximately 10 percent of our total sales in 2018.

Backlog

Due to our customers' need for timely installation of our products, our installation jobs are scheduled and completed within a short timeframe. We do not consider backlog material to our business.

Suppliers

Our businesses depend on our ability to obtain an adequate supply of high quality products and components from manufacturers and other suppliers. We rely heavily on third party suppliers for our products and key components. We source the majority of our fiberglass building products from four primary U.S.-based residential fiberglass insulation manufacturers: Knauf, CertainTeed, Johns Manville, and Owens Corning. Failure by our suppliers to provide us with an adequate supply of high quality products on commercially reasonable terms, or to comply with applicable legal requirements, could have a material, adverse effect on our financial condition or operating results. We believe we generally have positive relationships with our suppliers.

Employees

As of December 31, 2018, we had approximately 10,300 employees. Approximately 830 of our employees are currently covered by collective bargaining or other similar labor agreements.

Executive Management

See *Item 10. Directors, Executive Officers, and Corporate Governance*

Legislation and Regulation

We are subject to U.S. federal, state, and local regulations, particularly those pertaining to health and safety (including protection of employees and consumers), labor standards/regulations, contractor licensing, and environmental issues. In addition to complying with current effective requirements and requirements that will become effective at a future date, even more stringent requirements could eventually be imposed on our industries. Additionally, some of our products and services may require certification by industry or other organizations. Compliance with these regulations and industry standards may require us to alter our distribution and installation processes and our sourcing, which could adversely impact our competitive position. Further, if we do not effectively and timely comply with such regulations and industry standards, our operating results could be negatively affected.

Additional Information

We make available free of charge on our website, www.topbuild.com, our Annual Reports, Quarterly Reports, and Current Reports as soon as reasonably practicable after these reports are filed with or furnished to the SEC.

Use of our Website to Distribute Material Company Information

We use our website as a channel of distribution for important Company information. We routinely post on our website important information, including press releases, investor presentations and financial information, which may be accessed by clicking on the Investors section of www.topbuild.com. We may also use our website to expedite public access to time-critical information regarding our Company in advance of or in lieu of distributing a press release or a filing with the SEC disclosing the same information. Therefore, investors should look to the Investors subpage of our website for important and time-critical information. Visitors to our website can also register to receive automatic e-mail and other notifications alerting them when new information is made available on the Investor Resources subpage of our website.

Item 1A. RISK FACTOR S

There are a number of risks and uncertainties that could affect our business and cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be those material to our business. If any of these risks actually occur, our business, financial condition and results of operations could suffer, and the trading price of our common stock could decline. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this Annual Report.

Our business relies on residential new construction activity, and to a lesser extent on residential repair/remodel and commercial construction activity, all of which are cyclical.

Demand for our services is cyclical and highly sensitive to general macroeconomic and local economic conditions over which we have no control. Macroeconomic and local economic conditions, including consumer confidence levels, fluctuations in home prices, unemployment and underemployment levels, student loan debt, household formation rates, mortgage tax deduction limits, the age and volume of the housing stock, the availability of home equity loans and mortgages and the interest rates for such loans, and other factors, affect consumers' discretionary spending on both residential new construction projects and residential repair/remodel activity. The commercial construction market is affected by macroeconomic and local economic factors such as interest rates, credit availability for commercial construction projects, material costs, employment rates, office vacancy rates, and office absorption rates. Changes or uncertainty regarding these and other factors could adversely affect our results of operations and our financial position.

We may not be successful in identifying and making acquisitions. In addition, acquisition integrations, such as USI, involve risks that could negatively affect our operating results, cash flows, and liquidity.

We have made, and in the future may continue to make, strategic acquisitions as part of our growth strategy. We may be unable to make accretive acquisitions or realize expected benefits of any acquisitions for any of the following reasons:

- failure to identify attractive targets in the marketplace;
- increased competition for attractive targets;
- incorrect assumptions regarding the future results of acquired operations or assets, expected cost reductions, or other synergies expected to be realized as a result of acquiring operations or assets;
- failure to obtain acceptable financing; or
- restrictions in our debt agreements.

Our ability to successfully implement our business plan and achieve targeted financial results is dependent on our ability to successfully integrate acquired businesses. The process of integrating acquired businesses, may expose us to operational challenges and risks, including, but not limited to:

- the ability to profitably manage acquired businesses or successfully integrate the acquired business' operations, financial reporting, and accounting control systems into our business;
- the expense of integrating acquired businesses;
- increased indebtedness;
- the loss of suppliers, customers or other significant business partners of acquired businesses;
- the ability to fund cash flow shortages that may occur if anticipated revenue is not realized or is delayed, whether by general economic or market conditions, or unforeseen internal difficulties;

- the availability of funding sufficient to meet increased capital needs;
- potential impairment of goodwill and other intangible assets;
- risks associated with the internal controls and accounting policies of acquired businesses;
- diversion of management's attention due to the increase in the size of our business;
- difficulties in the assimilation of different corporate cultures and business practices;
- the ability to retain vital employees or hire qualified personnel required for expanded operations;
- failure to identify all known and contingent liabilities during due diligence investigations; and
- the indemnification granted to us by sellers of acquired companies may not be sufficient.

Failure to successfully integrate USI, and any other acquired businesses, may result in reduced levels of revenue, earnings, or operating efficiency than might have been achieved if we had not acquired such businesses. In addition, our acquisition of USI resulted, and any future acquisitions could result, in the incurrence of additional debt and related interest expense, contingent liabilities, and amortization expenses related to intangible assets, which could have a material adverse effect on our financial condition, operating results, and cash flow.

We may not be able to achieve the benefits that we expect to realize as a result of the acquisition of USI or any future acquisitions. Failure to achieve such benefits could have an adverse effect on our financial condition and results of operations.

We may not be able to realize anticipated cost savings, revenue enhancements, or other synergies from the USI acquisition or any future acquisitions, either in the amount or within the time frame that we expect. In addition, the costs of achieving these benefits may be higher than, and the timing may differ from, what we expect. Our ability to realize anticipated cost savings, synergies, and revenue enhancements may be affected by a number of factors, including, but not limited to, the following:

- the use of more cash or other financial resources on integration and implementation activities than we expect;
- unanticipated increases in expenses unrelated to the USI acquisition, or any future acquisition, which may offset the expected cost savings and other synergies from the USI acquisition, or any future acquisition;
- our ability to eliminate duplicative back office overhead and redundant selling, general, and administrative functions; and
- our ability to avoid labor disruptions in connection with the integration of USI or any future acquisition, particularly in connection with any headcount reduction.

Specifically, while we expect the USI acquisition or any future acquisition to create opportunities to reduce our combined operating costs, these cost savings reflect estimates and assumptions made by our management, and it is possible that our actual results will not reflect these estimates and assumptions within our anticipated timeframe or at all.

If we fail to realize anticipated cost savings, synergies, or revenue enhancements, our financial results may be adversely affected, and we may not generate the cash flow from operations that we anticipate.

We are dependent on third-party suppliers and manufacturers to provide us with an adequate supply of quality products, and the loss of a large supplier or manufacturer could negatively affect our operating results.

Failure by our suppliers to provide us with an adequate supply of quality products on commercially reasonable terms, or to comply with applicable legal requirements, could have a material adverse effect on our financial condition or operating results. While we believe that we have generally positive relationships with our suppliers, the fiberglass insulation industry has encountered both shortages and periods of significant oversupply during past housing market cycles, leading to volatility in prices and allocations of supply, affecting our results. While we do not believe we depend on any sole or limited source of supply, we do source the majority of our building products, primarily insulation, from a limited number of large suppliers. The loss of a large supplier, or a substantial decrease in the availability of products or components from our suppliers, could disrupt our business and adversely affect our operating results.

The long-term performance of our businesses relies on our ability to attract, develop, and retain talented personnel, including sales representatives, branch managers, installers, and truck drivers, while controlling our labor costs.

We are highly dependent on the skills and experience of our senior management team and other skilled and experienced personnel. The failure to attract and retain key employees could negatively affect our competitive position and operating results.

Our business results also depend upon our branch managers and sales personnel, including those of businesses acquired. Our ability to control labor costs and attract qualified labor is subject to numerous external factors including prevailing wage rates, labor shortages, the impact of legislation or regulations governing wages and hours, labor relations, immigration, healthcare benefits, and other insurance costs. In addition, we compete with other companies to recruit and retain qualified installers and truck drivers in a tight labor market, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions generally have high turnover rates, which can lead to increased training and retention costs.

Because we operate our business through highly dispersed locations across the U.S., our operations may be materially adversely affected by inconsistent local practices and the operating results of individual branches and distribution centers may vary.

We operate our business through a network of highly dispersed locations throughout the United States, supported by executives and services at our Branch Support Center in Daytona Beach, Florida, with local branch management retaining responsibility for day-to-day operations and adherence to applicable local laws. Our operating structure can make it difficult for us to coordinate procedures across our operations. In addition, our branches and distribution facilities may require significant oversight and coordination from headquarters to support their growth. Inconsistent implementation of corporate strategy and policies at the local or regional level could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Our profit margins could decrease due to changes in the costs of the products we install and/or distribute.

The principal building products that we install and distribute have been subject to price changes in the past, some of which have been significant. Our results of operations for individual quarters can be, and have been, hurt by a delay between the time building product cost increases are implemented and the time we are able to increase prices for our installation or distribution services, if at all. Our supplier purchase prices may depend on our purchasing volume or other arrangements with any given supplier. While we have been able to achieve cost savings through volume purchasing or other arrangements with suppliers in the past, we may not be able to consistently continue to receive advantageous pricing for the products we distribute and install. If we are unable to maintain pricing consistent with prior periods, our costs could increase and our margins may be adversely affected.

We face significant competition, and increased competitive pressure may adversely affect our business, financial condition, results of operations and cash flows.

The market for the distribution and installation of building products is highly fragmented and competitive, and barriers to entry are relatively low. Our installation competitors include national contractors, regional contractors, and local contractors, and we face many or all of these competitors for each project on which we bid. Our insulation distribution competitors include specialty insulation distributors (one multi-regional, several regional, and numerous local). In some instances, our insulation distribution business sells products to companies that may compete directly with our installation service business. We also compete with broad line building products distributors, big box retailers, and insulation manufacturers. In addition to price, we believe that competition in our industry is based largely on customer service and the quality and timeliness of installation services and distribution product deliveries in each local market.

In the event that increased demand leads to higher prices for the products we sell and install, we may have limited ability to pass on price increases in a timely manner or at all due to the fragmented and competitive nature of our industry.

Our business is seasonal and is susceptible to adverse weather conditions and natural disasters. We also may be adversely affected by any natural or man-made disruptions to our facilities.

We normally experience stronger sales during the third and fourth calendar quarters, corresponding with the peak season for residential new construction and residential repair/remodel activity. Sales during the winter weather months are seasonally slower due to the lower construction activity. Historically, the installation of insulation lags housing starts by several months.

In addition, to the extent that hurricanes, severe storms, earthquakes, droughts, floods, fires, other natural disasters, or similar events occur in the geographic areas in which we operate, our business may be adversely affected.

Any widespread disruption to our facilities resulting from a natural disaster, an act of terrorism, or any other cause could damage a significant portion of our inventory, and could materially impair our ability to provide installation and/or distribution services for our customers.

Claims and litigation could be costly.

We are, from time to time, involved in various claims, litigation matters, and regulatory proceedings that arise in the ordinary course of our business and which could have a material adverse effect on us. These matters may include contract disputes, automobile liability and other personal injury claims, warranty disputes, environmental claims or proceedings, other tort claims, employment and tax matters, the quality of products sourced from our suppliers, and other proceedings and litigation, including class actions. In addition, we are exposed to potential claims by our employees or others based on job related hazards.

Our builder and contractor customers are subject to product liability, casualty, negligence, construction defect, breach of contract, warranty and other claims in the ordinary course of their business. We rely on manufacturers and other suppliers to provide us with most of the products we install. Because we do not have direct control over the quality of such products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of such products. In addition, we are exposed to potential claims arising from the conduct of our employees, homebuilders and other subcontractors, for which we may be liable contractually or otherwise. Our contractual arrangements with our builder and contractor customers may include our agreement to defend and indemnify them against various liabilities.

Product liability, workmanship warranty, casualty, negligence, construction defect, breach of contract and other claims and legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of fault or the ultimate outcome. In addition, lawsuits relating to construction defects typically have statutes of limitations that can run as long as ten years. Claims of this nature could also have a negative impact on customer confidence in us and our services.

Although we intend to defend all claims and litigation matters vigorously, given the inherently unpredictable nature of claims and litigation, we cannot predict with certainty the outcome or effect of any claim or litigation matter.

We expect to maintain insurance against some, but not all, of these risks of loss resulting from claims and litigation. We may elect not to obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. The levels of insurance we maintain may not be adequate to fully cover any and all losses or liabilities. If any significant accident, judgment, claim, or other event is not fully insured or indemnified against, it could have a material adverse impact on our business, financial condition, and results of operations.

We may not be able to identify new products or new product lines and integrate them into our distribution network, which may impact our ability to compete. Our expansion into new markets may present competitive, distribution, and regulatory challenges that differ from current ones.

Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs.

We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products, which could cause us to lose market share. In addition, our ability to integrate new products and product lines into our distribution network could affect our ability to compete.

We are subject to competitive pricing pressure from our customers.

Residential homebuilders historically have exerted significant pressure on their outside suppliers to keep prices low in the highly fragmented building products supply and services industry. In addition, consolidation among homebuilders, and changes in homebuilders' purchasing policies or payment practices could result in additional pricing pressure.

The development of alternatives to distributors in the supply chain could cause a decrease in our sales and operating results and limit our ability to grow our business.

Our distribution customers could begin purchasing more of their products directly from manufacturers, which would result in decreases in our net sales and earnings. Our suppliers could invest in infrastructure to expand their own local sales force and sell more products directly to our distribution customers, which also would negatively impact our business.

If we are required to take significant non-cash charges, our financial resources could be reduced and our financial flexibility may be negatively affected.

We have significant goodwill and other intangible assets related to business combinations on our balance sheet. The valuation of these assets is largely dependent upon the expectations for future performance of our businesses. Expectations about the growth of residential new construction, commercial construction, and residential repair/remodel activity may impact whether we are required to recognize non-cash, pre-tax impairment charges for goodwill and other indefinite-lived intangible assets or other long-lived assets. If the value of our goodwill, other intangible assets, or long-lived assets is further impaired, our earnings and stockholders' equity would be adversely affected and may impact our ability to raise capital in the future.

Compliance with government regulation and industry standards could impact our operating results.

We are subject to federal, state, and local government regulations, particularly those pertaining to health and safety, including protection of employees and consumers; employment laws, including immigration and wage and hour regulations; contractor licensing; and environmental issues. In addition to complying with current requirements, even more stringent requirements could be imposed in the future. Compliance with these regulations and industry standards is costly and may require us to alter our installation and distribution processes, product sourcing, or business practices, and makes recruiting and retaining labor in a tight labor market more challenging. Compliance with these regulations and industry standards could also divert our attention and resources to compliance activities, and could cause us to incur higher costs. Further, if we do not effectively and timely comply with such regulations and industry standards, our results of operations could be negatively affected and we could become subject to substantial penalties or other legal liability.

Changes in employment laws may adversely affect our business.

Various federal and state labor laws govern the relationship with our employees and impact operating costs. These laws include:

- employee classification as exempt or non-exempt for overtime and other purposes;
- workers' compensation rates;
- immigration status;
- mandatory health benefits;
- tax reporting; and
- other wage and benefit requirements.

We have a significant exposure to changes in laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which changes would have a direct impact on our operating costs. Significant additional government-imposed increases in the preceding areas could have a material adverse effect on our business, financial condition and results of operations.

In addition, various states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the U.S. Congress and Department of Homeland Security from time to time consider and implement changes to federal immigration laws, regulations or enforcement programs. These changes may increase our compliance and oversight obligations, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we verify the employment eligibility status of all our employees, including through participation in the "E-Verify" program where required, some of our employees may, without our knowledge, be unauthorized workers. Use of the "E-Verify" program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties and, if any of our workers are found to be unauthorized, we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and retain qualified employees, which could disrupt our operations. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration laws. These factors could have a material adverse effect on our business, financial condition and results of operations.

Union organizing activity and work stoppages could delay or reduce availability of products that we install and increase our costs.

Approximately 830 of our employees are currently covered by collective bargaining or other similar labor agreements that expire on various dates from 2019 through 2027. Any inability by us to negotiate collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Further, if a significant number of additional employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, these risks would increase. In addition, certain of our suppliers have unionized work forces, and certain of the products we install and/or distribute are transported by unionized truckers. Strikes, work stoppages, or slowdowns could result in slowdowns or closures of facilities where the products that we install and/or distribute are manufactured, or could affect the ability of our suppliers to deliver such products to us. Any interruption in the production or delivery of these products could delay or reduce availability of these products and increase our costs.

If we encounter difficulties with our information technology systems, we could experience problems with customer service, inventory, collections, and cost control.

Our operations are dependent upon our information technology systems to manage customer orders on a timely basis, to coordinate our installation and distribution activities across locations, and to manage invoicing. If we experience problems with our information technology systems, we could experience, among other things, delays in receiving customer orders, placing orders with suppliers, and scheduling production, installation services, or shipments.

A substantial disruption in our information technology systems could have an adverse impact on revenue, harm our reputation, and cause us to incur legal liability and costs, which could be significant, to address and remediate such events and related security concerns.

In addition, we could be adversely affected if any of our significant customers or suppliers experienced any similar events that disrupted their respective business operations or damaged their reputations.

In the event of a cybersecurity incident, we could experience operational interruptions, incur substantial additional costs, become subject to legal or regulatory proceedings or suffer damage to our reputation.

In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation or corruption of our information technology systems and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by unauthorized access, malicious software, computer viruses, undetected intrusion, hardware failures or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experiences any similar events that disrupt their business operations or damage their reputation.

We maintain monitoring practices and protections of our information technology to reduce these risks and test our systems on an ongoing basis for potential threats. We carry cybersecurity insurance to help mitigate the financial exposure and related notification procedures in the event of intentional intrusion. There can be no assurance, however, that our efforts will prevent the risk of a security breach of our databases or systems that could adversely affect our business.

Our business relies significantly on the expertise of our employees, and we generally do not have intellectual property that is protected by patents.

Our business is significantly dependent upon our expertise in installation and distribution logistics, including significant expertise in the application of building science through our Environments for Living® program. We rely on a combination of trade secrets and contractual confidentiality provisions and, to a much lesser extent, copyrights and trademarks, to protect our proprietary rights. Accordingly, our intellectual property is more vulnerable than it would be if it were protected primarily by patents. We may be required to spend significant resources to monitor and protect our proprietary rights, and in the event a misappropriation or breach of our proprietary rights occurs, our competitive position in the market may be harmed. In addition, competitors may develop competing technologies and expertise that renders our expertise obsolete or less valuable.

Changes in building codes and consumer preferences could affect our ability to market our service offerings and our profitability. Moreover, if we do not respond to evolving customer preferences or changes in building standards, or if we do not maintain or expand our leadership in building science, our business, results of operation, financial condition, and cash flow would be adversely affected.

Each of our lines of business is impacted by local and state building codes and consumer preferences, including a growing focus on energy efficiency. Our competitive advantage is due, in part, to our ability to respond to changes in consumer preferences and building codes. However, if our installation and distribution services do not adequately or quickly adapt to changing preferences and building standards, we may lose market share to competitors, which would adversely affect our business, results of operation, financial condition, and cash flows. Further, our growth prospects could be harmed if consumer preferences and building standards evolve more slowly than we anticipate towards energy-efficient service offerings, which are more profitable than minimum code service offerings.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

Our future capital requirements will depend on many factors, including industry and market conditions, our ability to successfully complete future business combinations and the expansion of our existing operations. We anticipate that we may need to raise additional funds in order to grow our business and implement our business strategy. Economic and credit market conditions, the performance of the construction industry, and our financial performance, as well as other factors may constrain our financing abilities. Our ability to secure additional financing and to satisfy our financial obligations will depend upon our future operating performance; the availability of credit; economic conditions; and financial, business, and other factors, many of which are beyond our control. Any financing, if available, may be on terms that are not favorable to us and will be subject to changes in interest rates and the capital markets environment. If we cannot obtain adequate capital, we may not be able to fully implement our business strategy and our business, results of operations and financial condition could be adversely affected.

Our indebtedness and restrictions in our existing credit facility, Senior Notes or any other indebtedness we may incur in the future, could adversely affect our business, financial condition, results of operations, ability to make distributions to shareholders, and the value of our common stock.

Our indebtedness could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations;
- reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions or strategic investments and other general corporate requirements, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to increased interest expense related to our indebtedness with variable interest rates, including borrowings under our credit facility;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to changes in our business, the industry in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to meet our payment obligations and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital, and some of these activities may be on terms that are unfavorable or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations.

Certain of our variable rate indebtedness uses LIBOR as a benchmark for establishing the rate of interest. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be replaced with a new benchmark or to perform differently than in the past. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of our variable rate indebtedness.

Our existing term loan, revolving credit facility and the indenture governing our Senior Notes limit, and any future credit facility or other indebtedness we enter into may limit, our ability to, among other things:

- Incur or guarantee additional debt;
- Make distributions or dividends on, or redeem or repurchase shares of our common stock;
- Make certain investments, acquisitions, or other restricted payments;
- Incur certain liens or permit them to exist;
- Acquire, merge, or consolidate with another company; and
- Transfer, sell, or otherwise dispose of substantially all of our assets.

Our revolving credit facility contains, and any future credit facility or other debt instrument we may enter into will also likely contain, covenants requiring us to maintain certain financial ratios and meet certain tests, such as a fixed charge coverage ratio, a leverage ratio, and a minimum test. Our ability to comply with those financial ratios and tests can be affected by events beyond our control, and we may not be able to comply with those ratios and tests when required to do so under the applicable debt instruments.

Adverse credit ratings could increase our costs of borrowing money and limit our access to capital markets and commercial credit.

Moody's Investor Service and Standard & Poor's routinely evaluate our credit ratings related to our Senior Notes. If these rating agencies downgrade any of our current credit ratings, our borrowing costs could increase and our access to the capital and commercial credit markets could be adversely affected.

In connection with the Separation, Masco indemnified us for certain liabilities and we indemnified Masco for certain liabilities. If we are required to act under these indemnities to Masco, we may need to divert cash to meet those obligations, which could adversely affect our financial results. Moreover, the Masco indemnity may not be sufficient to compensate us for the full amount of liabilities for which it may be liable, and Masco may not be able to satisfy its indemnification obligations to us in the future.

Indemnities that we may be required to provide Masco are not subject to any cap, may be significant, and could negatively affect our business, particularly indemnities relating to our actions that could affect the tax-free nature of the Separation. Third parties could also seek to hold us responsible for any of the liabilities that Masco has agreed to retain, and under certain circumstances, we may be subject to continuing contingent liabilities of Masco following the Separation, such as certain shareholder litigation claims. Further, Masco may not be able to fully satisfy its indemnification obligations or such indemnity obligations may not be sufficient to cover our liabilities. Moreover, even if we ultimately succeed in recovering from Masco any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves. Each of these risks could negatively affect our business, results of operations, liquidity, and financial condition.

Compliance with and changes in tax laws could adversely affect our performance.

We are subject to extensive tax liabilities imposed by multiple jurisdictions including income taxes; indirect taxes which include excise and duty, sales and use, and gross receipts taxes; payroll taxes; franchise taxes; withholding taxes; and ad valorem taxes. New tax laws and regulations, and changes in existing tax laws and regulations, are continuously being enacted or proposed which could result in increased expenditures for tax liabilities in the future. Many of these liabilities are subject to periodic audits by the respective taxing authority. Subsequent changes to our tax liabilities as a result of these audits may subject us to interest and penalties.

Risks Relating to Our Common Stock

The price of our common stock may fluctuate substantially, and the value of your investment may decline.

The market price of our common stock could fluctuate significantly due to a number of factors, many of which are beyond our control, including:

- Fluctuations in our quarterly or annual earnings results, or those of other companies in our industry
- Failures of our operating results to meet our published guidance, the estimates of securities analysts or the expectations of our stockholders, or changes by securities analysts in their estimates of our future earnings
- Announcements by us or our customers, suppliers, or competitors
- Changes in laws or regulations which adversely affect our industry or us
- Changes in accounting standards, policies, guidance, interpretations, or principles
- General economic, industry, and stock market conditions
- Future sales of our common stock by our stockholders
- Future issuances of our common stock by us
- Other factors described in these “Risk Factors” and elsewhere in this Annual Report.

Provisions in our certificate of incorporation and bylaws, and certain provisions of Delaware law, could delay or prevent a change in control.

The existence of some provisions of our certificate of incorporation and bylaws and Delaware law could discourage, delay, or prevent a change in control that a stockholder may consider favorable. These include provisions:

- Authorizing a large number of shares of stock that are not yet issued, which could have the effect of preventing or delaying a change in control if our board of directors issued shares to persons that did not support such change in control, or which could be used to dilute the stock ownership of persons seeking to obtain control

- Prohibiting stockholders from calling special meetings of stockholders or taking action by written consent

- Establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted on by stockholders at the annual stockholder meetings.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that could have resulted in a premium over the market price for shares of our common stock.

These provisions apply even if a takeover offer is considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in our and our stockholders' best interests.

Our bylaws designate a state or federal court located within the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a preferred judicial forum for disputes with us or our directors, officers, or other employees.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of Delaware General Corporation Law, our certificate of incorporation (including any certificate of designations for any class or series of our preferred stock), or our bylaws, in each case, as amended from time to time, or (iv) any action asserting a claim governed by the internal affairs doctrine, shall be a state or federal court located within the State of Delaware, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have received notice of, and consented to, the foregoing provision. This forum selection provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable or cost-effective for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and employees.

Item 1B. UNRESOLVED STAFF COMMENT S

None.

Item 2. PROPERTIE S

We operate over 200 installation branch locations and over 75 distribution centers in the United States, most of which are leased. In January 2017, we moved into our new, 65,700 square foot Branch Support Center located at 475 North Williamson Boulevard in Daytona Beach, FL 32114. This lease expires in June 2029, assuming no exercise of any options set forth in the lease. We believe that our facilities have sufficient capacity and are adequate for our installation and distribution requirements.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART I I

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDE R MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders of our Common Stock. Our common stock is traded on the NYSE under the symbol "BLD". As of February 14, 2019, there were approximately 2,838 holders of our issued and outstanding common stock.

Dividends. No dividends were paid during the years ended December 31, 2018 and 2017. Our Amended Credit Agreement, in certain circumstances, limits the amount of dividends we may distribute. We do not anticipate declaring cash dividends to holders of our common stock in the foreseeable future.

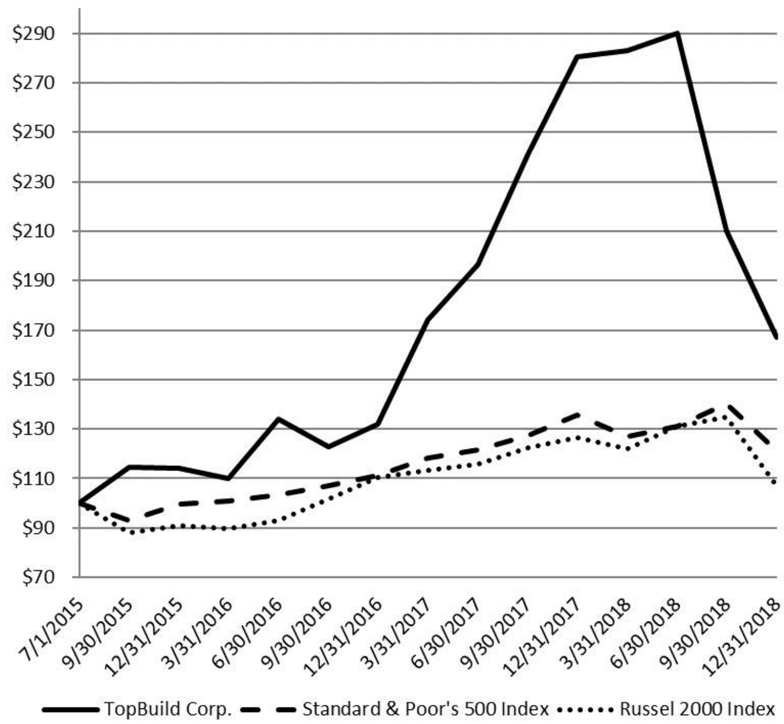
Issuer Purchases of Equity Securities. The following table provides information regarding the repurchase of our common stock for the three months ended December 31, 2018, in thousands, except share and per share data:

Period	Total Number of Shares Purchased	Average Price Paid per Common Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2018 - October 31, 2018	100,412	$ 50.45	100,412	$ 50,441
November 1, 2018 - November 30, 2018 (a)	9,754	$ 45.24	806,679	$ —
December 1, 2018 - December 31, 2018	—	$ —	—	$ —
Total	110,166	$ 49.99	907,091	

(a) During the three months ended December, 2018, we paid $50.0 million for an initial delivery of 796,925 shares of our common stock, representing an estimated 85 percent of the total number of shares we expected, at the time we entered into the agreement, to receive under the 2018 ASR Agreement. For more information see *Item 8. Financial Statements and Supplementary Data – Note 17. Share Repurchase Program.*

All repurchases were made using cash resources. Excluded from this disclosure are shares repurchased to settle statutory employee tax withholdings related to the vesting of stock awards and the exercise of stock options.

Performance Graph and Table. The following graph and table compares the cumulative total return of our common stock from July 1, 2015, the date on which our common stock began trading on the NYSE, through December 31, 2018, with the total cumulative return of the Russel 2000 Index and the Standard & Poor's 500 Index. The graph and table assume an initial investment of $100 in our common stock and each of the two indices at the close of business on July 1, 2015, and reinvestment of dividends.



	7/1/2015	9/30/2015	12/31/2015
TopBuild Corp.	$ 100	$ 115	$ 114
Standard & Poor's 500 Index	$ 100	$ 93	$ 99
Russel 2000 Index	$ 100	$ 88	$ 91

	3/31/2016	6/30/2016	9/30/2016	12/31/2016
TopBuild Corp.	$ 110	$ 134	$ 123	$ 132
Standard & Poor's 500 Index	$ 101	$ 103	$ 107	$ 111
Russel 2000 Index	$ 90	$ 93	$ 102	$ 110

	3/31/2017	6/30/2017	9/30/2017	12/31/2017
TopBuild Corp.	$ 174	$ 197	$ 241	$ 281
Standard & Poor's 500 Index	$ 118	$ 122	$ 127	$ 136
Russel 2000 Index	$ 113	$ 116	$ 123	$ 127

	3/31/2018	6/30/2018	9/30/2018	12/31/2018
TopBuild Corp.	$ 283	$ 290	$ 210	$ 167
Standard & Poor's 500 Index	$ 127	$ 131	$ 140	$ 121
Russel 2000 Index	$ 122	$ 131	$ 135	$ 107

Item 6. SELECTED HISTORICAL FINANCIAL DATA

The following table sets forth selected historical financial data that should be read in conjunction with *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and our audited financial statements and notes thereto, included in this Annual Report. The Consolidated Statements of Operations data for the years ended December 31, 2018, 2017, and 2016, and the Consolidated Balance Sheet data as of December 31, 2018 and 2017, are derived from our audited financial statements included in this Annual Report. The Consolidated Statements of Operations data for the year ended December 31, 2015 and 2014, and the Consolidated Balance Sheet data as of December 31, 2016, 2015, and 2014, were derived from our audited financial statements not included in this Annual Report. The selected historical financial data in this section is not intended to replace our historical financial statements and the related notes thereto. Prior to the Separation, our historical financial results included allocations of general and corporate expense from Masco; therefore, our historical results for periods prior to the Separation are not necessarily comparable to our subsequently reported results. For more information, see *Item 8. Financial Statements and Supplementary Data – Note 1. Summary of Significant Accounting Policies*.

	Year Ended December 31,				
(in thousands)	2018	2017	2016	2015	2014
Net sales	$ 2,384,249	$ 1,906,266	$ 1,742,850	$ 1,616,580	$ 1,512,077
Operating profit	$ 208,953	$ 136,864	$ 121,604	$ 83,531	$ 40,717
Income	$ 134,752	$ 158,133	$ 72,606	$ 79,123	$ 10,496
Income per common share (a):					
Basic	$ 3.86	$ 4.41	$ 1.93	$ 2.10	$ 0.28
Diluted	$ 3.78	$ 4.32	$ 1.92	$ 2.09	$ 0.28
At period end:					
Total assets	$ 2,454,531	$ 1,749,549	$ 1,690,119	$ 1,642,249	$ 1,476,424
Total debt, net of unamortized debt issuance costs	$ 743,474	$ 241,887	$ 178,800	$ 193,457	$ —
Equity	$ 1,072,098	$ 996,519	$ 972,547	$ 915,729	$ 952,291

(a) For comparative purposes, the computation of basic and diluted income per common share for the year ended December 31, 2014 was calculated using the shares distributed at the Separation.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIO N AND RESULTS OF OPERATIONS

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of our financial position, results of operations, and cash flows. This financial and business analysis should be read in conjunction with the financial statements and related notes.

Statements contained in this report that reflect our views about future periods, including our future plans and performance, constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "will," "would," "anticipate," "expect," "believe," "designed," "plan," or "intend," the negative of these terms, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against unduly relying on any of these forward-looking statements. Our future performance may be affected by our reliance on residential new construction, residential repair/remodel, and commercial construction; our reliance on third-party suppliers and manufacturers; our ability to attract, develop, and retain talented personnel and our sales and labor force; our ability to maintain consistent practices across our locations; our ability to maintain our competitive position; and our ability to realize the expected benefits of our acquisitions. We discuss the material risks we face under the caption entitled "Risk Factors" in Item 1A of this Annual Report. Our forward-looking statements in this Annual Report speak only as of the date of this Annual Report. Factors or events that could cause our actual results to differ may emerge from time to time and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events, or otherwise.

Executive Summary

We are a leading installer and distributor of insulation and other building products to the U.S. construction industry. Demand for our products and services is driven primarily by residential new construction, commercial construction, and residential repair/remodel activity throughout the U.S. A number of local and national factors influence activity in each of our lines of business, including demographic trends, interest rates, employment levels, business investment, supply and demand for housing stock, availability of credit, foreclosure rates, consumer confidence, and general economic conditions.

Activity in the construction industry is seasonal, typically peaking in the summer months. Because installation of insulation historically lags housing starts by several months, we generally see a corresponding benefit in our operating results during the third and fourth quarters.

Competitive Advantages

We believe we are well positioned to grow our business both organically and through strategic acquisitions as a result of a number of competitive advantages, including:

National Scale. Our national scale enables us to drive supply chain efficiencies and provide the tools necessary for our branches and distribution centers to effectively compete locally. Given the highly fragmented homebuilding industry, our leadership positions in installation, distribution, and building science services allow us to tailor our approach to each local market, which differs in characteristics such as customer mix, competitive activity, building codes, and labor availability. Moreover, serving multiple lines of business provides additional revenue growth potential with which to leverage our fixed costs, and reduces our exposure to the cyclical swings in residential new construction. The combined buying power of TruTeam and Service Partners strengthens our ties to the major manufacturers of insulation and other building products.

Strong Local Presence. Competition for the installation and sale of insulation and other building products to builders occurs in localized geographic markets across the country. Builders in each local market have different options in terms of choosing among insulation installers and distributors for their projects and products and value local relationships, quality, and timeliness. Our national footprint includes over 200 branches in our Installation segment, which are locally branded businesses that are recognized within the communities in which they operate. We also have over 75 distribution centers in our Distribution segment, primarily serving local contractors, lumberyards, retails stores, and others who, in turn, service local homebuilders and other customers. Through both businesses we have developed local, long-tenured relationships with a reputation for quality, service, and timeliness.

Two Avenues to Reach the Builder. Being a leader in both installation and distribution allows us to more effectively reach a broader set of builder customers, regardless of their size or geographic location within the U.S., and leverage housing growth wherever it occurs.

Strategy

Our long-term strategy is to grow net sales, income, and operating cash flows and remain the leading insulation installer and distributor by revenue. In order to achieve these goals, we plan to:

- Capitalize on the U.S. housing market through focused organic growth and accretive aligned acquisitions
- Gain share in commercial construction
- Continue to leverage our expertise in building science through our Environments for Living® program to benefit from the increasing focus on energy efficiency and trends in building codes
- Grow our business through acquisitions of complementary businesses

Our operating results depend heavily on residential new construction activity and, to a lesser extent, on commercial construction and residential repair/remodel activity, all of which are cyclical. We are also dependent on third-party suppliers and manufacturers providing us with an adequate supply of high-quality products.

Material Trends in Our Business

We remain cautiously optimistic about the U.S. housing market. The U.S. housing market has grown from approximately 587,000 housing starts in 2010 to approximately 1,256,000 housing starts in 2018 (based on November 2018 seasonally adjusted figure from the U.S. Census Bureau), well below the 50-year historical average of approximately 1.4 million to 1.5 million housing starts per year. While the current headwinds of housing affordability, increasing interest rates, material inflation, credit availability, student debt and labor shortages within the construction industry are moderating the rate of recovery, we believe that they are also extending the recovery cycle. We believe there is pent-up demand for housing and that household formations and the available housing supply point towards continued increasing demand for affordable new home construction.

Seasonality

We normally experience stronger sales during the third and fourth calendar quarters, corresponding with the peak season for residential new construction and residential repair/remodel activity. Sales during the winter weather months are typically slower due to lower construction activity. Historically, the installation of insulation lags housing starts by several months.

Results of Operations

We report our financial results in conformity with GAAP.

The following table sets forth our net sales, gross profit, operating profit, and margins, as reported in our Consolidated Statements of Operations, in thousands:

	Year Ended December 31,		
	2018	**2017**	**2016**
Net sales	**$ 2,384,249**	**$ 1,906,266**	**$ 1,742,850**
Cost of sales	1,808,097	1,445,157	1,342,506
Cost of sales ratio	*75.8 %*	*75.8 %*	*77.0 %*
Gross profit	**576,152**	**461,109**	**400,344**
Gross profit margin	*24.2 %*	*24.2 %*	*23.0 %*
Selling, general, and administrative expense (exclusive of significant legal settlement shown separately below)	367,199	294,245	278,740
Selling, general, and administrative expense (exclusive of significant legal settlement shown separately below) to sales ratio	*15.4 %*	*15.4 %*	*16.0 %*
Significant legal settlement	—	30,000	—
Significant legal settlement to sales ratio	—	*1.6 %*	—
Operating profit	**208,953**	**136,864**	**121,604**
Operating profit margin	*8.8 %*	*7.2 %*	*7.0 %*
Other expense, net	(28,129)	(8,824)	(5,331)
Income tax (expense) benefit	(46,072)	30,093	(43,667)
Net income	**$ 134,752**	**$ 158,133**	**$ 72,606**
Net margin	5.7 %	8.3 %	4.2 %

Comparison of the Years Ended December 31, 2018 and December 31, 2017

Sales and Operations

Net sales for 2018 increased 25.1 percent, or $478.0 million, to $2.4 billion. The increase was principally driven by our ten acquisitions completed during 2018 and 2017, primarily our acquisition of USI in May 2018, increased organic sales volume, and increased selling prices. Our sales benefited primarily from the overall continued improvement in the housing market, as well as our continued focus on organically growing our residential and commercial activity.

Our gross profit margin was 24.2 percent for both 2018 and 2017. While gross profit margin was under significant pressure in 2018 due to unprecedented material cost increases, we were able to successfully pass these increases through to customers. The material cost increases in 2018 were primarily due to tighter supply and higher freight costs.

Selling, general, and administrative expense, exclusive of the significant legal settlement discussed below, as a percentage of sales was 15.4 percent for both 2018 and 2017. Higher amortization, acquisition and closure costs related to the USI acquisition were offset by USI acquisition synergies, lower fixed costs as a percentage of sales due to higher sales volume and lower legal expenses. We paid $30 million during 2017 in final settlement of a breach of contract action in connection with our termination of an insulation supply agreement with Owens Corning.

Operating margins were 8.8 percent and 7.2 percent for 2018 and 2017, respectively, inclusive of the Owens Corning legal settlement. The increase in operating margins for 2018 resulted from the $30 million legal settlement with Owens Corning incurred in the prior year, higher selling prices, USI acquisition synergies, lower fixed costs as a percentage of sales due to higher sales volume and lower legal expenses partially offset by higher material costs and higher amortization and acquisition expenses including closure and related costs as described below.

Closure and Related Costs

We incurred closure costs of $6.7 million related to the acquisition of USI, including the closing of USI's St. Paul, Minnesota corporate office and consolidation of certain administrative functions to our Daytona Beach, Florida, Branch Support Center. See *Item 8. Financial Statements and Supplementary Data – Note 15. Closure Costs.* We incurred expenses of $2.0 million in 2017 related to the consolidation of certain back-office operations to our Daytona Beach, Florida, Branch Support Center.

Other Expense, Net

Other expense, net, which primarily consists of interest expenses, increased $19.3 million to $28.1 million in 2018 compared with 2017. The increase is primarily related to the issuance of our $400 million Senior Notes and our borrowing of the $100 million delayed draw term loan to fund our acquisition of USI, as well as the issuance of $26.6 million of equipment notes in 2018.

Income Tax (Expense) Benefit

Our effective tax rate increased from (23.5) percent in 2017 to 25.5 percent in 2018. The higher 2018 rate was primarily due to a one-time beneficial adjustment in 2017 of our deferred tax assets and liabilities to reflect the change in the federal statutory rate from 35 percent to 21 percent, enacted in December of 2017 and effective January 1, 2018. The Tax Cuts and Jobs Act also impacted our effective tax rate for 2018, by the elimination of the §199 Domestic Production Activities Deduction and by increased limitations on entertainment expenses and executive compensation. Our effective tax rate for 2018 was also impacted by additional taxes on transaction costs related to the acquisition of USI that were capitalized for tax, offset by a benefit from share-based compensation.

Comparison of the Years Ended December 31, 2017 and December 31, 2016

Sales and Operations

Net sales for 2017 increased 9.4 percent, or $163.4 million, to $1.9 billion. The increase was principally driven by our seven acquisitions completed during 2017 and 2016, increased organic sales volume, and overall increased selling prices. Our sales benefited primarily from the overall continued improvement in the housing market, as well as continued focus on organically growing our residential and commercial activity.

Our gross profit margins were 24.2 percent and 23.0 percent for 2017 and 2016, respectively. Gross profit margin was positively impacted by favorable leverage on overall higher sales volume, increased selling prices, and improved labor utilization, partially offset by higher material cost.

Selling, general, and administrative expense, exclusive of the significant legal settlement discussed below, as a percent of sales was 15.4 percent and 16.0 percent for 2017 and 2016, respectively. Decreased selling, general, and administrative expense as a percent of sales was a result of lower salaries expense relative to sales, lower health insurance expense, partially offset by higher bonus, share-based compensation, and amortization expenses, as well as closure and related costs noted below. We incurred a $30 million legal settlement during 2017, related to the settlement of a breach of contract action related to our termination of an insulation supply agreement with Owens Corning.

Operating margins, exclusive of the significant legal settlement discussed above, were 8.8 percent and 7.0 percent for the 2017 and 2016, respectively. The increase in operating margins was a result of overall increased sales volume, higher selling prices, and lower health insurance costs, partially offset by higher share-based compensation, amortization, and bonus expenses.

Closure and Related Costs

We incurred expense of $2.0 million in 2017, related to the consolidation of certain back-office operations to our Daytona Beach, Florida, Branch Support Center.

Other Expense, Net

Other expense, net, increased $3.5 million to $8.8 million in 2017 compared with 2016. The increase primarily related to the$1.1 million loss on extinguishment of debt as well as higher interest expense due to our higher outstanding long-term debt balance related to our debt refinancing completed on May 5, 2017.

Income Tax Benefit (Expense)

Our effective tax rate decreased from 37.6 percent in 2016 to (23.5) percent in 2017. The lower 2017 rate was primarily due to a beneficial adjustment of our deferred tax assets and liabilities to reflect the change in the federal statutory rate from 35 percent to 21 percent, enacted in December of 2017 and effective January 1, 2018, as well as a benefit from share-based compensation.

2018 and 2017 Business Segment Results

The following table sets forth our net sales and operating profit information by business segment, in thousands:

	Year Ended December 31,		
	2018	2017	Percent Change
Sales by business segment (a):			
Installation	$ 1,680,967	$ 1,281,296	31.2 %
Distribution	820,309	719,759	14.0 %
Intercompany eliminations and other adjustments (b)	(117,027)	(94,789)	
Net sales	$ 2,384,249	$ 1,906,266	25.1 %
Operating profit by business segment (c):			
Installation (exclusive of significant legal settlement, shown separately below)	$ 196,986	$ 139,316	41.4 %
Significant legal settlement (Installation segment)	—	(30,000)	
Distribution	78,739	68,733	14.6 %
Intercompany eliminations and other adjustments	(20,899)	(16,463)	
Operating profit before general corporate expense	254,826	161,586	57.7 %
General corporate expense, net (d)	(45,873)	(24,722)	
Operating profit	$ 208,953	$ 136,864	52.7 %
Operating profit margins:			
Installation (exclusive of significant legal settlement)	11.7 %	10.9 %	
Installation (inclusive of significant legal settlement)		8.5 %	
Distribution	9.6 %	9.5 %	
Operating profit margin before general corporate expense	10.7 %	8.5 %	
Operating profit margin	8.8 %	7.2 %	

(a) All of our operations are located in the U.S.
(b) Intercompany eliminations include the elimination of intercompany profit of $20.9 million and $16.5 million for the years ended December 31, 2018 and 2017, respectively.
(c) Segment operating profit for years ended December 31, 2018 and 2017 includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(d) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance and legal, including salaries, benefits, and other related costs. In the year ended December 31, 2018, general corporate expense, net increased primarily due to merger and acquisition costs incurred related to the USI acquisition.

2018 and 2017 Business Segment Results Discussion

Changes in operating profit margins in the following business segment results discussion exclude general corporate expense, net in 2018 and 2017, as applicable.

The construction industry has continued to expand both in residential new home and commercial construction; however, it is subject to inflationary pressures on costs. While we are seeing the impact of this growth with increases in the cost of building materials, we have been successful to date in achieving price increases, which have more than offset the increased material costs.

Installation

Sales

Sales increased $399.7 million, or 31.2 percent, in 2018 compared to 2017. Sales increased 21.2 percent from acquired branches and 4.2 percent due to increased selling prices. Sales also increased due to increased sales volume related to a higher level of activity in new home construction and an increased sales volume of commercial installation.

Operating Results

Operating margins in the Installation segment were 11.7 percent and 8.5 percent for 2018 compared to 2017. The increase in operating margins is related to the $30 million legal settlement with Owens Corning incurred in the prior year, as well as higher selling prices, USI acquisition synergies, lower legal expenses and lower fixed costs as a percentage of sales due to higher sales volume partially offset by higher material costs, and higher amortization, acquisition and closure costs related to the USI acquisition.

Distribution

Sales

Sales increased $100.6 million, or 14.0 percent, in 2018 compared to 2017. Sales increased 7.2 percent due to increased selling prices and 6.7 percent from branches acquired in 2018.

Operating Results

Operating margins in the Distribution segment were 9.6 percent and 9.5 percent for 2018 and 2017, respectively. Operating margins were positively impacted by higher selling prices, which were partially offset by increased material costs and higher amortization expense from acquisitions.

2017 and 2016 Business Segment Results

The following table sets forth our net sales and operating profit information by business segment, in thousands:

	Year Ended December 31, 2017	2016	Percent Increase 2017-2016
Sales by business segment (a):			
Installation	$ 1,281,296	$ 1,150,168	11.4 %
Distribution	719,759	676,672	6.4 %
Intercompany eliminations and other adjustments (b)	(94,789)	(83,990)	
Net sales	$ 1,906,266	$ 1,742,850	9.4 %
Operating profit by business segment (c):			
Installation (exclusive of significant legal settlement, shown separately below)	$ 139,316	$ 97,140	43.4 %
Significant legal settlement (Installation segment)	(30,000)	—	
Distribution	68,733	59,654	15.2 %
Intercompany eliminations and other adjustments	(16,463)	(14,388)	
Operating profit before general corporate expense	161,586	142,406	13.5 %
General corporate expense, net (d)	(24,722)	(20,802)	
Operating profit	$ 136,864	$ 121,604	12.5 %
Operating profit margins:			
Installation (exclusive of significant legal settlement)	10.9 %	8.4 %	
Installation (inclusive of significant legal settlement)	8.5 %		
Distribution	9.5 %	8.8 %	
Operating profit margin before general corporate expense	8.5 %	8.2 %	
Operating profit margin	7.2 %	7.0 %	

(a) All of our operations are located in the U.S.
(a) Intercompany eliminations include the elimination of intercompany profit of $16.5 million and $14.4 million for the years ended December 31, 2017 and 2016, respectively.
(a) Segment operating profit for years ended December 31, 2017 and 2016, includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(a) General corporate expense, net included expenses not specifically attributable to our segments for functions such as corporate human resources, finance and legal, including salaries, benefits, and other related costs.

2017 and 2016 Business Segment Results Discussion

Changes in operating profit margins in the following business segment results discussion exclude general corporate expense, net in 2017 and 2016, as applicable.

The construction industry continues to expand both in residential new home and commercial construction, however it is subject to inflationary pressures on costs. While we are seeing the impact of this growth with increases in the cost of building materials, we have been successful to date in achieving price increases, which more than offset the increased commodity costs.

Installation

Sales

Sales increased $131.1 million, or 11.4 percent, in 2017 compared to 2016. Sales increased 6.3 percent from acquired branches and 1.5 percent due to increased selling prices. Sales also increased due to increased sales volume related to a higher level of activity in new home construction and an increased sales volume of commercial installation.

Operating Results

Operating margins in the Installation segment were 8.5 percent and 8.4 percent for 2017 compared to 2016. The increase in operating margins was primarily due to increased sales volume and related absorption of fixed costs, higher selling prices, improved sales productivity, as well as the benefits associated with cost savings initiatives. The increase was partially offset by the $30 million legal settlement with Owens Corning, as well as higher legal fee expense and higher material cost. Exclusive of the significant legal settlement, operating margins were 10.9 percent for 2017.

Distribution

Sales

Sales increased $43.1 million, or 6.4 percent, in 2017 compared to 2016. The increase was primarily due to increased sales volume related to a higher level of activity in new home construction. Sales also benefited from a 0.1 percent increase in selling prices.

Operating Results

Operating margins in the Distribution segment were 9.5 percent and 8.8 percent for 2017 compared to 2016. Operating margins were positively impacted by increased sales volume related to a higher level of activity in new home construction as well as improved labor productivity and higher selling prices. The increase was partially offset by an increase in material cost.

Commitments and Contingencies

Litigation

During the first quarter of 2017, we incurred a $30 million expense for a final legal settlement paid to Owens Corning in connection with a breach of contract action related to our termination of an insulation supply contract. The settlement resulted in the dismissal of the lawsuit filed in May 2016, in Toledo, Ohio. The settlement is reflected in the significant legal settlement line item within our Consolidated Statements of Operations for the year ended December 31, 2017. The settlement is also reflected in our Installation segment's operating results for the year ended December 31, 2017.

We are subject to certain claims, charges, litigation, and other proceedings in the ordinary course of our business, including those arising from or related to contractual matters, intellectual property, personal injury, environmental matters, product liability, product recalls, construction defects, insurance coverage, personnel and employment disputes, antitrust, and other matters, including class actions. We believe we have adequate defenses in these matters, and we do not believe that the ultimate outcome of these matters will have a material adverse effect on us. However, there is no assurance that we will prevail in any of these pending matters, and we could in the future incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome of these matters, which could materially impact our liquidity and our results of operations.

Other Commitments

We enter into contracts, which include customary indemnities that are standard for the industries in which we operate. Such indemnities include, among other things, customer claims against builders for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide customary indemnities relating to various items including, among others: the enforceability of trademarks; legal and environmental issues; and asset valuations. We evaluate the probability that we may incur liabilities under these customary indemnities and appropriately record an estimated liability when deemed probable.

We occasionally use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. We also have bonds outstanding for licensing and insurance. For the year ended December 31, 2018, the outstanding bonds in the table below increased due to the USI acquisition and higher commercial sales activity.

The following table summarizes our outstanding performance, licensing, insurance and other bonds, in thousands:

	As of December 31,	
	2018	2017
Outstanding bonds:		
Performance bonds	$ 65,517	$ 44,765
Licensing, insurance, and other bonds	22,287	17,013
Total bonds	$ 87,804	$ 61,778

Liquidity and Capital Resources

We have access to liquidity through our cash from operations and available borrowing capacity under our Amended Credit Agreement, which provides for borrowing and/or standby letter of credit issuances of up to $250 million under the Revolving Facility. For additional information see *Item 8. Financial Statements and Supplementary Data – Note 5. Long-Term Debt.* We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures, and working capital for at least the next twelve months. Cash flows are seasonally stronger in the third and fourth quarters as a result of increased new construction activity during those periods.

The following table summarizes our total liquidity, in thousands:

	As of December 31,		
	2018	2017	2016
Cash and cash equivalents (a)	$ 100,929	$ 56,521	$ 134,375
Revolving Facility	250,000	250,000	125,000
Less: standby letters of credit	(59,288)	(47,055)	(49,080)
Availability under Revolving Facility	190,712	202,945	75,920
Additional term loan availability under delayed draw feature	—	100,000	—
Total liquidity	$ 291,641	$ 359,466	$ 210,295

(a) Our cash and cash equivalents consist of AAA-rated money market funds as well as cash held in our demand deposit accounts.

Cash Flows

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods indicated, in thousands:

	Year Ended December 31, 2018	2017	2016
Changes in cash and cash equivalents:			
Net cash provided by operating activities	$ 167,172	$ 113,192	$ 76,785
Net cash used in investing activities	(551,819)	(108,596)	(16,801)
Net cash provided by (used in) financing activities	429,055	(82,450)	(38,457)
Increase (decrease) for the period	$ 44,408	$ (77,854)	$ 21,527

Net cash flows provided by operating activities increased $54.0 million for the year ended December 31, 2018, as compared to December 31, 2017. The increase was due to a $52.8 million increase in income before taxes which was due to acquisitions, increased organic sales volume, and successfully passing through material costs increases through price increases. Additionally, income before taxes for the year ended December 31, 2017 includes the negative impact of a $30.0 million legal settlement, as discussed in the Results of Operations section above.

Net cash used in investing activities was $551.8 million for the year ended December 31, 2018, primarily comprised of $500.2 million of net cash for the acquisition of USI and ADO and substantially all of the assets of Santa Rosa, and $52.5 million for purchases of property and equipment partially related to our decision to begin purchasing rather than leasing vehicles, partially offset by $0.8 million of proceeds from the sale of property and equipment. Net cash used in investing activities was $108.6 million for the year ended December 31, 2017, primarily comprised of $84.1 million for the acquisition of substantially all of the assets of Midwest, EcoFoam, MR Insulfoam, Capital, Superior, and Canyon and $25.3 million for purchases of property and equipment partially related to our decision to begin purchasing rather than leasing vehicles, partially offset by $0.6 million of proceeds from the sale of property and equipment.

Net cash provided by financing activities was $429.1 million for the year ended December 31, 2018. In 2018, we received $400.0 million from the issuance of our Senior Notes and $100.0 million from the delayed draw on our term loan which we used to fund our acquisition of USI. We received $26.6 million of proceeds from equipment financing notes related to our decision to begin purchasing rather than leasing vehicles. We used $65.0 million for common stock repurchases related to our share repurchase programs, including $50.0 million under the 2018 ASR Agreement, $16.3 million for payments on our term loan, $7.8 million for payment of debt issuance costs related to our Amended Credit Agreement and our Senior Notes, $5.5 million for purchases of common stock for tax withholding obligations related to the vesting and exercise of share-based incentive awards, and $2.1 million for payments on our equipment financing notes. We also made a payment of $0.8 million of contingent consideration for EcoFoam. We drew $90.0 million on our revolving credit facility and repaid $90.0 million. Net cash used in financing activities was $82.5 million for the year ended December 31, 2017. We received $250 million of proceeds from issuance of long-term debt related to our Amended Credit Agreement. We used $175 million of the proceeds to pay off all amounts outstanding under our Old Credit Agreement. We used $139.3 million of cash for common stock repurchases related to our share repurchase programs including our 2017 ASR Agreement, $5.0 million of repayments of our previous long-term debt, $6.3 million of payments for our Amended Credit Agreement, $2.2 million for payment of debt issuance costs, and $4.8 million for purchases of common stock for tax withholding obligations related to the vesting and exercise of share-based incentive awards during the year ended December 31, 2017. We drew $225.0 million on our revolving credit facility and made repayments of $225.0 million during the year ended December 31, 2017.

Critical Accounting Policies and Estimates

We prepare our Consolidated Financial Statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates.

Our significant accounting policies are more fully described in *Item 8. Financial Statements and Supplementary Data – Note 1. Summary of Significant Accounting Policies*. However, certain of our accounting policies considered critical are those we believe are both most important to the portrayal of our financial condition and operating results and require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be most critical in understanding the judgments that are involved in preparing our Consolidated Financial Statements.

Revenue Recognition and Receivables

We recognize revenue for our Installation segment using the percentage of completion method of accounting with respect to each particular order within a given customer's contract, based on the amount of material installed at that customer's location and the associated labor costs, as compared to the total expected cost for the particular order. Revenue is recognized over time as the customer is able to receive and utilize the benefits provided by our services. Each contract contains one or more individual orders, which are based on services delivered. When a contract modification is made, typically the remaining goods or services are considered distinct and we recognize revenue for the modification as a separate performance obligation. When insulation and installation services are bundled in a contract, we combine these items into one performance obligation as the overall promise is to transfer the combined item.

Revenue from our Distribution segment is recognized when title to products and risk of loss transfers to our customers. This represents the point in time when the customer is able to direct the use of and obtain substantially all the benefits from the product. The determination of when control is deemed transferred depends on the shipping terms that are agreed upon in the contract.

At time of sale, we record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives based on historical experience, which is continuously adjusted. The duration of our contracts with customers is relatively short, generally less than a 90-day period, and therefore there is not a significant financing component when considering the determination of the transaction price which gets allocated to the individual performance obligations, generally based on standalone selling prices. Additionally, we consider shipping costs charged to a customer as a fulfillment cost rather than a promised service and expense as incurred. Sales taxes, when incurred, are recorded as a liability and excluded from revenue on a net basis.

We record a contract asset when we have satisfied our performance obligation prior to billing and a contract liability generally when a customer payment is received prior to the satisfaction of our performance obligation. The difference between the beginning and ending balances of our contract assets and liabilities primarily results from the timing of our performance and the customer's payment. The amount of revenue recognized and contract assets recorded for our Installation segment was $61.3 million and $37.1 million as of December 31, 2018 and 2017, respectively and increased primarily as a result of the USI acquisition.

We maintain allowances for doubtful accounts receivable for estimated losses resulting from the inability of customers to make required payments. In addition, we monitor our customer receivable balances and the credit worthiness of our customers on an on-going basis. During downturns in our markets, declines in the financial condition and creditworthiness of customers impact the credit risk of the receivables involved and we have incurred additional bad debt expense related to customer defaults.

Goodwill and Other Intangible Assets

We have two reporting units, which are also our operating and reporting segments: Installation and Distribution. Both reporting units contain goodwill. Assets acquired and liabilities assumed are assigned to the applicable reporting unit based on whether the acquired assets and liabilities relate to the operations of and determination of the fair value of such unit. Goodwill assigned to the reporting unit is the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed for the reporting unit.

We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform a two-step impairment test. If we conclude otherwise, then no further action is taken.

We also have the option to bypass the qualitative assessment and only perform a quantitative assessment, which is the first step of the two-step impairment test. In completing the two-step impairment test, we complete the impairment testing utilizing a discounted cash flow method. We selected this methodology because we believe that it is comparable to what would be used by other market participants. Our operating segments are reporting units that engage in business activities for which discrete financial information, including long range forecasts, is available. We have identified our segments as our reporting units and complete the impairment testing of goodwill at the operating segment level, as defined by accounting guidance. Fair value for our reporting units is determined using a discounted cash flow method which includes significant unobservable inputs (Level 3 inputs).

Determining market values using a discounted cash flow method requires us to make significant estimates and assumptions, including long term projections of cash flows, market conditions, and appropriate discount rates. Our judgments are based on historical experience, current market trends, consultations with external valuation specialists, and other information. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, changes to estimates and assumptions could result in different outcomes. In estimating future cash flows, we rely on internally generated long range forecasts for sales and operating profits, and generally a one to three percent long term assumed annual growth rate of cash flows for periods after the long range forecast. We generally develop these forecasts based upon, among other things, recent sales data for existing products, and estimated U.S. housing starts.

When necessary, an impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds its implied fair value. We did not recognize any impairment charges for goodwill for the years ended December 31, 2018, 2017, and 2016. As of December 31, 2018, net goodwill reflected $762.0 million of accumulated impairment losses, relating primarily to impairment charges taken in 2008-2010 following the substantial decrease in U.S. housing starts after the financial crisis of 2007-2008.

In the fourth quarter of 2018, we performed an assessment on our goodwill and determined that the estimated fair value of each reporting unit substantially exceeded its carrying value at December 31, 2018, and therefore the goodwill was not impaired In the fourth quarter of 2017, we performed an assessment on our goodwill and concluded that it was more-likely-than-not that goodwill was not impaired.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We evaluate the remaining useful lives of amortizable identifiable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization.

Income Taxes

Accounting guidance for income taxes requires that the future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period, and projected future taxable income.

If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of deferred tax assets.

In the fourth quarter of 2016 we recorded a $0.8 million tax benefit from the release of the valuation allowance against certain state deferred tax assets (primarily State net operating losses) due primarily to a return to sustainable profitability in our U.S. operations. The reduction in the valuation allowance in 2016 resulted in a net positive income tax benefit of $0.8 million and an effective tax rate of 37.6 percent for the year. This was the Company's last remaining valuation allowance related to deferred tax assets.

Current accounting guidance allows the recognition of only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by taxing authorities. We believe that there is an increased potential for volatility in our effective tax rate because this threshold allows changes in the income tax environment and the inherent complexities of income tax law in a substantial number of jurisdictions to affect the computation of the liability for uncertain tax positions to a greater extent.

While we believe we have adequately assessed for our uncertain tax positions, amounts asserted by taxing authorities could vary from our assessment of uncertain tax positions. Accordingly, provisions for tax-related matters, including interest and penalties, could be recorded in income tax expense in the period revised assessments are made.

Business Combinations

The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Management uses significant judgments involving estimates and assumptions when determining the fair value of assets acquired and liabilities assumed. These estimates include, but are not limited to, discount rates, projected future revenue growth, cost synergies and expected cash flows, customer attrition rates, useful lives, and other prospective financial information. Additionally, we recognize customer relationships, trademarks and trade names, and non-competition agreements as identifiable intangible assets, which are recorded at fair value as of the transaction date. The fair value of these intangible assets is determined primarily using the income approach and using current industry information. Goodwill is recorded when consideration transferred exceeds the fair value of identifiable assets and liabilities. Measurement-period adjustments to assets acquired and liabilities assumed with a corresponding offset to goodwill are recorded in the period they occur, which may include up to one year from the acquisition date. Contingent consideration is recorded at fair value at the acquisition date.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements and their expected or actual effect on our reported results of operations are addressed in *Item 8. Financial Statements and Supplementary Data – Note 1. Summary of Significant Accounting Policies*.

Off-Balance Sheet Arrangements

As of December 31, 2018 and 2017, other than operating leases, letters of credit, and performance and license bonds, we had no material off-balance sheet arrangements.

Contractual Obligations

The following table provides payment obligations related to current contracts at December 31, 2018, in thousands:

	Payments Due by Period						
	2019	2020	2021	2022	2023	Thereafter	Total
Operating leases	$ 47,964	$ 31,466	$ 19,687	$ 11,059	$ 5,167	$ 6,197	$ 121,540
Principal repayments of long-term debt	26,852	31,437	36,032	254,386	3,248	400,000	751,955
Interest payments and fees on long-term debt (a)	36,127	35,003	33,789	25,073	22,557	52,500	205,049
Purchase obligations (b)	58,045	58,045	58,045	—	—	—	174,135
Total	$ 168,988	$ 155,951	$ 147,553	$ 290,518	$ 30,972	$ 458,697	$ 1,252,679

(a) Interest and fees have been calculated using the interest rate on our long-term debt as of December 31, 2018 and assumes our standby letters of credit remain constant during the term of our Amended Credit Agreement.
(b) We have minimum purchase commitments on certain products through 2021. Amounts have been calculated using pricing in effect at December 31, 2018 on non-cancelable minimum contractual obligations by period.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our credit agreement became effective on May 5, 2017, and was amended on March 28, 2018 to facilitate the acquisition of USI. The Amended Credit Agreement consists of a senior secured term loan facility in the amount of $250.0 million, $100.0 million of additional term loan capacity under a delayed draw feature, which we accessed on May 1, 2018 upon consummation of the acquisition of USI, and a revolving facility in the amount of $250.0 million. In addition, on April 25, 2018, we issued $400.0 million aggregate principal amount of Senior Notes. The Senior Notes bear a fixed rate of interest and therefore are excluded from the calculation below as they are not subject to fluctuations in interest rates.

Interest payable on both the term loan facility and revolving facility under the Amended Credit Agreement is based on a variable interest rate. As a result, we are exposed to market risks related to fluctuations in interest rates on this outstanding indebtedness. As of December 31, 2018, we had $327.5 million outstanding under our term loan facility, and the applicable interest rate as of such date was 3.59 percent. Based on our outstanding borrowings under the Amended Credit Agreement as of December, 2018, a 100 basis point increase in the interest rate would result in a $3.1 million increase in our annualized interest expense. There was no outstanding balance under the revolving facility as of December 31, 2018.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of TopBuild Corp.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of TopBuild Corp. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded USI from its assessment of internal control over financial reporting as of December 31, 2018 because it was acquired by the Company in a purchase business combination during 2018. We have also excluded USI from our audit of internal control over financial reporting. USI is a wholly-owned subsidiary whose total assets and net sales excluded from management's assessment and our audit of internal control over financial reporting represent 5% and 11%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/PricewaterhouseCoopers LLP

Orlando, Florida
February 26, 2019

We have served as the Company's auditor since 2015.

Table of Contents

TOPBUILD CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands except share amounts)

	As of December 31, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 100,929	$ 56,521
Receivables, net of an allowance for doubtful accounts of $3,676 and $3,673 at December 31, 2018, and December 31, 2017, respectively	407,106	308,508
Inventories, net	168,977	131,342
Prepaid expenses and other current assets	27,685	15,221
Total current assets	704,697	511,592
Property and equipment, net	167,961	107,121
Goodwill	1,364,016	1,077,186
Other intangible assets, net	199,387	33,243
Deferred tax assets, net	13,176	18,129
Other assets	5,294	2,278
Total assets	$ 2,454,531	$ 1,749,549
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 313,172	$ 263,814
Current portion of long-term debt	26,852	12,500
Accrued liabilities	104,236	75,087
Total current liabilities	444,260	351,401
Long-term debt	716,622	229,387
Deferred tax liabilities, net	176,212	132,840
Long-term portion of insurance reserves	43,434	36,160
Other liabilities	1,905	3,242
Total liabilities	1,382,433	753,030
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2018, and December 31, 2017	—	—
Common stock, $0.01 par value: 250,000,000 shares authorized; 38,676,586 issued and 34,573,596 outstanding at December 31, 2018, and 38,626,378 shares issued and 35,586,916 outstanding at December 31, 2017	387	386
Treasury stock, 4,102,990 shares at December 31, 2018, and 3,039,462 shares at December 31, 2017, at cost	(216,607)	(141,582)
Additional paid-in capital	846,451	830,600
Retained earnings	441,867	307,115
Total equity	1,072,098	996,519
Total liabilities and equity	$ 2,454,531	$ 1,749,549

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF OPERATION S
(In thousands except per common share amounts)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Net sales	$ 2,384,249	$ 1,906,266	$ 1,742,850
Cost of sales	1,808,097	1,445,157	1,342,506
Gross profit	576,152	461,109	400,344
Selling, general, and administrative expense (exclusive of significant legal settlement, shown separately below)	367,199	294,245	278,740
Significant legal settlement	—	30,000	—
Operating profit	208,953	136,864	121,604
Other income (expense), net:			
Interest expense	(28,687)	(8,019)	(5,608)
Loss on extinguishment of debt	—	(1,086)	—
Other, net	558	281	277
Other expense, net	(28,129)	(8,824)	(5,331)
Income before income taxes	180,824	128,040	116,273
Income tax (expense) benefit	(46,072)	30,093	(43,667)
Net income	$ 134,752	$ 158,133	$ 72,606
Income per common share:			
Basic	$ 3.86	$ 4.41	$ 1.93
Diluted	$ 3.78	$ 4.32	$ 1.92
Weighted average shares outstanding:			
Basic	34,921,318	35,897,641	37,585,777
Diluted	35,613,319	36,572,146	37,867,212

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	**2017**	**2016**
Cash Flows Provided by (Used in) Operating Activities:			
Net income	$ 134,752	$ 158,133	$ 72,606
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,419	16,453	12,011
Share-based compensation	11,317	9,889	7,669
Loss on extinguishment of debt	—	1,086	—
Loss on sale or abandonment of property and equipment	1,204	998	2,737
Amortization of debt issuance costs	1,201	401	343
Change in fair value of contingent consideration	(330)	149	—
Provision for bad debt expense	3,240	3,231	3,292
Loss from inventory obsolescence	2,187	1,979	1,343
Deferred income taxes, net	12,936	(59,535)	13,540
Change in certain assets and liabilities			
Receivables, net	(35,522)	(37,943)	(19,953)
Inventories, net	(23,297)	(14,901)	1,370
Prepaid expenses and other current assets	(8,360)	8,184	(10,102)
Accounts payable	29,687	17,936	(11,698)
Accrued liabilities	(660)	7,160	3,633
Other, net	(602)	(28)	(6)
Net cash provided by operating activities	167,172	113,192	76,785
Cash Flows Provided by (Used in) Investing Activities:			
Purchases of property and equipment	(52,504)	(25,308)	(14,156)
Acquisition of businesses, net of cash acquired of $15,756 in 2018	(500,202)	(84,090)	(3,476)
Proceeds from sale of property and equipment	849	603	718
Other, net	38	199	113
Net cash used in investing activities	(551,819)	(108,596)	(16,801)
Cash Flows Provided by (Used in) Financing Activities:			
Net transfer from Former Parent	—	—	664
Proceeds from issuance of long-term debt	526,604	250,000	—
Repayment of long-term debt	(18,399)	(186,250)	(15,000)
Payment of debt issuance costs	(7,819)	(2,150)	—
Proceeds from revolving credit facility	90,000	225,000	—
Repayment of revolving credit facility	(90,000)	(225,000)	—
Taxes withheld and paid on employees' equity awards	(5,465)	(4,764)	(1,825)
Repurchase of shares of common stock	(65,025)	(139,286)	(22,296)
Payment of contingent consideration	(841)	—	—
Net cash provided by (used in) financing activities	429,055	(82,450)	(38,457)
Cash and Cash Equivalents			
Increase (decrease) for the period	44,408	(77,854)	21,527
Beginning of period	56,521	134,375	112,848
End of period	$ 100,929	$ 56,521	$ 134,375
Supplemental disclosure of cash paid for:			
Interest on long-term debt	$ 23,733	$ 6,423	$ 4,130
Income taxes	39,010	22,580	39,508
Supplemental disclosure of noncash investing activities:			
Accruals for property and equipment	$ 860	$ 1,123	$ 387

See notes to our consolidated financial statements.

TOPBUILD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Equity
Balance at December 31, 2015	$ 377	$ —	$ 838,976	$ 76,376	$ 915,729
Net income	—	—	—	72,606	72,606
Separation-related adjustments	—	—	664	—	664
Share-based compensation	—	—	7,669	—	7,669
Issuance of 756,590 restricted share awards under long-term equity incentive plan	8	—	(8)	—	—
Repurchase of 673,626 shares of common stock pursuant to 2016 Repurchase Program	—	(22,296)	—	—	(22,296)
66,196 shares of common stock withheld to pay taxes on employees' equity awards	—	—	(1,825)	—	(1,825)
Balance at December 31, 2016	$ 385	$ (22,296)	$ 845,476	$ 148,982	$ 972,547
Net income	—	—	—	158,133	158,133
Share-based compensation	—	—	9,889	—	9,889
Issuance of 158,900 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 858,393 shares of common stock pursuant to 2016 and 2017 Repurchase Programs	—	(39,286)	—	—	(39,286)
Repurchase of 1,507,443 shares of common stock pursuant to the 2017 ASR Agreement	—	(80,000)	(20,000)	—	(100,000)
123,101 shares of common stock withheld to pay taxes on employees' equity awards	—	—	(4,764)	—	(4,764)
Balance at December 31, 2017	$ 386	$ (141,582)	$ 830,600	$ 307,115	$ 996,519
Net income	—	—	—	134,752	134,752
Share-based compensation	—	—	11,317	—	11,317
Issuance of 90,760 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 252,946 shares of common stock pursuant to 2017 Repurchase Program	—	(15,000)	—	—	(15,000)
Repurchase of 13,657 shares of common stock pursuant to the settlement of the 2017 ASR Agreement	—	(20,000)	20,000	—	—
Repurchase of 796,925 shares of common stock pursuant to the 2018 ASR Agreement	—	(40,025)	(10,000)	—	(50,025)
98,056 shares of common stock withheld to pay taxes on employees' equity awards	—	—	(5,465)	—	(5,465)
Balance at December 31, 2018	$ 387	$ (216,607)	$ 846,451	$ 441,867	$ 1,072,098

See notes to our consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. On June 30, 2015, Masco completed the Separation of its Services Business from its other businesses and TopBuild became an independent public company which holds, through its consolidated subsidiaries, the assets and liabilities of the Services Business. The Separation was achieved through the distribution of 100 percent of the outstanding capital stock of TopBuild to holders of Masco common stock. TopBuild is a Delaware corporation and trades on the NYSE under the symbol "BLD."

We report our business in two segments: Installation and Distribution. Our Installation segment primarily installs insulation and other building products. Our Distribution segment primarily sells and distributes insulation and other building products. Our segments are based on our operating units, for which financial information is regularly evaluated by our Chief Operating Decision Maker.

Financial Statement Presentation. The consolidated financial statements have been developed in conformity with GAAP. All intercompany transactions between the TopBuild entities have been eliminated. Transactions between TopBuild and Masco prior to the Separation, with the exception of purchase transactions, are reflected in the Consolidated Statements of Cash Flows as a financing activity in "Net transfer from Former Parent."

Use of Estimates and Assumptions in the Preparation of Financial Statements. The preparation of our consolidated financial statements in conformity with GAAP requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of any contingent assets and liabilities, at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

Revenue Recognition. In May 2014 the FASB issued a new standard for revenue recognition, ASC 606. Subsequent to issuing ASC 606, the FASB issued a number of updates and technical improvements which did not change the core principles of the guidance. The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. Effective January 1, 2018, we adopted ASC 606 using the modified retrospective approach. Adoption of this standard did not have a material impact on our financial position or results of operations for any periods presented. As such, a cumulative adjustment was not recorded to our beginning retained earnings balance.

Revenue is disaggregated between our Installation and Distribution segments. A reconciliation of disaggregated revenue by segment is included in *Note 7 – Segment Information.*

We recognize revenue for our Installation segment using the percentage of completion method of accounting with respect to each particular order within a given customer's contract, based on the amount of material installed at that customer's location and the associated labor costs, as compared to the total expected cost for the particular order. Revenue is recognized over time as the customer is able to receive and utilize the benefits provided by our services. Each contract contains one or more individual orders, which are based on services delivered. When a contract modification is made, typically the remaining goods or services are considered distinct and we recognize revenue for the modification as a separate performance obligation. When insulation and installation services are bundled in a contract, we combine these items into one performance obligation as the overall promise is to transfer the combined item.

Revenue from our Distribution segment is recognized when title to products and risk of loss transfers to our customers. This represents the point in time when the customer is able to direct the use of and obtain substantially all the benefits from the product. The determination of when control is deemed transferred depends on the shipping terms that are agreed upon in the contract.

At time of sale, we record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives based on historical experience, which is continuously adjusted. The duration of our contracts with customers is relatively short, generally less than a 90-day period, therefore there is not a significant financing component when considering the determination of the transaction price which gets allocated to the individual performance obligations, generally based on standalone selling prices. Additionally, we consider shipping costs charged to a customer as a fulfillment cost rather than a promised service and expense as incurred. Sales taxes, when incurred, are recorded as a liability and excluded from revenue on a net basis.

We record a contract asset when we have satisfied our performance obligation prior to billing and a contract liability generally when a customer payment is received prior to the satisfaction of our performance obligation. The difference between the beginning and ending balances of our contract assets and liabilities primarily results from the timing of our performance and the customer's payment.

The following table represents our contract assets and contract liabilities with customers, in thousands:

	Included in Line Item on Consolidated Balance Sheets	As of December 31, 2018	2017
Contract Assets:			
Receivables, unbilled	Receivables, net	$ 61,339	$ 37,142
Contract Liabilities:			
Deferred revenue	Accrued liabilities	$ 19,963	$ 9,275

The increase in our contract asset and contract liability balances from December 31, 2017 was primarily a result of the USI acquisition. Our contract liabilities are normally recognized to net sales in the immediately subsequent reporting period due to the generally short-term nature of our contracts with customers.

Income Taxes. We account for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax basis and financial reporting basis of our assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which we operate.

Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence. If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of the deferred tax assets.

Only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by taxing authorities are recognized. There is an increased potential for volatility in our effective tax rate because of future changes in the income tax environment and the inherent complexities of income tax law in the various jurisdictions. Accordingly, provisions for tax-related matters, including interest and penalties, could be recorded in income tax expense in the period revised assessments are made.

Cash and Cash Equivalents. We consider our highly liquid investments with a maturity of three months or less at the time of purchase to be cash and cash equivalents.

Receivables, net. We do business with a significant number of customers, principally homebuilders. We monitor our exposure for credit losses on our customer receivable balances and the credit worthiness of our customers on an on-going basis and record related allowances for doubtful accounts. Allowances are estimated based upon specific customer balances where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical collection, return, and write-off activity. During downturns in our markets, declines in the financial condition and creditworthiness of customers impact the credit risk of the receivables involved and we have incurred additional bad debt expense related to customer defaults. Receivables, net are presented net of certain allowances, including allowances for doubtful accounts.

Inventories, net. Inventories, net consist primarily of insulation, rain gutters, glass and windows, fireproofing and firestopping products, garage doors, fireplaces, shower enclosures, closet shelving, accessories, and other products. We value inventory at the lower of cost or net realizable value, where cost is determined by the first in-first out cost method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. Inventory value is evaluated at each balance sheet date to ensure that it is carried at the lower of cost or net realizable value. Inventory provisions are recorded to reduce inventory to the lower of cost or net realizable value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage, and specific identification of items such as product discontinuance, engineering/material changes, or regulatory-related changes. As of December 31, 2018 and 2017, all inventory consisted of finished goods.

Property and Equipment, net. Property and equipment, net, including significant betterments to existing facilities, are recorded at cost. Upon retirement or disposal, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the Consolidated Statements of Operations. Maintenance and repair costs are charged against earnings as incurred. Gains and losses on the disposal of equipment are included in selling, general, and administrative expense.

We review our property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount is not recoverable from its undiscounted cash flows, we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

Depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are generally as follows:

Asset Class	Estimated Useful Life
Buildings and land improvements	20 – 40 years
Software	3 – 6 years
Company vehicles	3 – 8 years
Equipment	6 – 10 years

Fair Value. The fair value measurement standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (referred to as an "exit price"). A fair value hierarchy is established that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities or other inputs that are observable or can be corroborated by market data.

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Goodwill and Other Intangible Assets. We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level. Our operating segments are reporting units that engage in business activities for which discrete financial information, including long-range forecasts, are available. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform a two-step impairment test. If we conclude otherwise, then no further action is taken. We also have the option to bypass the qualitative assessment and only perform a quantitative assessment, which is the first step of the two-step impairment test. In the two-step impairment test, we compare the fair value of the reporting units to the carrying value of the reporting units for goodwill impairment testing. Fair value for our reporting units is determined using a discounted cash flow method, which includes significant unobservable inputs (Level 3 inputs).

Determining market values using a discounted cash flow method requires us to make significant estimates and assumptions, including long term projections of cash flows, market conditions, and appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. In estimating future cash flows, we rely on internally generated long-range forecasts for sales and operating profits, including capital expenditures, and generally utilize a one to three percent long term assumed annual growth rate of cash flows for periods after the long-range forecast. An impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds the implied fair value of goodwill.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We evaluate the remaining useful lives of amortizable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization. For additional information, see *Note 4 – Goodwill and Other Intangibles*.

Insurance Reserves. We use a combination of high deductible insurance and matching deductible insurance for a number of risks including, but not limited to, workers' compensation, general, vehicle, and property liabilities. Our workers' compensation insurance is primarily a high-deductible insurance program and our primary general liability insurance is a matching deductible program. We are insured for covered claims above the deductibles and retentions. The liabilities represent our best estimate of our costs, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported claims through December 31, 2018 and 2017. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability. We also record an insurance receivable for claims that exceeded the stop loss limit included in other assets on our Consolidated Balance Sheets which offsets an equal liability included within the reserve amount recorded in other liabilities on our Consolidated Balance Sheet. At December 31, 2018 and 2017, the amount of this receivable and liability was $4.2 million and $2.0 million, respectively.

Advertising. Advertising costs are expensed as incurred. Advertising expense, net of manufacturers support, was approximately $1.7 million, $1.1 million, and $1.1 million for the years ended December 31, 2018, 2017, and 2016, respectively, and is included in selling, general, and administrative expense.

Share-based Compensation. Our share-based compensation program currently consists of RSAs and stock options. Share-based compensation expense is reported in selling, general, and administrative expense. We do not capitalize any compensation cost related to share-based compensation awards. The income tax benefits and deficiencies associated with share-based awards are reported as a component of income tax expense. Excess tax benefits and deficiencies are included in cash provided by (used in) operating activities while shares withheld for tax-withholding are reported in financing activities under the caption "Taxes withheld and paid on employees' equity awards" in our Consolidated Statements of Cash Flows. Award forfeitures are accounted for in the period they occur. The following table details our award types and accounting policies:

Award Type:	**Fair Value Determination**	**Vesting**	**Expense Recognition‡**	**Expense Measurement**
Restricted Share Awards				
Service Condition	Closing stock price on date of grant	Ratably; 3 or 5 years	Straight-line	Fair value at grant date
Performance Condition	Closing stock price on date of grant	Cliff; 3 years	Straight-line; Adjusted based on meeting or exceeding performance targets	Evaluated quarterly; 0 - 200% of fair value at grant date depending on performance
Market Condition	Monte-Carlo Simulation	Cliff; 3 years	Straight-line; Recognized even if condition is not met	Fair value at grant date
Stock Options†	Black-Scholes Options Pricing Model	Ratably; 3 or 5 years	Straight-line	Fair value at grant date

†Stock options expire no later than 10 years after the grant date.
‡Expense is reversed if award is forfeited prior to vesting.

Debt Issuance Costs. Debt issuance costs are amortized as interest expense over the life of the respective debt, which approximates the effective interest rate method. Unamortized debt issuance costs are presented as a direct deduction from the related debt on our Consolidated Balance Sheets.

Leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the Consolidated Statements of Operations on a straight-line basis over the lease term, including future option periods the Company reasonably expects to exercise, whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. This generally results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in later years. The difference between rent expense recognized and actual rental payments is recorded as deferred rent and included in other liabilities. Lease termination costs are accrued over the life of the lease based on historical experience. Leasehold improvements are amortized over the lesser of the expected lease term, including cancelable option periods, or the estimated useful lives of the related assets using the straight-line method. See discussion of new lease guidance in ASU 2016-02 in the *Recently Issued Accounting Pronouncements Not Yet Adopted* caption below.

Business Combinations. The purchase price for business combinations is allocated to the estimated fair values of acquired tangible and intangible assets, including goodwill, and assumed liabilities, where applicable. Additionally, we recognize customer relationships, trademarks and trade names, and non-competition agreements as identifiable intangible assets. These assets are recorded at fair value as of the transaction date. The fair value of these intangible assets is determined primarily using the income approach and using current industry information. Goodwill is recorded when consideration transferred exceeds the fair value of identifiable assets and liabilities. Measurement-period adjustments are recorded in the period they occur. Contingent consideration is recorded at fair value at the acquisition date.

Recently Adopted Accounting Pronouncements:

In August 2016 the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments". This standard addresses the diversity in practice of how certain cash receipts and payments are classified in the statement of cash flows, including contingent consideration payments made after a business combination. This update was effective for us beginning January 1, 2018 and we adopted the standard using a retrospective approach. There was no impact to any prior periods.

In January 2017 the FASB issued ASU 2017-01, "Clarifying the Definition of a Business." The new standard narrows the definition of a business and provides a framework for evaluation. This update was effective for us beginning January 1, 2018, and we adopted the standard using a prospective approach. The adoption of this standard did not have a material impact on our financial position or results of operations.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract". This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. We early adopted this guidance as of October 1, 2018 and applied it prospectively to a new contract that was executed during the fourth quarter which falls within the scope of this update. We expect to capitalize approximately $1.3 million of costs to be incurred during the implementation stage in 2019 and will expense these costs over the term of the hosting arrangement, in accordance with the guidance.

Recently Issued Accounting Pronouncements Not Yet Adopted:

In February 2016 the FASB issued ASU 2016-02, "Leases." This standard requires a lessee to recognize most leases on its balance sheet. Companies are required to use a modified retrospective transition method for all existing leases. This standard is effective for annual periods beginning after December 15, 2018, and interim periods therein with early adoption permitted. We adopted this guidance on January 1, 2019 using the optional transition method which allows an entity to apply the new standard at the adoption date with a cumulative effect adjustment, if any, recorded to the opening balance of retained earnings, in the period of adoption. We elected to use the short-term lease exception outlined in ASU 2016-02. While we continue to evaluate the effects of adopting the new guidance, we expect most existing operating lease commitments will be recognized as operating lease liabilities and right-of-use assets upon adoption. The adoption based on our ongoing assessment, will increase total assets by less than 5%. We are implementing enhanced internal controls and a software solution to comply with the requirements of the standard.

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses". This guidance introduces a current expected credit loss ("CECL") model for the recognition of impairment losses on financial assets, including trade receivables. The CECL model replaces current GAAP's incurred loss model. Under CECL, companies will record an allowance through current earnings for the expected credit loss for the life of the financial asset upon initial recognition of the financial asset. This update is effective for us at the beginning of 2020 with early adoption permitted at the beginning of 2019. We have not yet selected an adoption date, and we are currently evaluating the effect of adoption of this standard on our financial position and results of operations.

In January 2017 the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment." The new standard simplifies the subsequent measurement of goodwill by eliminating the second step of the goodwill impairment test. This update is effective for us beginning January 1, 2020. Early adoption is permitted and the new standard will be applied on a prospective basis. We have not yet selected an adoption date, and we do not anticipate the adoption of this standard to have an impact on our financial position and results of operations.

In August 2018 the FASB issued ASU 2018-13, "Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." The new standard modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, including adjustments to Level 3 fair value measurement disclosures as well as the removal of disclosures around Level 1 and Level 2 transfers. This update is effective for us beginning January 1, 2020. Early adoption is permitted and the new standard will be applied on a prospective basis. We have not yet selected an adoption date, and we are currently evaluating the effect of adoption of this standard on our financial position and results of operations.

2. RELATED PARTY TRANSACTIONS

Transactions between us and Masco prior to the Separation, with the exception of purchase transactions, are reflected in our Consolidated Statements of Cash Flows as a financing activity in "Net transfer from Former Parent." Subsequent to the Separation, any transactions with Masco are no longer considered related party and are reflected in our Consolidated Statements of Operations and included in the operating cash flow section of our Consolidated Statements of Cash Flows.

In addition, we lease certain operating facilities from certain related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. These related party leases are immaterial to our Consolidated Statements of Operations.

3. PROPERTY & EQUIPMENT

The following table sets forth our property and equipment by class as of December 31, 2018 and 2017, in thousands:

	As of December 31,	
	2018	2017
Land and improvements	$ 7,649	$ 7,846
Buildings	38,933	40,515
Equipment	115,261	96,580
Computer hardware and software	132,719	125,984
Company vehicles	94,896	41,298
	389,458	312,223
Less: Accumulated depreciation	(221,497)	(205,102)
Total property and equipment, net	$ 167,961	$ 107,121

For additions to property and equipment as a result of 2018 acquisitions, see *Note 16 – Business Combinations.*

Total property and equipment, net as of December 31, 2018 excludes $0.9 million of assets held for sale related to a property acquired in the USI acquisition in which management committed to a plan of sale in the fourth quarter of 2018. These assets held for sale are included in prepaid expenses and other current assets on the Consolidated Balance Sheet as of December 31, 2018.

Depreciation expense was $23.7 million, $13.5 million, and $11.2 million for the years ended December 31, 2018, 2017, and 2016, respectively.

4. GOODWILL AND OTHER INTANGIBLES

We have two reporting units which are also our operating and reporting segments: Installation and Distribution. Both reporting units contain goodwill. Assets acquired and liabilities assumed are assigned to the applicable reporting unit based on whether the acquired assets and liabilities relate to the operations of and determination of the fair value of such unit. Goodwill assigned to the reporting unit is the excess of the fair value of the acquired business over the fair value of the individual assets acquired and liabilities assumed for the reporting unit.

In the fourth quarters of 2018 and 2017, we performed annual assessments on our goodwill resulting in no impairment.
Changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017, by segment, were as follows, in thousands:

	Gross Goodwill at December 31, 2017	Additions	Gross Goodwill at December 31, 2018	Accumulated Impairment Losses	Net Goodwill at December 31, 2018
Goodwill, by segment:					
Installation	$ 1,422,920	$ 256,734	$ 1,679,654	$ (762,021)	$ 917,633
Distribution	416,287	30,096	446,383	—	446,383
Total goodwill	$ 1,839,207	$ 286,830	$ 2,126,037	$ (762,021)	$ 1,364,016

	Gross Goodwill at December 31, 2016	Additions	Gross Goodwill at December 31, 2017	Accumulated Impairment Losses	Net Goodwill at December 31, 2017
Goodwill, by segment:					
Installation	$ 1,390,792	$ 32,128	$ 1,422,920	$ (762,021)	$ 660,899
Distribution	416,287	—	416,287	—	416,287
Total goodwill	$ 1,807,079	$ 32,128	$ 1,839,207	$ (762,021)	$ 1,077,186

Other intangible assets, net includes customer relationships, non-compete agreements, and trademarks. The following table sets forth our other intangible assets and associated amortization expense, in thousands:

	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016
Gross definite-lived intangible assets	$ 218,882	$ 54,872	$ 20,932
Accumulated amortization	(19,495)	(21,629)	(18,683)
Net definite-lived intangible assets	199,387	33,243	2,249
Indefinite-lived intangible assets not subject to amortization	—	—	407
Other intangible assets, net	$ 199,387	$ 33,243	$ 2,656
Amortization expense	$ 15,752	$ 2,994	$ 795

The following table sets forth the amortization expense related to the definite-lived intangible assets during each of the next five years, in thousands:

	Amortization Expense
2019	$ 20,692
2020	20,692
2021	20,572
2022	19,713
2023	18,995

See *Note 16 – Business Combinations* for breakout by major intangible asset class and their weighted average estimated useful lives.

5. LONG-TERM DEBT

The following table reconciles the principal balance of our outstanding debt to our Consolidated Balance Sheets, in thousands:

	As of	
Principal debt balances:	December 31, 2018	December 31, 2017
Current portion of long-term debt - term loan	$ 21,875	$ 12,500
Current portion of long-term debt - equipment notes	4,977	—
Long-term portion of long-term debt - Senior Notes	400,000	—
Long-term portion of long-term debt - term loan	305,625	231,250
Long-term portion of long-term debt - equipment notes	19,478	—
Unamortized debt issuance costs	(8,481)	(1,863)
Total debt, net of unamortized debt issuance costs	743,474	241,887
Less: current portion of long-term debt	26,852	12,500
Total long-term debt	$ 716,622	$ 229,387

The following table sets forth our remaining principal payments for our outstanding debt balances as of December 31, 2018, in thousands:

	Payments Due by Period						
	2019	2020	2021	2022	2023	Thereafter	Total
Senior Notes	$ —	$ —	$ —	$ —	$ —	$ 400,000	$ 400,000
Term loan	21,875	26,250	30,625	248,750	—	—	327,500
Equipment notes	4,977	5,187	5,407	5,636	3,248	—	24,455
Total	$ 26,852	$ 31,437	$ 36,032	$ 254,386	$ 3,248	$ 400,000	$ 751,955

Amended Credit Agreement and Senior Secured Term Loan Facility

On May 5, 2017, we and the Guarantors entered into a credit agreement with the Lenders. All obligations under the credit agreement are guaranteed by the Guarantors, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by substantially all of the assets of us and the Guarantors. On March 28, 2018, we executed an amendment to this credit agreement, which primarily facilitated the acquisition of USI by (i) extending until August 29, 2018, the period during which the Company could access the $100.0 million delayed draw term loan feature and (ii) providing that the Company could issue up to $500.0 million of Senior Notes in connection with its acquisition of USI. On May 1, 2018, we closed on our acquisition of USI. The acquisition was funded through net proceeds from the issuance on April 25, 2018 of $400.0 million of 5.625% Senior Notes due in 2026 together with the net proceeds from the $100.0 million delayed draw term loan commitment accessed on May 1, 2018 under our Amended Credit Agreement. These funds were also used for the payment of related fees and expenses, as well as for general corporate purposes.

The following table outlines the key terms of our Amended Credit Agreement (dollars in thousands):

Senior secured term loan facility (original borrowing) (a)	$	250,000
Additional delayed draw term loan (b)	$	100,000
Additional term loan and/or revolver capacity available under incremental facility (c)	$	200,000
Revolving Facility	$	250,000
Sublimit for issuance of letters of credit under Revolving Facility (d)	$	100,000
Sublimit for swingline loans under Revolving Facility (d)	$	20,000
Interest rate as of December 31, 2018		3.59 %
Scheduled maturity date		5/05/2022

(a) The Amended Credit Agreement provides for a term loan limit of $350.0 million; $250.0 million was drawn on May 5, 2017 .
(b) On May 1, 2018, the net proceeds from the $100.0 million delayed draw term loan were used to partially fund the USI acquisition.
(c) Additional borrowing capacity is available under the incremental facility, subject to certain terms and conditions (including existing or new lenders providing commitments in respect of such additional borrowing capacity).
(d) Use of the sublimits for the issuance of letters of credit and swingline loans reduces the availability under the Revolving Facility.

Interest payable on borrowings under the Amended Credit Agreement is based on an applicable margin rate plus, at our option, either:

- A base rate determined by reference to the highest of either (i) the federal funds rate plus 0.50 percent, (ii) Bank of America's "prime rate," or (iii) the LIBOR rate for U.S. dollar deposits with a term of one month, plus 1.00 percent; or

- A LIBOR rate determined by reference to the costs of funds for deposits in U.S. dollars for the interest period relevant to such borrowings.

The applicable margin rate is determined based on our Secured Leverage Ratio. In the case of base rate borrowings, the applicable margin rate ranges from 0.00 percent to 1.50 percent and in the case of LIBOR rate borrowings, the applicable margin ranges from 1.00 percent to 2.50 percent. Borrowings under the Amended Credit Agreement are prepayable at the Company's option without premium or penalty. The Company is required to make prepayments with the net cash proceeds of certain asset sales and certain extraordinary receipts.

Revolving Facility

The Company has outstanding standby letters of credit that secure our financial obligations related to our workers' compensation, general insurance, and auto liability programs. These standby letters of credit, as well as any outstanding amount borrowed under our Revolving Facility, reduce the availability under the Revolving Facility. The following table summarizes our availability under the Revolving Facility, in thousands:

	As of	
	December 31, 2018	**December 31, 2017**
Revolving Facility	$ 250,000	$ 250,000
Less: standby letters of credit	(59,288)	(47,055)
Availability under Revolving Facility	$ 190,712	$ 202,945

We are required to pay commitment fees to the Lenders in respect of any unutilized commitments. The commitment fees range from 0.15 percent to 0.275 percent per annum, depending on our Secured Leverage Ratio. We must also pay customary fees on outstanding letters of credit.

Senior Notes

The Senior Notes are our senior unsecured obligations and bear interest at 5.625% per year, payable semiannually in arrears on May 1 and November 1 of each year, which began on November 1, 2018. The Senior Notes mature on May 1, 2026, unless redeemed early or repurchased. We have the right to redeem the Senior Notes under certain circumstances, and, if we undergo a change in control, we must make an offer to repurchase all of the Senior Notes then outstanding at a repurchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest (if any) to, but not including, the repurchase date.

Equipment Notes

During 2018, the Company executed $26.6 million of equipment notes for the purpose of financing the purchase of vehicles and equipment. These equipment notes each have a five year maturity through 2023 and bear interest at fixed rates between 3.9% and 4.4%.

Covenant Compliance

The indenture governing our Senior Notes contains customary restrictive covenants that, among other things, generally limit our ability to incur additional debt and issue preferred stock; to create liens; to pay dividends, acquire shares of capital stock, make payments on subordinated debt or make investments; to place limitations on distributions from certain subsidiaries; to issue guarantees; to issue or sell the capital stock of certain subsidiaries; to sell assets; to enter into transactions with affiliates; and to effect mergers. The Senior Notes indenture also contains customary events of default, subject in certain cases to grace and cure periods. Generally, if an event of default occurs and is continuing, the trustee under the indenture or the holders of at least 25% in aggregate principal amount of the Senior Notes then outstanding may declare the principal of, premium, if any, and accrued interest on all the Senior Notes immediately due and payable. The Senior Notes and related guarantees have not been registered under the Securities Act of 1933, and we are not required to register either the Senior Notes or the guarantees in the future.

The Amended Credit Agreement contains certain covenants that limit, among other things, the ability of the Company to incur additional indebtedness or liens; to make certain investments or loans; to make certain restricted payments; to enter into consolidations, mergers, sales of material assets, and other fundamental changes; to transact with affiliates; to enter into agreements restricting the ability of subsidiaries to incur liens or pay dividends; or to make certain accounting changes. The Amended Credit Agreement contains customary affirmative covenants and events of default.

The Amended Credit Agreement requires us to maintain a Net Leverage Ratio and minimum FCCR throughout the term of the agreement. The following table sets forth the maximum Net Leverage Ratios and minimum FCCR required:

Quarter Ending	Maximum Net Leverage Ratio	Minimum FCCR
June 30, 2018 through September 30, 2018	3.75:1.00	1.25:1.00
December 31, 2018 through June 30, 2019	3.50:1.00	1.25:1.00
September 30, 2019 and each fiscal quarter end thereafter	3.25:1.00	1.25:1.00

The following table outlines the key financial covenants effective for the period covered by this report:

	As of December 31, 2018
Maximum Net Leverage Ratio	3.50:1.00
Minimum FCCR	1.25:1.00
Compliance as of period end	In Compliance

6. FAIR VALUE MEASUREMENTS

Fair Value on Recurring Basis

The carrying values of cash and cash equivalents, receivables, net, and accounts payable are considered to be representative of their respective fair values due to the short-term nature of these instruments. We measure our contingent consideration liabilities related to business combinations at fair value. For more information see *Note 16 –Business Combinations.*

Fair Value on Non-Recurring Basis

Fair value measurements were applied to our long-term debt portfolio. We believe the carrying value of our term loan approximates the fair market value primarily due to the fact that the non-performance risk of servicing our debt obligations, as reflected in our business and credit risk profile, has not materially changed since we assumed our debt obligations under the Amended Credit Agreement. In addition, due to the floating-rate nature of our term loan, the market value is not subject to variability solely due to changes in the general level of interest rates as is the case with a fixed-rate debt obligation. Based on active market trades of our Senior Notes close to December 31, 2018 (Level 1 fair value measurement), we estimate that the fair value of the Senior Notes is approximately $372.0 million compared to a gross carrying value of $400.0 million at December 31, 2018.

During all periods presented, there were no transfers between fair value hierarchical levels.

7. SEGMENT INFORMATION

Our reportable segments are Installation (TruTeam) and Distribution (Service Partners).

Our Installation segment installs insulation and other building products. We sell primarily to the residential new construction market, with increasing activity in both the commercial construction industry and repair/remodel of residential housing. In addition to insulation, we install other building products including rain gutters, glass and windows, after-paint products, fireproofing, garage doors and fireplaces.

Our Distribution segment sells and distributes insulation and other building products including rain gutters, fireplaces, closet shelving, and roofing materials. Distributed products are sold primarily to contractors and dealers (including lumber yards) from distribution centers in various parts of the United States.

Our segments are based on our operating units, for which financial information is regularly evaluated by our Chief Operating Decision Maker in determining resource allocation and assessing performance. Accounting policies for the segments are generally the same as those for the Company. The key performance metric we use to evaluate our businesses is segment operating profit. Operating profit for the individual segments includes corporate costs which are allocated to the segments based on various metrics including sales and headcount.

Intercompany sales from the Distribution segment to the Installation segment are recorded by the Distribution segment with a profit margin and by our Installation segment at cost.

The following table is a summary of the annual percentage of net sales by product category for the years ended December 31:

	2018	2017	2016
Insulation	71 %	72 %	71 %
Rain gutters	6	7	7
Accessories	4	5	5
Afterpaint (shower enclosures, closet shelving, bath accessories, etc.)	4	3	2
Glass and windows	3	1	1
All other	12	12	14
	100 %	100 %	100 %

Key information by segment is as follows, for the years ended December 31, in thousands:

	Net Sales			Operating Profit (b)		
	2018	2017	2016	2018	2017	2016
Our operations by segment were (a):						
Installation (exclusive of significant legal settlement, shown separately below)	$ 1,680,967	$ 1,281,296	$ 1,150,168	$ 196,986	$ 139,316	$ 97,140
Significant legal settlement (Installation segment) (c)	—	—	—	—	(30,000)	—
Distribution	820,309	719,759	676,672	78,739	68,733	59,654
Intercompany eliminations and other adjustments	(117,027)	(94,789)	(83,990)	(20,899)	(16,463)	(14,388)
Total	$ 2,384,249	$ 1,906,266	$ 1,742,850	254,826	161,586	142,406
General corporate expense, net (d)				(45,873)	(24,722)	(20,802)
Operating profit, as reported				208,953	136,864	121,604
Other expense, net				(28,129)	(8,824)	(5,331)
Income before income taxes				$ 180,824	$ 128,040	$ 116,273

	Property Additions			Depreciation and Amortization			Total Assets	
	2018	2017	2016	2018	2017	2016	2018	2017
Our operations by segment were (a):								
Installation	$ 69,497	$ 21,956	$ 7,584	$ 31,661	$ 12,208	$ 8,149	$ 1,618,032	$ 1,061,418
Distribution	11,121	5,845	3,348	6,616	3,561	3,604	698,337	599,503
Corporate	6,796	1,620	3,433	1,142	684	258	138,162	88,628
Total, as reported	$ 87,414	$ 29,421	$ 14,365	$ 39,419	$ 16,453	$ 12,011	$ 2,454,531	$ 1,749,549

(a) All of our operations are located in the U.S.
(b) Segment operating profit includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(c) Significant legal settlement expense of $30 million incurred for the year ended December 31, 2017, related to the settlement agreement with Owens Corning. For more information see *Note 10 – Other Commitments and Contingencies*.
(d) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs.

8. ACCRUED LIABILITIES

The following table sets forth the components of accrued liabilities, in thousands:

	As of December 31, 2018	As of December 31, 2017
Accrued liabilities:		
Salaries, wages, and commissions	$ 34,085	$ 25,470
Insurance liabilities	25,212	19,770
Deferred revenue	19,963	9,275
Interest payable on long-term debt	3,951	—
Other	21,025	20,572
Total accrued liabilities	$ 104,236	$ 75,087

See *Note 1 – Summary of Significant Accounting Policies* for discussion of our deferred revenue balances and related revenue recognition policy.

9. EMPLOYEE RETIREMENT PLANS

We provide a defined-contribution retirement plan for substantially all employees. In addition, we participate in 37 regional multi-employer pension plans, principally related to building trades; none of the plans are considered material.

Prior to the Separation, Masco provided defined-benefit pension plans to certain TopBuild employees. The TopBuild liability associated with these plans is not reflected in our balance sheet as this obligation is maintained and serviced by Masco; all future benefit accruals were frozen effective January 1, 2010.

The expense related to our participation in the retirement plans was as follows, in thousands:

	Years Ended December 31, 2018	2017	2016
Defined contribution plans	$ 7,595	$ 4,089	$ 3,950
Multi-employer plans	11,224	8,677	6,593
	$ 18,819	$ 12,766	$ 10,543

The Pension Protection Act (“PPA”) defines a zone status for multi-employer pension plans. Plans in the green zone are at least 80 percent funded, plans in the yellow zone are at least 65 percent funded and plans in the red zone are generally less than 65 percent funded.

We participate in the Carpenters Pension Trust Fund for Northern California (“NCT”), which is our largest multi-employer plan expense and is in the red zone. The NCT has implemented a funding or rehabilitation plan in accordance with government requirements. Our contributions to NCT have not exceeded 1 percent of the total contributions to the plan.

Pension Fund	Employer Identification Number/Plan Number	PPA Zone Status 2018	PPA Zone Status 2017	Funding Plan Pending / Implemented	Contributions (in thousands) 2018	Contributions (in thousands) 2017	Contributions (in thousands) 2016	Surcharge Imposed
NCT	94-6050970/001	Red	Red	Yes	$ 3,319	$ 2,319	$ 1,926	No

10. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. During the first quarter of 2017, we paid $30 million to Owens Corning for a final legal settlement in connection with a breach of contract action related to our termination of an insulation supply contract. The settlement resulted in the dismissal of the lawsuit filed in May 2016 in Toledo, Ohio. The settlement is reflected in the significant legal settlement line item within our Consolidated Statements of Operations for the year ended December 31, 2017. The settlement is also reflected in our Installation segment's operating results for the year ended December 31, 2017.

We are subject to certain claims, charges, litigation, and other proceedings in the ordinary course of our business, including those arising from or related to contractual matters, intellectual property, personal injury, environmental matters, product liability, product recalls, construction defects, insurance coverage, personnel and employment disputes, antitrust, and other matters, including class actions. We believe we have adequate defenses in these matters, and we do not believe that the ultimate outcome of these matters will have a material adverse effect on us. However, there is no assurance that we will prevail in any of these pending matters, and we could in the future incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome of these matters, which could materially impact our liquidity and our results of operations.

Other Matters. We enter into contracts, which include customary indemnities that are standard for the industries in which we operate. Such indemnities include, among other things, customer claims against builders for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide customary indemnities relating to various items including, among others: the enforceability of trademarks; legal and environmental issues; and asset valuations. We evaluate the probability that we may incur liabilities under these customary indemnities and appropriately record an estimated liability when deemed probable.

We occasionally use performance bonds to ensure completion of our work on certain larger customer contracts that can span multiple accounting periods. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. We also have bonds outstanding for licensing and insurance.

The following table summarizes our outstanding performance, licensing, insurance and other bonds, in thousands:

	As of	
	December 31, 2018	December 31, 2017
Performance Bonds	$ 65,517	$ 44,765
Licensing, insurance, and other bonds	22,287	17,013
Total	$ 87,804	$ 61,778

Our rental expense was as follows, in thousands:

	Rent Expense
2018	$ 60,466
2017	54,254
2016	51,505

Future minimum lease payments related to operating leases at December 31, 2018, were as follows, in thousands:

	Minimum Lease Payments
2019	$ 47,964
2020	31,466
2021	19,687
2022	11,059
2023	5,167
2024 & Thereafter	6,197

Future minimum lease payments at December 31, 2018 in the table above were calculated in accordance with the current leases guidance that is applicable for us and does not consider the impact of adopting ASU 2016-02 Leases, which is effective for us beginning on January 1, 2019. See *Note 1 – Summary of Significant Accounting Policies* for more information related to ASU 2016-02 and the impact of adoption on our financial position and results of operations.

11. INCOME TAXES

(In thousands)	2018	2017	2016
Income before income taxes:			
U.S.	$ 180,824	$ 128,040	$ 116,273
Income tax expense (benefit):			
Currently payable:			
U.S. Federal	$ 25,980	$ 25,003	$ 24,594
State and local	7,156	4,438	3,646
Deferred:			
U.S. Federal	9,939	(61,024)	10,966
State and local	2,997	1,490	4,461
	$ 46,072	$ (30,093)	$ 43,667
Deferred tax assets at December 31:			
Receivables, net	$ 1,313	$ 1,280	
Inventories, net	1,247	1,307	
Other assets, principally share-based compensation	3,645	2,317	
Accrued liabilities	6,141	5,286	
Long-term liabilities	10,109	9,020	
Net operating loss carryforward	17,317	21,381	
	39,772	40,591	
Valuation allowance	—	—	
	39,772	40,591	
Deferred tax liabilities at December 31:			
Property and equipment, net	28,203	13,008	
Intangibles, net	172,996	142,118	
Other	1,609	176	
	202,808	155,302	
Net deferred tax liability at December 31	$ 163,036	$ 114,711	

The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017 and became effective January 1, 2018. The Tax Act, among other things, reduced the U.S. federal corporate tax rate from 35 percent to 21 percent. In addition, the Tax Act limited certain deductions. Some of the major changes from the Tax Act that have affected the Company's effective tax rate include the elimination of the Domestic Production Activities Deduction; the elimination of deductions related to entertainment expenses; and increased limitations on the deductibility of officer compensation.

ASC 740, "Income Taxes" required us to adjust deferred tax assets and liabilities for the effect of tax rate changes in the period the rate change was enacted. Accordingly, the deferred tax balances were adjusted to reflect the change in the federal statutory rate from 35 percent to 21 percent in the fourth quarter of 2017. The adjustment resulted in a $74.1 million tax benefit in the U.S. Federal deferred tax expense for the year ending December 31, 2017.

A valuation allowance must be established for deferred tax assets when it is more-likely-than-not that they will not be realized. After review of all available positive and negative evidence, the Company has determined that no valuation allowance was required for the deferred tax assets as of December 31, 2018 or December 31, 2017. The deferred portion of state and local tax expense included $0.8 million in tax benefits resulting from a change in the valuation allowance against state and local deferred tax assets in the year ending December 31, 2016. As of December 31, 2018, there are no valuation allowances in place.

At December 31, 2018, the net deferred tax liability of $163.0 million consisted of net long-term deferred tax assets of $13.2 million and net long-term deferred tax liabilities of $176.2 million. At December 31, 2017, the net deferred tax liability of $114.7 million consisted of net long-term deferred tax assets of $18.1 million and net long-term deferred tax liabilities of $132.8 million. The deferred assets and deferred liabilities show the State deferreds net of Federal benefit.

Of the deferred tax asset related to the net operating loss at December 31, 2018, $17.2 million will expire between 2021 and 2038. Of the deferred tax asset related to the net operating loss at December 31, 2017, $21.0 million will expire between 2021 and 2037.

A reconciliation of the U.S. Federal statutory tax rate to the income tax expense (benefit) on income was as follows:

	2018	2017	2016
U.S. Federal statutory tax rate	21.0 %	35.0 %	35.0 %
State and local taxes, net of U.S. Federal tax benefit	4.5	3.5	5.7
Valuation allowance	—	—	(0.7)
Domestic Production Activities Deduction	—	(1.7)	(1.7)
Share based compensation	(1.4)	(2.3)	(0.5)
Non-deductible meals & entertainment	0.4	—	—
Non-deductible transaction costs	0.3	—	—
Effect of U.S. Federal tax rate change on deferred balances	—	(57.9)	—
Other, net	0.7	(0.6)	(0.2)
Effective tax rate	25.5 %	(24.0)%	37.6 %

The negative (beneficial) effective tax rate in 2017 is mostly related to the beneficial adjustment of $74.1 million included in the 2017 Federal deferred tax expense related to the adjustment of the deferred tax balances for the reduction of the Federal tax rate from 35 percent to 21 percent, enacted in December of 2017.

Share based compensation became a material factor in the Company's effective tax rate beginning in 2017. A tax benefit of $3.2 million and $2.9 million related to share based compensation was recognized in income tax expense for the years ended December 31, 2018, and December 31, 2017, respectively.

The Domestic Production Activities Deduction, under IRC §199, was eliminated under the Tax Act and had only become a material factor in the Company's effective tax rate in 2016.

Income taxes paid were $39.0 million, $22.6 million, and $39.5 million during the years ended December 31, 2018, 2017, and 2016, respectively.

We file income tax returns in the U.S. Federal jurisdiction and various state and local jurisdictions. The IRS has completed their examination of the Masco consolidated U.S. Federal tax return, in which we were included, through the year ended December 31, 2015. With few exceptions, we are no longer subject to state income tax examinations on filed returns for years before 2014.

At December 31, 2018, there are no liabilities related to uncertain tax positions. We have not incurred any interest related to the underpayment of income taxes or penalties related to uncertain tax positions not meeting the minimum statutory threshold to avoid payment of penalties in the year ended December 31, 2018.

12. INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted average shares outstanding during the period, without consideration for common stock equivalents.

Diluted net income per share is calculated by adjusting weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury stock method.

Basic and diluted income per share were computed as follows, in thousands, except share and per share amounts:

	Years Ended December 31,		
	2018	2017	2016
Net income - basic and diluted	$ 134,752	$ 158,133	$ 72,606
Weighted average number of common shares outstanding - basic	34,921,318	35,897,641	37,585,777
Dilutive effect of common stock equivalents:			
RSAs with service-based conditions	151,324	221,497	192,705
RSAs with market-based conditions	238,313	185,069	28,307
RSAs with performance-based conditions	20,432	—	—
Stock options	281,932	267,939	60,423
Weighted average number of common shares outstanding - diluted	35,613,319	36,572,146	37,867,212
Basic income per common share	$ 3.86	$ 4.41	$ 1.93
Diluted income per common share	$ 3.78	$ 4.32	$ 1.92

The following table summarizes shares excluded from the calculation of diluted income per share because their effect would have been anti-dilutive:

	Years Ended December 31,		
	2018	2017	2016
Anti-dilutive common stock equivalents:			
RSAs with service-based conditions	5,192	458	35,182
RSAs with market-based conditions	7,498	—	6,323
RSAs with performance-based conditions	—	—	—
Stock options	72,515	45,308	432,287
Total anti-dilutive common stock equivalents	85,205	45,766	473,792

13. SHARE-BASED COMPENSATION

Prior to the Separation, our eligible employees participated in the Masco share-based compensation program and received RSAs and stock options. Effective July 1, 2015, our eligible employees commenced participation in the 2015 Long-Term Incentive Program. The 2015 Long-Term Incentive Program authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents. All grants are made by issuing new shares and no more than 4.0 million shares of common stock may be issued under the 2015 Long-Term Incentive Program. As of December 31, 2018, we had 2.6 million shares available under the 2015 Long-Term Incentive Program.

Prior to the Separation, share-based compensation expense was allocated to TopBuild based on the awards and options previously granted by Masco to TopBuild employees. Outstanding, unvested Masco RSAs and stock options held by employees of TopBuild as of June 30, 2015 were forfeited upon Separation and replaced with TopBuild long-term incentive awards immediately subsequent to the Separation. The replacement awards are subject to the same terms and conditions in effect prior to the Separation and are of generally equivalent value.

Share-based compensation expense is included in selling, general, and administrative expense. The income tax effect associated with the vesting of awards is included in income tax expense. The following table presents share-based compensation amounts recognized in our Consolidated Statements of Operations, in thousands:

	Year Ended December 31,		
	2018	2017	2016
Share-based compensation expense	$ 11,317	$ 9,889	$ 7,669
Income tax benefit realized from the vesting of awards	$ 3,154	$ 2,882	$ 588

The following table presents a summary of our share-based compensation activity for the year ended December 31, 2018, in thousands, except per share amounts:

	RSAs		Stock Options			
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance December 31, 2017	591.2	$ 30.92	683.5	$ 11.13	$ 28.97	$ 31,969.7
Granted	107.3	$ 85.43	77.3	$ 27.44	$ 74.50	
Converted/Exercised	(144.8)	$ 26.81	(134.5)	$ 10.91	$ 28.37	$ 6,246.7
Forfeited	(54.5)	$ 40.74	(14.9)	$ 16.98	$ 45.46	
Balance December 31, 2018	499.2	$ 41.29	611.4	$ 13.10	$ 34.45	$ 8,685.8
Exercisable December 31, 2018 (a)			203.8	$ 10.65	$ 27.55	$ 3,570.9

(a) The weighted average remaining contractual term for vested stock options is 6.7 years.

We had unrecognized share-based compensation expense relating to unvested awards as shown in the following table, dollars in thousands:

	As of December 31, 2018	
	Unrecognized Compensation Expense on Unvested Awards	Weighted Average Remaining Vesting Period
Unrecognized compensation expense related to unvested awards:		
RSAs	$ 8,589	0.8 years
Stock options	2,929	0.8 years
Total unrecognized compensation expense related to unvested awards	$ 11,518	

Our RSAs with performance-based conditions are evaluated on a quarterly basis with adjustments to compensation expense based on the likelihood of the performance target being achieved or exceeded. The following table shows the range of payouts and the related expense for our outstanding RSAs with performance-based conditions, in thousands:

		Payout Ranges and Related Expense			
RSAs with Performance-Based Conditions	Grant Date Fair Value	0%	25%	100%	200%
February 22, 2016	$ 1,899	$ —	$ 475	$ 1,899	$ 3,798
February 21, 2017	$ 1,962	$ —	$ 491	$ 1,962	$ 3,924
February 19, 2018	$ 2,247	$ —	$ 562	$ 2,247	$ 4,494

The fair value of our RSAs with a market-based condition granted under the 2015 Long-Term Incentive Program was determined using a Monte Carlo simulation. The following are key inputs in the Monte Carlo analysis for awards granted in 2018 and 2017:

	2018	2017
Measurement period (years)	2.87	2.86
Risk free interest rate	2.36 %	1.46 %
Dividend yield	0.00 %	0.00 %
Estimated fair value of market-based RSAs granted	$ 103.31	$ 50.06

The fair value of stock options granted under the 2015 Long-Term Incentive Program was calculated using the Black-Scholes Options Pricing Model. The following table presents the assumptions used to estimate the fair values of the stock options granted in 2018 and 2017:

	2018	2017
Risk free interest rate	2.78 %	2.18 %
Expected volatility, using historical return volatility and implied volatility	32.50 %	35.00 %
Expected life (in years)	6.0	6.0
Dividend yield	0.00 %	0.00 %
Estimated fair value of stock options granted	$ 27.44	$ 14.44

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth our quarterly results for each quarter of the years ending December 31, 2018 and 2017, in thousands, except per share amounts:

	2018				
	Q1	Q2	Q3	Q4	Total Year (a)
Net sales	$ 491,444	$ 605,969	$ 647,289	$ 639,547	$ 2,384,249
Gross profit	111,018	145,041	161,865	158,226	576,152
Operating profit	33,893	43,681	66,217	65,161	208,953
Net income	26,388	27,153	42,658	38,553	134,752
Basic income per common share	$ 0.75	$ 0.77	$ 1.22	$ 1.12	$ 3.86
Diluted income per common share	$ 0.74	$ 0.76	$ 1.19	$ 1.10	$ 3.78

	2017				
	Q1	Q2	Q3	Q4	Total Year (a)
Net sales	$ 441,363	$ 474,458	$ 489,044	$ 501,401	$ 1,906,266
Gross profit	101,628	116,609	120,839	122,033	461,109
Operating (loss) profit	(3,463)	40,796	49,562	49,970	136,864
Net (loss) income	(1,710)	23,460	31,393	104,991	158,133
Basic (loss) income per common share	$ (0.05)	$ 0.64	$ 0.90	$ 3.00	$ 4.41
Diluted (loss) income per common share	$ (0.05)	$ 0.63	$ 0.88	$ 2.93	$ 4.32

(a) Due to rounding, the sum of quarterly results may not equal the total for the year. Additionally, quarterly and year-to-date computations of per share amounts are made independently.

15. CLOSURE COSTS

We generally recognize expenses related to closures and position eliminations at the time of announcement or notification. Such costs include termination and other severance benefits, lease abandonment costs, and other transition costs. Closure costs are reflected in our Consolidated Statements of Operations as selling, general, and administrative expense. Accrued closure costs are reflected in our Consolidated Balance Sheets as accrued liabilities.

In connection with the acquisition of USI, management performed an evaluation of the resources necessary to effectively operate the acquired business. During the second quarter of 2018, management committed to a plan to close the USI corporate office in St. Paul, Minnesota, and consolidate certain administrative functions to our Daytona Beach, Florida, Branch Support Center. As a result, the Company expects to incur an aggregate of approximately $6.9 million of closure costs in connection with this activity. Closure costs pertaining to the USI acquisition are primarily included in general corporate expenses for segment reporting purposes.

The following table details our total estimated closure costs by cost type, of which $0.8 million were incurred during the three months ended December 31, 2018, pertaining to the above closure and transition related to the USI acquisition (in thousands):

Segment / Cost Type	Closure Costs Liability at December 31, 2017	Closure Costs Incurred for the Year Ended December 31, 2018	Cash Payments for the Year Ended December 31, 2018	Non-cash Adjustments for the Year Ended December 31, 2018	Closure Costs Liability at December 31, 2018
Corporate:					
Severance	$ —	$ 6,633	$ (3,181)	$ (387)	$ 3,065
Lease abandonment	—	400	(99)	—	301
Other costs	—	9	(9)	—	—
Total Corporate:	$ —	$ 7,042	$ (3,289)	$ (387)	$ 3,366

We expect to pay the remaining accrued closure costs primarily in the first half of 2019. Non-cash adjustments in the table above relate to true-up of estimates to actual amounts and other subsequent changes.

We continually evaluate our national footprint to ensure we are strategically located throughout the U.S. to serve our customers and position ourselves for continued growth. As a result of this evaluation during 2017, management approved a plan to consolidate certain back-office support operations to our Daytona Beach, Florida, Branch Support Center. All closure costs related to this consolidation were recorded in 2017.

The following table details our total closure costs, by cost type, related to the above closure and transition relating to the 2017 consolidation of certain back-office support operations (in thousands):

Segment / Cost Type	Closure Costs Liability at December 31, 2017	Closure Costs Incurred for the Year Ended December 31, 2018	Cash Payments for the Year Ended December 31, 2018	Non-cash Adjustments for the Year Ended December 31, 2018	Closure Costs Liability at December 31, 2018
Corporate:					
Severance	$ 112	$ —	$ (101)	$ (11)	$ —
Lease abandonment	309	—	(218)	(91)	—
Other costs	54	—	(25)	(29)	—
Total Corporate:	$ 475	$ —	$ (344)	$ (131)	$ —

16. BUSINESS COMBINATIONS

As part of our strategy to supplement our organic growth and expand our access to additional markets and products, we completed three acquisitions during the year ended December 31, 2018 and six acquisitions during the year ended December 31, 2017. Each acquisition was accounted for as a business combination under ASC 805, "Business Combinations." Acquisition related costs for the years ended December 31, 2018 and 2017, were $14.4 million and $1.3 million, respectively. Acquisition costs are included in selling, general, and administrative expense in our Consolidated Statements of Operations.

Acquisitions

On January 16, 2017, we acquired substantially all of the assets of Midwest, a heavy commercial fireproofing and insulation company with locations in Chicago, Illinois and Indianapolis, Indiana. The purchase price of approximately $12.2 million was funded by cash on hand.

On February 27, 2017, we acquired substantially all of the assets of EcoFoam, a residential and light commercial insulation installation company with locations in Colorado Springs and Denver, Colorado. The purchase price of approximately $22.3 million was funded by cash on hand of $20.2 million and contingent consideration of $2.1 million.

On February 27, 2017, we acquired substantially all of the assets of MR Insulfoam, a residential insulation installation company located in Norwalk, Connecticut. The purchase price of approximately $1.5 million was funded by cash on hand.

On March 29, 2017, we acquired substantially all of the assets of Capital, a residential insulation installation company located in Sacramento, California. The purchase price of approximately $7.3 million was funded by cash on hand.

On April 20, 2017, we acquired substantially all of the assets of Superior, a residential insulation installation company located in Seattle, Washington. The purchase price of approximately $10.9 million was funded by cash on hand.

On June 8, 2017, we acquired substantially all of the assets of Canyon, a heavy commercial insulation and firestopping company with locations in Corona, San Diego, and Livermore, California. The purchase price of approximately $34.4 million was funded by cash on hand of $31.9 million and deferred purchase price consideration of $2.5 million.

On January 10, 2018, we acquired ADO, a distributor of insulation accessories, located in Plymouth, Minnesota. The purchase price of approximately $23.0 million was funded by cash on hand of $22.2 million and contingent consideration of $0.8 million.

On January 18, 2018, we acquired substantially all of the assets of Santa Rosa, a residential and commercial insulation company located in Miami, Florida. The purchase price of approximately $5.8 million was funded by cash on hand of $5.6 million and contingent consideration of $0.2 million.

On May 1, 2018, we acquired USI, a leading distributor and installer of insulation in both residential and commercial construction markets. Our payment of $486.5 million, which included the purchase price of $475.0 million and adjustments for cash and working capital, was funded through net proceeds from the issuance on April 25, 2018 of $400.0 million of Senior Notes together with the net proceeds from the $100.0 million delayed draw term loan commitment under our Amended Credit Agreement. For additional information see *Note 5 – Long-Term Debt*.

Revenue and net income since the respective acquisition dates included in our Consolidated Statements of Operations were as follows, in thousands:

	Year Ended December 31, 2018	
2018 Acquisitions	**Net Sales**	**Net Income**
ADO	$ 24,766	$ 252
Santa Rosa	6,034	602
USI	266,280	15,982
	$ 297,080	$ 16,836

	Year Ended December 31, 2017	
2017 Acquisitions	**Net Sales**	**Net Income**
Midwest	$ 17,122	$ 304
EcoFoam	22,315	1,747
Superior	9,508	922
Canyon	13,333	1,279
All others	8,412	892
	$ 70,690	$ 5,144

Pro Forma Results

The following unaudited pro forma information has been prepared as if the 2018 acquisitions described above had taken place on January 1, 2017, and as if the 2017 acquisitions described above had taken place on January 1, 2016. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transactions actually taken place on January 1, 2017 or January 1, 2016, as applicable. Further, the pro forma information does not purport to be indicative of future financial operating results. Our pro forma results are presented below, in thousands:

	Unaudited Pro Forma for the Year Ended December 31,	
	2018	2017
Net sales	$ 2,515,593	$ 2,343,687
Net income	$ 144,755	$ 185,342

The following table details the additional expense included in the unaudited pro forma net income as if the 2018 acquisitions described above had taken place on January 1, 2017, and as if the 2017 acquisitions had taken place on January 1, 2016. Our pro forma results are presented below, in thousands:

	Unaudited Pro Forma for the Year Ended December 31,	
	2018	2017
Amortization of intangible assets	$ 5,025	$ 16,308
Income tax expense (using 27% and 38% effective tax rate in 2018 and 2017, respectively)	$ 3,700	$ 16,676

Purchase Price Allocations

The estimated fair values of the assets acquired and liabilities assumed for the 2018 acquisitions, as well as the fair value of consideration transferred, approximated the following as of December 31, 2018, in thousands:

	2018 Acquisitions Completed During the Year Ended December 31, 2018			
	ADO	Santa Rosa	USI	Total
Estimated fair values:				
Cash	$ 939	$ —	$ 14,817	$ 15,756
Accounts receivable	3,434	1,433	61,445	66,312
Inventories	2,337	104	14,084	16,525
Prepaid and other assets	135	7	3,886	4,028
Property and equipment	951	522	33,701	35,174
Intangible assets	14,090	1,850	165,400	181,340
Goodwill	2,631	3,014	281,207	286,852
Accounts payable	(908)	(1,099)	(17,927)	(19,934)
Accrued liabilities	(609)	—	(34,686)	(35,295)
Deferred tax liability	—	—	(35,389)	(35,389)
Net assets acquired	$ 23,000	$ 5,831	$ 486,538	$ 515,369

	2018 Acquisitions Completed During the Year Ended December 31, 2018			
	ADO	Santa Rosa	USI	Total
Fair value of consideration transferred:				
Cash	$ 22,172	$ 5,581	$ 486,538	$ 514,291
Deferred consideration	—	—	—	—
Contingent consideration	828	250	—	1,078
Total consideration transferred	$ 23,000	$ 5,831	$ 486,538	$ 515,369

The fair values of the assets acquired and liabilities assumed for the 2017 acquisitions, as well as the fair value of consideration transferred, approximated the following as of December 31, 2018, in thousands:

	2017 Acquisitions Completed During the Year Ended December 31, 2017					
	Midwest	EcoFoam	Superior	Canyon	All others	Total
Estimated fair values:						
Accounts receivable	$ 6,576	$ 3,819	$ 2,012	$ 8,222	$ 678	$ 21,307
Inventories	75	1,119	321	575	141	2,231
Prepaid and other assets	—	27	1	29	6	63
Property and equipment	655	1,544	361	460	357	3,377
Intangible assets	2,740	6,700	5,280	15,220	3,640	33,580
Goodwill	3,538	10,796	3,662	10,072	4,037	32,105
Accounts payable	(1,359)	(1,378)	(681)	(163)	(26)	(3,607)
Accrued liabilities	—	(302)	(4)	—	—	(306)
Net assets acquired	$ 12,225	$ 22,325	$ 10,952	$ 34,415	$ 8,833	$ 88,750

	2017 Acquisitions Completed During the Year Ended December 31, 2017					
	Midwest	EcoFoam	Superior	Canyon	All others	Total
Fair value of consideration transferred:						
Cash (a)	$ 12,225	$ 20,822	$ 10,952	$ 33,532	$ 8,833	$ 86,364
Deferred consideration	—	—	—	883	—	883
Contingent consideration	—	1,503	—	—	—	1,503
Total consideration transferred	$ 12,225	$ 22,325	$ 10,952	$ 34,415	$ 8,833	$ 88,750

(a) For Canyon, includes $1,667 of deferred consideration paid during the year ended December 31, 2018.

Estimates of acquired intangible assets related to the acquisitions are as follows, as of December 31, 2018, dollars in thousands:

	Estimated Fair Value	Weighted Average Estimated Useful Life (Years)
2018 Acquisitions:		
Customer relationships	$ 168,820	12
Trademarks and trade names	11,260	9
Non-competition agreements	1,260	5
Total intangible assets for 2018 acquisitions	$ 181,340	11
2017 Acquisitions:		
Customer relationships	$ 26,170	10
Trademarks and trade names	1,780	10
Non-competition agreements	5,630	5
Total intangible assets for 2017 acquisitions	$ 33,580	9

As third party or internal valuations are finalized, certain tax aspects of the foregoing transactions are completed, and customer post-closing reviews are concluded, adjustments may be made to the fair value of assets acquired, and in some cases total purchase price, through the end of each measurement period, generally one year following the applicable acquisition date. Various insignificant adjustments to the fair value of assets acquired, and in some cases total purchase price, have been made to certain business combinations since the respective dates of acquisition. During the fourth quarter of 2018, we recorded measurement-period adjustments that increased goodwill by approximately $1.0 million, primarily for changes in the fair value of current assets. The impact of these adjustments to the consolidated statement of operations was immaterial.

Goodwill to be recognized in connection with these acquisitions is attributable to the synergies expected to be realized and improvements in the businesses after the acquisitions. Of the $286.9 million of goodwill recorded from the 2018 acquisitions, $33.2 million is expected to be deductible for income tax purposes.

Contingent Consideration

The acquisition of EcoFoam included a contingent consideration arrangement that requires additional consideration to be paid by TopBuild to the sellers of EcoFoam based on EcoFoam's attainment of annual revenue targets over a three-year period. The total amount of undiscounted contingent consideration which TopBuild may be required to pay under the arrangement is $2.5 million. The fair value of $2.1 million contingent consideration recognized on the acquisition date was estimated by applying the income approach using discounted cash flows. That measure is based on significant Level 3 inputs not observable in the market. The significant assumption includes a discount rate of 9.5 percent. Changes in the fair value measurement each period reflect the passage of time as well as the impact of adjustments, if any, to the likelihood of achieving the specified targets. In the second quarter of 2018, we made the first contingent payment of $0.8 million.

The acquisition of ADO included a contingent consideration arrangement that requires additional consideration to be paid by TopBuild to the sellers of ADO based on the achievement of certain EBITDA thresholds over a two-year period. The range of the undiscounted amounts TopBuild may be required to pay under the contingent consideration agreement is between zero and $1.0 million. The fair value of the contingent consideration recognized on the acquisition date of $0.8 million was estimated by applying the income approach using discounted cash flows. That measure is based on significant Level 3 inputs not observable in the market. The significant assumption includes a discount rate of 9.5 percent. Changes in the fair value measurement each period reflect the passage of time as well as the impact of adjustments, if any, to the likelihood of achieving the specified targets.

The acquisition of Santa Rosa included a contingent consideration arrangement that requires additional consideration to be paid by TopBuild based on the achievement of a gross revenue target for 2018. The range of undiscounted amounts TopBuild may be required to pay under the contingent consideration is between zero and $0.25 million, which also represents the fair value recognized on the acquisition date.

Contingent consideration is recorded in the Consolidated Balance Sheets in accrued liabilities and other liabilities. Adjustments to the fair value of contingent consideration are reflected in selling, general, and administrative expense in the Consolidated Statements of Operations and are included in the acquisition related costs above.

The following table presents the fair value of contingent consideration as of December 31, 2018, in thousands:

	EcoFoam	ADO	Santa Rosa
Date of Acquisition	February 27, 2017	January 10, 2018	January 18, 2018
Fair value of contingent consideration recognized at acquisition date	$ 2,110	$ 828	$ 250
Contingent consideration at December 31, 2017	$ 2,259	$ —	$ —
Additions	—	828	250
Change in fair value of contingent consideration during the year ended December 31, 2018	155	(485)	—
Payment of contingent consideration during the year ended December 31, 2018	(841)	—	—
Liability balance for contingent consideration at December 31, 2018	$ 1,573	$ 343	$ 250

17. SHARE REPURCHASE PROGRAM

On March 1, 2016, our Board authorized the 2016 Repurchase Program, which expired on February 28, 2017. Under the 2016 Repurchase Program we repurchased a total of 788,399 shares of our common stock for an approximate cost of $26.6 million, or $33.72 per share.

On February 24, 2017, our Board authorized the 2017 Repurchase Program, pursuant to which we were permitted to purchase up to $200.0 million of our common stock. Excluding the shares repurchased through the 2017 and 2018 ASR Agreements discussed below, we repurchased 996,566 shares of our common stock under the 2017 Repurchase Program for an approximate cost of $50.0 million, or $50.17 per share. These share repurchases, together with the shares repurchased through the 2017 and 2018 ASR Agreements at a total cost of $100.0 million and $50.0 million, respectively, exhausted the Board's authorization of $200.0 million in the fourth quarter of 2018, prior to the program's expiration on February 24, 2019.

On May 5, 2017, under the 2017 Repurchase Program, we entered into the 2017 ASR Agreement. When the agreement became effective on July 5, 2017, we paid BofA $100.0 million in exchange for an initial delivery of 1.5 million shares of our common stock, representing an estimated 80 percent of the total number of shares we expected, at the time we entered into the agreement, to receive under the 2017 ASR Agreement. During the year ended December 31, 2018, we received an additional 13,657 shares of our common stock from BofA, representing the final settlement of the 2017 ASR Agreement. We purchased a total of 1,521,100 shares of our common stock under the 2017 ASR Agreement at an average price per share of $65.74.

Effective November 7, 2018, under the 2017 Repurchase Program, we entered into the 2018 ASR Agreement. We paid JPMorgan Chase Bank, N.A. $50.0 million in exchange for an initial delivery of 796,925 shares of our common stock on November 8, 2018, representing an estimated 85 percent of the total number of shares we expected, at the time we entered into the agreement, to receive under the 2018 ASR Agreement. At final settlement, which is anticipated to occur during the first quarter of 2019, the bank may be required to deliver additional shares of common stock to us, or, under certain circumstances, we may be required to deliver shares of our common stock or to make a cash payment, at our election, to the bank.

The following table sets forth our share repurchases under the 2016 and 2017 Repurchase Programs during the periods presented:

	Year Ended December 31,	
	2018	2017
Number of shares repurchased (a)	1,063,528	2,365,836
Share repurchase cost (in thousands)	$ 65,025	$ 139,286

(a) The year ended December 31, 2018 includes 13,657 shares we received as final settlement of our 2017 ASR Agreement.

18. SUBSEQUENT EVENTS

On February 22, 2019, our Board authorized a share repurchase program (the "2019 Share Repurchase Program"), pursuant to which the Company may purchase up to $200 million of the Company's common stock. Share repurchases may be executed through various means including, without limitation, open market purchases, privately negotiated transactions, or otherwise. The 2019 Share Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the Share Repurchase Program may be terminated, increased, or decreased by the Company's Board of Directors at its discretion at any time.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTIN G AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURE S

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

We acquired USI on May 1, 2018. As permitted by the SEC Staff interpretive guidance for newly acquired businesses, management excluded USI from its evaluation of internal control over financial reporting for the period covered by this Annual Report. We do not anticipate that the integration of USI will result in any material changes to our internal control over financial reporting, and we plan to incorporate USI into our evaluation within one year from the date of acquisition. As the post-closing integration progresses, we will continue to review, and as appropriate to integrate, USI's internal controls and processes. See *Item 8. Financial Statements and Supplementary Data – Note 16. Business Combinations* for the significance of USI to our consolidated financial statements.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework* (2013). Based on our assessment and those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018. Management's assessment excluded USI as it was acquired by the Company during 2018. USI is a wholly owned subsidiary of the Company whose total assets and net sales excluded from our assessment represent approximately 5% and 11%, respectively, of the Company's consolidated financial statement amounts as of and for the year ended December 31, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing under *Item 8. Financial Statements and Supplementary Data – Report of Independent Registered Certified Public Accounting Firm*.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in the fiscal quarter ended December 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information required by this item will be set forth under the headings "Corporate Governance," "Proposal 1: Election of Directors," "Board of Directors and Committees," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Compensation of Executive Officers-Executive Officers" in our definitive proxy statement for the 2019 Annual Meeting of Shareholders ("2019 Proxy Statement") to be filed with the SEC within 120 days of the year ended December 31, 2018, and is incorporated herein by reference.

Our Board of Directors adopted a Code of Business Ethics (the "Code") that applies to all of our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other senior officers, in accordance with applicable rules and regulations of the SEC and the NYSE. Our Code is available on our website at http://www.topbuild.com/Investors/Corporate-Governance/Governance-Documents/. We will disclose any amendments to or waivers of this Code for directors, executive officers, or senior officers on our website. The reference to our website address does not constitute incorporation by reference of the information contained on the website, and such information is not a part of this Annual Report.

Item 11. EXECUTIVE COMPENSATION

Information required by this item will be set forth under the headings "Director Compensation," "Director Compensation Table," "Compensation Committee Report," "Compensation of Executive Officers," and "Corporate Governance" in our 2019 Proxy Statement, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Information required by this item will be set forth under the heading "Common Stock Ownership of Officers, Directors, and Significant Shareholders" and "Equity Compensation Plan Information" in our 2019 Proxy Statement, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item will be set forth under the heading "Corporate Governance" and related subsections within our 2019 Proxy Statement, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item will be set forth under the heading "Proposal 5 - Ratification of the Appointment of Independent Registered Public Accounting Firm" in our 2019 Proxy Statement, and is incorporated herein by reference.

PART I V

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

a. Listing of Documents:

i. *Financial Statements.* Our Consolidated Financial Statements included in Item 8 hereof, as required at December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017, and 2016, consist of the following:
    Consolidated Balance Sheets
    Consolidated Statements of Operations
    Consolidated Statements of Cash Flows
    Consolidated Statements of Changes in Equity
    Notes to Consolidated Financial Statements

ii. *Exhibits*. See separate Index to Exhibits hereafter.

Item 16. FORM 10-K SUMMARY

None.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Title	Incorporated by Reference Form	Incorporated by Reference Exhibit	Incorporated by Reference Filing Date	Filed Herewith
2.1†	Separation and Distribution Agreement, dated as of June 29, 2015, by and between Masco Corporation and TopBuild Corp. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	8-K	2.1	7/6/2015	
2.2†	Agreement and Plan of Merger, dated as of March 1, 2018, by and among Legend Holdings LLC, USI Legend Parent, Inc., TopBuild Corp. and Racecar Acquisition Corp.	8-K	2.1	3/2/2018	
3.1	Composite Certificate of Incorporation of TopBuild Corp.	10-Q	3.2	7/8/2018	
3.2	Amended and Restated Bylaws of TopBuild Corp., as amended	8-K	3.2	5/1/2018	
4.1	Indenture, dated April 25, 2018, by and between TopBuild Escrow Corp. and U.S. Bank National Association, as Trustee	8-K	4.1	4/26/2018	
4.2	Supplemental Indenture, dated May 1, 2018, by and among the Company, the Guarantors and U.S. Bank National Association, as Trustee	8-K	4.1	5/2/2018	
10.1	Tax Matters Agreement, dated as of June 29, 2015, between Masco Corporation and TopBuild Corp. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	8-K	10.1	7/6/2015	
10.2	Transition Services Agreement, dated as of June 29, 2015, between Masco Corporation and TopBuild Corp. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	8-K	10.2	7/6/2015	
10.3	Employee Matters Agreement, dated as of June 29, 2015, by and between Masco Corporation and TopBuild Corp. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	8-K	10.3	7/6/2015	
10.4	TopBuild Corp. Executive Severance Plan	10-K	10.10	3/3/2016	
10.5	Change in Control and Severance Agreement between Gerald Volas and TopBuild Corp.	10-K	10.11	3/3/2016	
10.6	Amended and Restated TopBuild Corp. 2015 Long Term Stock Incentive Plan ("A&R LTIP")	10-Q	10.2	5/11/2016	
10.7	Form of Restricted Stock Award ("RSA") Agreement under A&R LTIP	10-Q	10.3	8/4/2016	
10.8	Form of Performance RSA Agreement (EPS) under A&R LTIP	10-Q	10.4	8/4/2016	
10.9	Form of Performance RSA Agreement (RTSR) under A&R LTIP	10-Q	10.5	8/4/2016	

Exhibit No.	Exhibit Title	Incorporated by Reference Form	Exhibit	Filing Date	Filed Herewith
10.10	Form of Option Award Agreement under A&R LTIP	10-Q	10.6	8/4/2016	
10.11	Form of RSA Agreement for Non-Employee Director under A&R LTIP	10-Q	10.7	8/4/2016	
10.12	Credit Agreement, dated May 5, 2017, among TopBuild Corp. and Bank of America, N.A., as administrative agent, and the other lenders and agents party thereto	10-Q	10.1	8/8/2017	
10.13	Security and Pledge Agreement, dated May 5, 2017, among TopBuild Corp. and Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto	10-Q	10.2	8/8/2017	
10.14	Form of Exhibits to Credit Agreement dated May 5, 2017, among TopBuild Corp. and Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto	10-Q	10.3	8/8/2017	
10.15	Annex and Schedules to Credit Agreement dated May 5, 2017, among TopBuild Corp. and Bank of America, N.A. as administrative agent, and the other lenders and agents party thereto	10-Q	10.4	8/8/2017	
10.16*	Accelerated Share Repurchase agreement, dated May 5, 2017, among TopBuild Corp. and Bank of America, N.A.*	10-Q	10.5	8/8/2017	
10.17	Escrow Agreement, dated April 25, 2018, by and among TopBuild Corp., TopBuild Escrow Corp. and U.S. Bank National Association	8-K	10.1	4/26/2018	
10.18	Amendment No. 1 to Credit Agreement, dated as of March 28, 2018, among TopBuild Corp., each of the guarantors party thereto, Bank of America, N.A., as administrative agent, and each of the lenders party thereto	10-Q	10.1	5/8/2018	
10.19	Separation Agreement, dated June 15, 2018, by and between TopBuild Corp. and Paul Joachimczyk	8-K	10.1	6/21/2018	
10.20**	Accelerated Share Repurchase agreement, dated November 7, 2018, among TopBuild Corp. and JPMorgan Chase Bank, National Association**				X
21.1	List of Subsidiaries of TopBuild Corp.				X
31.1	Principal Executive Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Principal Financial Officer Certification required by Rules 13a-14 and 15d-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1‡	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002				

Exhibit No.	Exhibit Title	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date	
32.2‡	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes Oxley Act of 2002				
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

†The schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to supplementally furnish to the SEC, upon request, a copy of any omitted schedule or exhibit.

*Confidential treatment has been granted for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality requests. Omissions are designated as [***]. A complete version of this exhibit has been filed with the SEC.

**Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidentiality requests. Omissions are designated as [***]. A complete version of this exhibit has been filed with the SEC.

‡Furnished herewith.

SIGNATURES

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

TOPBUILD CORP.

By: /s/ John S. Peterson
Name: John S. Peterson
Title: Vice President and Chief Financial Officer

February 26, 2019

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

Signature	Title	Date
/s/ Gerald Volas Gerald Volas	Director, Chief Executive Officer (Principal Executive Officer)	February 26, 2019
/s/ John S. Peterson John S. Peterson	Vice President, Chief Financial Officer (Principal Financial Officer)	February 26, 2019
/s/ Robert Kuhns Robert Kuhns	Vice President, Controller (Principal Accounting Officer)	February 26, 2019
/s/ Alec C. Covington Alec C. Covington	Chairman of the Board	February 26, 2019
/s/ Dennis W. Archer Dennis W. Archer	Director	February 26, 2019
/s/ Carl T. Camden Carl T. Camden	Director	February 26, 2019
/s/ Joseph S. Cantie Joseph S. Cantie	Director	February 26, 2019
/s/ Tina M. Donikowski Tina M. Donikowski	Director	February 26, 2019
/s/ Mark A. Petrarca Mark A. Petrarca	Director	February 26, 2019
/s/ Nancy M. Taylor Nancy M. Taylor	Director	February 26, 2019
/s/ Margaret M. Whelan Margaret M. Whelan	Director	February 26, 2019

Exhibit 10.20

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR PORTIONS OF THIS EXHIBIT. THE COPY FILED HEREWITH OMITS THE INFORMATION SUBJECT TO THE CONFIDENTIALITY REQUEST. OMISSIONS ARE DESIGNATED AS [***]. A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

Execution Copy

Date: November 7, 2018

To: TopBuild Corp.
475 North Williamson Blvd.
Daytona Beach, FL 32114
Attn: John S. Peterson
Telephone: 386-763-8798

From: JPMorgan Chase Bank, National Association
London Branch
25 Bank Street
Canary Wharf
London E14 5JP
England

Re: Accelerated Share Repurchase Transaction

Ladies and Gentlemen:

The purpose of this communication (this "**Confirmation**") is to confirm the terms and conditions of the Transaction entered into between JP Morgan Chase Bank, National Association, London Branch ("**Dealer**") and TopBuild Corp. ("**Counterparty**") on the Trade Date specified below (the "**Transaction**"). The terms of the Transaction shall be set forth in this Confirmation. This Confirmation shall constitute a "Confirmation" as referred to in the ISDA Master Agreement specified below.

1. This Confirmation is subject to, and incorporates, the definitions and provisions of the 2006 ISDA Definitions (including the Annex thereto) (the "**2006 Definitions**") and the definitions and provisions of the 2002 ISDA Equity Derivatives Definitions (the '**Equity Definitions**", and together with the 2006 Definitions, the "**Definitions**"), in each case as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"). In the event of any inconsistency between the 2006 Definitions and the Equity Definitions, the Equity Definitions will govern.

This Confirmation evidences a complete and binding agreement between Dealer and Counterparty as to the terms of the Transaction to which this Confirmation relates. This Confirmation shall be subject to an agreement (the "**Agreement**") in the form of the 2002 ISDA Master Agreement (the "**ISDA Form**") as if Dealer and Counterparty had executed an agreement in such form (without any Schedule but with the elections set forth in this Confirmation). The Transaction shall be the only Transaction under the Agreement.

All provisions contained in, or incorporated by reference to, the Agreement will govern this Confirmation except as expressly modified herein. In the event of any inconsistency between this Confirmation and either the Definitions or the Agreement, this Confirmation shall govern. The Transaction is a Share Forward Transaction within the meaning set forth in the Equity Definitions.

2. The terms of the particular Transaction to which this Confirmation relates are as follows:

General Terms:

Trade Date:November 7, 2018

Seller: Dealer

Buyer: Counterparty

Shares: The common stock of Counterparty, par value USD 0.01 per share (Ticker Symbol: “BLD”)

Prepayment: Applicable

Prepayment Amount: As provided in Annex B to this Confirmation.

Prepayment Date: The first Exchange Business Day following the Trade Date

Exchange: New York Stock Exchange

Related Exchange(s): All Exchanges

Calculation Agent: Dealer.

Valuation Terms:

Averaging Dates: Each of the consecutive Exchange Business Days commencing on, and including, the Exchange Business Day immediately following the Trade Date and ending on, and including, the Final Averaging Date.

Final Averaging Date: The Scheduled Final Averaging Date; *provided* that Dealer shall have the right, in its absolute discretion, at any time to accelerate the Final Averaging Date, in whole or in part, to any date that is on or after the Scheduled Earliest Acceleration Date by written notice (an “**Acceleration Notice**”) to Counterparty no later than 5:00 P.M., New York City time, on the Exchange Business Day immediately following the accelerated Final Averaging Date. Dealer shall specify in each Acceleration Notice the portion of the Prepayment Amount that is subject to acceleration (which may be less than the full Prepayment Amount).

Scheduled Final Averaging Date: As provided in Annex B to this Confirmation.

Scheduled Earliest Acceleration Date: As provided in Annex B to this Confirmation.

Valuation Date: The Final Averaging Date.

Averaging Date Disruption: Modified Postponement, *provided* that notwithstanding anything to the contrary in the Equity Definitions, if a Market Disruption Event occurs on any Averaging Date, the Calculation Agent may, if appropriate in light of market conditions, regulatory considerations or otherwise, take any or all of the following actions: (i) postpone the Scheduled Final Averaging Date in accordance with Modified Postponement (as modified herein) and/or (ii) if such Averaging Date is a Disrupted Day only in part, the Calculation Agent shall (x) determine the VWAP Price for such Disrupted Day based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day and (y) determine the Settlement Price based on an appropriately volume weighted average instead of the arithmetic average described under “Settlement Price” below, in each case, to appropriately reflect the nature and duration of such Market Disruption Event. Any Exchange Business Day on which, as of the date hereof, the Exchange is scheduled to close prior to its normal close of trading shall be deemed not to be an Exchange Business Day; if a closure of the Exchange prior to its normal close of trading on any Exchange Business Day is scheduled following the date hereof, then such

Exchange Business Day shall be deemed to be a Disrupted Day in full.

Section 6.3(a) of the Equity Definitions is hereby amended (A) by deleting the words "during the one hour period that ends at the relevant Valuation Time, Latest Exercise Time, Knock-in Valuation Time or Knock-out Valuation Time, as the case may be" in clause (ii) thereof, and (B) by replacing the words "or (iii) an Early Closure." therein with "(iii) an Early Closure, or (iv) a Regulatory Disruption."

Section 6.3(d) of the Equity Definitions is hereby amended by deleting the remainder of the provision following the term "Scheduled Closing Time" in the fourth line thereof.

Section 6.6(a) of the Equity Definitions is hereby amended by replacing the word "shall" in the fifth line thereof with the word "may", and by deleting clause (i) thereof. Section 6.7(c)(iii)(A) of the Equity Definitions is hereby amended by replacing the word "shall" in the sixth and eighth lines thereof with the word "may".

Regulatory Disruption: Any event that Dealer, based on advice of counsel, concludes, in its good faith and reasonable discretion, makes it appropriate due to any legal, regulatory or self-regulatory requirements or related policies and procedures relating to legal, regulatory or self-regulatory requirements (whether or not such policies or procedures are imposed by law or have been voluntarily adopted by Dealer provided that such policies and/or procedures are generally applicable in similar situations and applied to the Transaction hereunder in a non-discriminatory manner) for Dealer to refrain from or decrease any market activity in connection with the Transaction on any Scheduled Trading Day(s). Dealer shall notify Counterparty as soon as reasonably practicable that a Regulatory Disruption has occurred, the reason for the Regulatory Disruption, and the Averaging Dates affected by it. Following a determination by the Dealer of the occurrence of a Regulatory Disruption, upon a written request of the Counterparty, Dealer shall provide within five (5) Exchange Business Days following receipt of such request, a written explanation in reasonable detail to the Counterparty (but without disclosing any proprietary information of the Dealer or other information that it determines in good faith is proprietary or subject to contractual, legal or regulatory obligations not to disclose such information) providing the basis for such determination.

Settlement Terms:

Initial Share Delivery: On the Initial Share Delivery Date, Dealer shall deliver to Counterparty the Initial Shares.

Initial Share Delivery Date: The first Exchange Business Day following the Trade Date.

Initial Shares: As provided in Annex B to this Confirmation.

Settlement Date: The date that falls one Settlement Cycle following the Valuation Date.

Settlement: On the Settlement Date, Dealer shall deliver to Counterparty the Number of Shares to be Delivered, if a positive number. If the Number of Shares to be Delivered is a negative number, the Counterparty Settlement Provisions in Annex A shall apply.

Number of Shares to be Delivered:	A number of Shares equal to (a) the Prepayment Amount divided by (b) (i) the Settlement Price *minus* (ii) the Price Adjustment Amount; *provided* that the Number of Shares to be Delivered as so determined shall be reduced by the number of Shares delivered on the Initial Share Delivery Date.
Settlement Price:	The arithmetic average of the VWAP Prices for all Averaging Dates.
VWAP Price:	For any Averaging Date, the Rule 10b-18 dollar volume weighted average price per Share for such day based on transactions executed during such day, as reported on Bloomberg Page "BLD <Equity> AQR SEC" (or any successor thereto) or, in the event such price is not so reported on such day in any market news source (other than due to a temporary delay for any reason which will be remedied on the next succeeding Business Day) for any reason or is manifestly incorrect, as reasonably determined by the Calculation Agent using a volume weighted method. Following any determination that the VWAP Price as reported by Bloomberg or any other market news source is manifestly incorrect, upon written request of Counterparty, the Calculation Agent shall provide within five (5) Exchange Business Days following receipt of such request a written explanation in reasonable detail to Counterparty (but without disclosing any proprietary information of the Dealer or other information that it determines in good faith is proprietary or subject to contractual, legal or regulatory obligations not to disclose such information) providing the basis for such determination.
Price Adjustment Amount:	As provided in Annex B to this Confirmation.
Excess Dividend Amount:	For the avoidance of doubt, all references to the Excess Dividend Amount in Section 9.2(a)(iii) of the Equity Definitions shall be deleted.
Other Applicable Provisions:	To the extent either party is obligated to deliver Shares hereunder, the provisions of the last sentence of Section 9.2 and Sections 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Counterparty is the Issuer of the Shares) and 9.12 of the Equity Definitions will be applicable as if "Physical Settlement" applied to the Transaction.

Dividends:

Dividend:	Any dividend or distribution on the Shares other than any dividend or distribution of the type described in Sections 11.2(e)(i), 11.2(e)(ii)(A) or 11.2(e)(ii)(B) of the Equity Definitions.

Share Adjustments:

Method of Adjustment:	Calculation Agent Adjustment; *provided* that the declaration or payment of Dividends shall not be a Potential Adjustment Event. If the Scheduled Final Averaging Date is postponed pursuant to "Averaging Date Disruption" above, the Calculation Agent, in its good faith and commercially reasonable discretion, may deem such postponement to be a Potential Adjustment Event.

Extraordinary Events:

Consequences of Merger Events:

(a) Share-for-Share: Cancellation and Payment

(b) Share-for-Other: Cancellation and Payment

(c) Share-for-Combined: Cancellation and Payment

Tender Offer: Applicable; *provided* that Section 12.1(d) of the Equity Definitions shall be amended by replacing "10%" in the third line thereof with "25%".

Consequences of Tender Offers:

(a) Share-for-Share: Modified Calculation Agent Adjustment.

(b) Share-for-Other: Modified Calculation Agent Adjustment.

(c) Share-for-Combined: Modified Calculation Agent Adjustment.

Composition of Combined Consideration: Not Applicable

Provisions applicable to Merger Events and Tender Offers: The consequences set forth opposite "Consequences of Merger Events" and "Consequences of Tender Offers" above shall apply regardless of whether a particular Merger Event or Tender Offer relates to a Transaction Announcement for which an adjustment has been made pursuant to Section 9 below, without duplication of any such adjustment.

New Shares: In the definition of New Shares in Section 12.1(i) of the Equity Definitions, the text in clause (i) thereof shall be deleted in its entirety (including the word "and" following such clause (i)) and replaced with "publicly quoted, traded or listed on any of the New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or their respective successors)".

Nationalization, Insolvency or Delisting: Cancellation and Payment (Calculation Agent Determination); *provided* that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it shall also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, The NASDAQ Global Market or The NASDAQ Global Select Market (or their respective successors); if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall thereafter be deemed to be the Exchange.

Additional Disruption Events:

Change in Law: Applicable; *provided* that Section 12.9(a)(ii) of the Equity Definitions is hereby amended by (i) replacing the phrase "the interpretation" in the third line thereof with the phrase ", or public announcement of, the formal or informal interpretation", (ii) replacing the word "Shares" where it appears in clause (X) thereof with the words "Hedge Positions" and (iii) immediately following the word "Transaction" in clause (X) thereof, adding the phrase "in the manner contemplated by the Hedging Party on the Trade Date"; *provided further* that Section 12.9(a)(ii) of the Equity Definitions is hereby amended by replacing the parenthetical beginning after the word "regulation" in the second line thereof with the words "(including, for the avoidance of doubt and without limitation, (x) any tax law or (y) adoption or promulgation of new regulations authorized or mandated by existing statute)".

Failure to Deliver:Applicable

Insolvency Filing:Applicable

Hedging Disruption:Applicable

Increased Cost of Hedging:Applicable

Loss of Stock Borrow:Applicable

Maximum Stock Loan Rate:As provided in Annex B to this Confirmation.

Increased Cost of Stock Borrow:Applicable

Initial Stock Loan Rate:As provided in Annex B to this Confirmation.

Hedging Party:Dealer or an affiliate of Dealer that is involved in the hedging of the Transaction for all applicable Additional Disruption Events; *provided* that when making any calculation as "Hedging Party," Dealer shall act in good faith and in a commercially reasonable manner. Following any such calculation, upon a written request by Counterparty, Dealer shall within five (5) Exchange Business Days following receipt of such request provide Counterparty with a report (in a commonly used file format for the storage and manipulation of financial data but without disclosing any proprietary models of the Calculation Agent or other information that it determines in good faith is or is likely to be proprietary or subject to contractual, legal or regulatory obligations not to disclose such information) displaying in reasonable detail the basis for such calculation.

Determining Party:Dealer for all applicable Extraordinary Events and Additional Disruption Events; *provided* that when making any calculation as "Determining Party," Dealer shall act in good faith and in a commercially reasonable manner. Following any such calculation, upon a written request by Counterparty, Dealer shall within five (5) Exchange Business Days following receipt of such request provide Counterparty with a report (in a commonly used file format for the storage and manipulation of financial data but without disclosing any proprietary models of the Calculation Agent or other information that it determines in good faith is or is likely to be proprietary or subject to contractual, legal or regulatory obligations not to disclose such information) displaying in reasonable detail the basis for such calculation.

Non-Reliance:Applicable

Agreements and Acknowledgments Regarding Hedging Activities:Applicable

Additional Acknowledgments:Applicable

3. Account Details:

(a) Account for payments to Counterparty:To be provided separately upon request

(b) Account for payments to Dealer:

Bank:JPMorgan Chase Bank, N.A.
ABA#: 021000021
Acct No.: 099997979
Beneficiary:JPMorgan Chase Bank, N.A. New York
Ref:Derivatives

Account for delivery of Shares to Dealer: DTC 0352

4. Offices:

(a) The Office of Counterparty for the Transaction is: Counterparty is not a Multibranch Party

(b) The Office of Dealer for the Transaction is:

JPMorgan Chase Bank, National Association
London Branch
25 Bank Street
Canary Wharf
London E14 5JP
England

5. Notices: For purposes of this Confirmation:

(a) Address for notices or communications to Counterparty:

TopBuild Corp.
475 North Williamson Blvd.
Daytona Beach, FL 32114
Attn: John S. Peterson
Telephone: 386-763-8798

(b) Address for notices or communications to Dealer:

JPMorgan Chase Bank, National Association
EDG Marketing Support
Email: edg_notices@jpmorgan.com
edg_ny_corporate_sales_support@jpmorgan.com

With a copy to:
Attention: Brett Chalmers
Title: Vice President
Telephone No.: (212) 622-2252
Email Address: brett.chalmers@jpmorgan.com

6. Additional Provisions Relating to Transactions in the Shares.

(a) Counterparty acknowledges and agrees that the Initial Shares delivered on the Initial Share Delivery Date may be sold short to Counterparty. Counterparty further acknowledges and agrees that Dealer may, during (i) the period from the date hereof to the Valuation Date or, if later, the Scheduled Earliest Acceleration Date without regard to any adjustment thereof pursuant to "Special Provisions regarding Transaction Announcements" below, and (ii) the period from and including the first Settlement Valuation Date to and including the last Settlement Valuation Date, if any (together, the "**Relevant Period**"), purchase Shares in connection with the Transaction, which Shares may be used to cover all or a portion of such short sale or may be delivered to Counterparty. Such purchases will be conducted independently of Counterparty. The timing of such purchases by Dealer, the number of Shares purchased by Dealer on any day and the price paid per Share pursuant to such purchases shall be within the absolute discretion of Dealer. It is the intent of the parties that the Transaction comply with the requirements of Rule 10b5-1(c)(1)(i)(A) and Rule 10b5-1(c)(1)(i)(B) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and the parties agree that this

Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c), and Counterparty shall not take any action that results in the Transaction not so complying with such requirements. Without limiting the generality of the preceding sentence, Counterparty acknowledges and agrees that (A) Counterparty does not have, and shall not attempt to exercise, any influence over how, when or whether Dealer effects any purchases of Shares in connection with the Transaction, (B) during the period beginning on (but excluding) the date of this Confirmation and ending on (and including) the last day of the Relevant Period, neither Counterparty nor its officers or employees shall, directly or indirectly, communicate any information regarding Counterparty or the Shares to any employee of Dealer or its Affiliates responsible for trading the Shares in connection with the transactions contemplated hereby, (C) Counterparty is entering into the Transaction in good faith and not as part of a plan or scheme to evade compliance with federal securities laws including, without limitation, Rule 10b-5 promulgated under the Exchange Act and (D) Counterparty will not alter or deviate from this Confirmation or enter into or alter a corresponding hedging transaction with respect to the Shares. Counterparty also acknowledges and agrees that any amendment, modification, waiver or termination of this Confirmation must be effected in accordance with the requirements for the amendment or termination of a "plan" as defined in Rule 10b5-1(c) under the Exchange Act. Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, and no such amendment, modification or waiver shall be made at any time at which Counterparty or any officer or director of Counterparty is aware of any material nonpublic information regarding Counterparty or the Shares.

(b) Counterparty agrees that neither Counterparty nor any of its Affiliates or agents shall take any action that would cause Regulation M of the Exchange Act to be applicable to any purchases of Shares, or any security for which the Shares are a reference security (as defined in Regulation M), by Counterparty or any of its affiliated purchasers (as defined in Regulation M) during the Relevant Period.

(c) Counterparty shall, at least one day prior to the first day of the Relevant Period, notify Dealer in writing of the total number of Shares purchased in Rule 10b-18 purchases of blocks pursuant to the once-a-week block exception contained in Rule 10b-18(b)(4) by or for Counterparty or any of its affiliated purchasers during each of the four calendar weeks preceding the first day of the Relevant Period and during the calendar week in which the first day of the Relevant Period occurs ("Rule 10b-18 purchase", "blocks" and "affiliated purchaser" each being used as defined in Rule 10b-18).

(d) During the Relevant Period, Counterparty shall except to the extent required by any law, (i) during the period beginning on (and including) the date of this Confirmation and ending on (and including) the last day of the Relevant Period make, or permit to be made, any public announcement (as defined in Rule 165(f) under the Securities Act of 1933, as amended (the "**Securities Act**")) of any merger, acquisition, or similar transaction involving a recapitalization relating to Counterparty (other than any such transaction in which the consideration consists solely of cash and there is no valuation period) (a "**Merger Transaction**") or potential Merger Transaction unless such announcement is made prior to the opening or after the close of the regular trading session on the Exchange for the Shares, (ii) promptly notify Dealer following any such announcement that such announcement has been made, and (iii) promptly deliver to Dealer following the making of any such announcement a certificate indicating (A) Counterparty's average daily Rule 10b-18 purchases (as defined in Rule 10b-18) during the three full calendar months preceding the date of the announcement of such transaction and (B) Counterparty's block purchases (as defined in Rule 10b-18) effected pursuant to paragraph (b)(4) of Rule 10b-18 during the three full calendar months preceding the date of the announcement of such transaction. In addition, except to the extent required by any law, Counterparty shall promptly notify Dealer of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Counterparty acknowledges that any such public announcement may result in a Regulatory Disruption and may cause the Relevant Period to be suspended or the Transaction to be terminated. Accordingly, Counterparty acknowledges that its actions in relation to any such announcement or transaction must comply with the standards set forth in Section 6(a) above.

(e) Without the prior written consent of Dealer, Counterparty shall not, and shall cause its Affiliates and affiliated purchasers (each as defined in Rule 10b-18) not to, directly or indirectly (including, without limitation, by means of a cash-settled or other derivative instrument) purchase, offer to purchase, place any bid or limit order that would effect a purchase of, or commence any tender offer relating to, any Shares (or an equivalent interest, including a unit of beneficial interest in a trust or limited partnership or a depository share) or any security convertible into or exchangeable for Shares during the Relevant Period.

Notwithstanding the immediately preceding paragraph or anything herein to the contrary, Counterparty may purchase Shares (x) on any Exchange Business Day pursuant to any Rule 10b5-1 or Rule 10b-18 repurchase plan entered into with Dealer or an Affiliate of Dealer (each, a "Dealer Permitted OMR Transaction"), so long as, on any Exchange Business Day, purchases under all Dealer Permitted OMR Transactions do not in the aggregate exceed the Designated OMR Threshold specified in the Supplemental Confirmation for such Transaction on such Exchange Business Day.

(f) With respect to purchases of Shares by Dealer in connection with the Transaction during the Relevant Period (other than any purchases made by Dealer for its own account in connection with dynamic hedge adjustments of Dealer's exposure to the Transaction as a result of any equity optionality contained in such Transaction, including, for the avoidance of doubt, timing optionality), Dealer will use good faith, commercially reasonable efforts to effect such purchases in a manner so that, if such purchases were made by Counterparty, they would meet the requirements of Rule 10b-18(b)(2), (3) and (4), taking into account any applicable Securities and Exchange Commission no-action letters as appropriate and subject to any delays between the execution and reporting of a trade of the Shares on the Exchange and other circumstances beyond Dealer's control. Notwithstanding anything to the contrary herein, the foregoing sentence shall not apply to purchases made by Dealer or its Affiliates to dynamically hedge for the account of Dealer or its Affiliates the optionality arising under the Transaction (including, for the avoidance of doubt, timing optionality).

7. <u>Representations, Warranties and Agreements</u>.

(a) In addition to the representations, warranties and agreements in the Agreement and those contained elsewhere herein, Counterparty represents and warrants to and for the benefit of, and agrees with, Dealer as follows:

(i) As of the Trade Date, and as of the date of any election by Counterparty of the Share Termination Alternative under (and as defined in) Section 10(a) below, (A) none of Counterparty and its officers and directors is aware of any material nonpublic information regarding Counterparty or the Shares and (B) Counterparty is in compliance with its reporting obligations under the Exchange Act, and its most recent Annual Report on Form 10-K, together with all reports subsequently filed by it pursuant to the Exchange Act, taken together and as amended and supplemented to the date of this representation, do not, as of their respective filing dates, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(ii) Without limiting the generality of Section 13.1 of the Equity Definitions, Counterparty acknowledges that Dealer is not making any representations or warranties or taking any position or expressing any view with respect to the treatment of the Transaction under any accounting standards including ASC Topic 260, *Earnings Per Share*, ASC Topic 815, *Derivatives and Hedging*, or ASC Topic 480, *Distinguishing Liabilities from Equity* and ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity* (or any successor issue statements) or under FASB's Liabilities & Equity Project.

(iii) Without limiting the generality of Section 3(a)(iii) of the Agreement, the Transaction will not violate Rule 13e-1 or Rule 13e-4 under the Exchange Act.

(iv) As of the Trade Date, (A) this Transaction is being entered into pursuant to a publicly disclosed Share buy-back program and its Board of Directors has approved the use of derivatives to effect the Share buy-back program, and (B) there is no internal policy of Counterparty, whether written or oral, that would prohibit Counterparty from entering into any aspect of such Transaction, including, without limitation, the purchases of Shares to be made pursuant to such Transaction.

(v) Counterparty is not entering into this Confirmation to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for Shares) or otherwise in violation of the Exchange Act, and will not engage in any other securities or derivative transaction to such ends.

(vi) Counterparty is not, and after giving effect to the transactions contemplated hereby will not be, required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(vii) On the Trade Date, the Prepayment Date, the Initial Share Delivery Date and the Settlement Date, Counterparty is not, or will not be, "insolvent" (as such term is defined under Section 101(32) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the "**Bankruptcy Code**")) and Counterparty would be able to purchase the Shares hereunder in compliance with the corporate laws of the jurisdiction of its incorporation.

(viii) No state or local (including non-U.S. jurisdictions) law, rule, regulation or regulatory order applicable to the Shares would give rise to any reporting, consent, registration or other requirement (including without limitation a requirement to obtain prior approval from any person or entity) as a result of Dealer or its affiliates owning or holding (however defined) Shares.

(ix) [reserved]

(x) Counterparty understands no obligations of Dealer to it hereunder will be entitled to the benefit of deposit insurance and that such obligations will not be guaranteed by any affiliate of Dealer or any governmental agency.

(xi) Counterparty is (i) a corporation for U.S. federal income tax purposes and is organized under the laws of Delaware and (ii) a "U.S. person" (as that term is used in section 1.1441-4(a)(3)(ii) of United States Treasury Regulations) for U.S. federal income tax purposes.

(xii) Counterparty (A) is capable of evaluating investment risks independently, both in general and with regard to all transactions and investment strategies involving a security or securities; (B) will exercise independent judgment in evaluating the recommendations of any broker-dealer or its associated persons, unless it has otherwise notified the broker-dealer in writing; and (C) has total assets of at least USD 50,000,000 as of the date hereof.

(xiii) As of the Trade Date for each Transaction hereunder, and as of the date of any election with respect to any Transaction hereunder, there has not been any public announcement (as defined in Rule 165(f) under the Securities Act) of a Merger Transaction or potential Merger Transaction.

(b) Each of Dealer and Counterparty agrees and represents that it is an "eligible contract participant" as defined in Section 1a(18) of the U.S. Commodity Exchange Act, as amended.

(c) Counterparty acknowledges that the offer and sale of the Transaction to it is intended to be exempt from registration under the Securities Act, by virtue of Section 4(a)(2) thereof. Accordingly, Counterparty represents and warrants to Dealer that (i) it has the financial ability to bear the economic risk of its investment in the Transaction and is able to bear a total loss of its investment, (ii) it is an "accredited investor" as that term is defined in Regulation D as promulgated under the Securities Act, (iii) it is entering into the Transaction for its own account and without a view to the distribution or resale thereof, and (iv) the assignment, transfer or other disposition of the Transaction has not been and will not be registered under the Securities Act and is restricted under this Confirmation, the Securities Act and state securities laws.

(d) Counterparty agrees and acknowledges that Dealer is a "financial institution," "swap participant" and "financial participant" within the meaning of Sections 101(22), 101(53C) and 101(22A) of the Bankruptcy Code. The parties hereto further agree and acknowledge that it is the intent of the parties that (A) this Confirmation is (i) a "securities contract," as such term is defined in Section 741(7) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "termination value," "payment amount" or "other transfer obligation" within the meaning of Section 362 of the Bankruptcy Code and a "settlement payment," within the meaning of Section 546 of the Bankruptcy Code and (ii) a "swap agreement," as such term is defined in Section 101(53B) of the Bankruptcy Code, with respect to which each payment and delivery hereunder or in connection herewith is a "termination value," "payment amount" or "other transfer obligation" within the meaning of Section 362 of the Bankruptcy Code and a "transfer," as such term is defined in Section 101(54) of the Bankruptcy Code and a "payment or other transfer of property" within the meaning of Sections 362 and 546 of the Bankruptcy Code, and (B) Dealer is entitled to the protections afforded by, among other sections, Sections 362(b)(6), 362(b)(17), 362(o), 546(e), 546(g), 548(d)(2), 555, 560 and 561 of the Bankruptcy Code.

8. Agreements and Acknowledgements Regarding Hedging.

Counterparty acknowledges and agrees that:

(a) During the Relevant Period, Dealer and its Affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to the Transaction;

(b) Dealer and its Affiliates also may be active in the market for Shares other than in connection with hedging activities in relation to the Transaction;

(c) Dealer shall make its own determination as to whether, when or in what manner any hedging or market activities in Counterparty's securities shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to the Settlement Price and/or the VWAP Price; and

(d) Any market activities of Dealer and its Affiliates with respect to Shares may affect the market price and volatility of Shares, as well as the Settlement Price and/or the VWAP Price, each in a manner that may be adverse to Counterparty.

9. Special Provisions regarding Transaction Announcements.

(a) If a Transaction Announcement occurs on or prior to the final Settlement Date, the Calculation Agent shall make such adjustment to the exercise, settlement, payment or any of the other terms of the Transaction (including without limitation, the Number of Shares to be Delivered and the Price Adjustment Amount), at such time or multiple times as the Calculation Agent determines, in a commercially reasonable manner, appropriate to account for the economic effect of the Transaction Announcement (including adjustments to account for changes in volatility, expected dividends, stock loan rate, value of any commercially reasonable Hedge Positions in connection with the Transaction and liquidity relevant to the Shares or to such Transaction); provided, for the avoidance of doubt, in such event the Number of Shares to be Delivered may be reduced below zero pursuant to the proviso to such definition.

(b) "**Transaction Announcement**" means (i) the Announcement of an Acquisition Transaction or an event that, if consummated, would result in an Acquisition Transaction, (ii) an Announcement that Counterparty or any of its subsidiaries has entered into an agreement, a letter of intent or an understanding to enter into an Acquisition Transaction, (iii) the Announcement of an intention to solicit or enter into, or to explore strategic alternatives or other similar undertaking that includes a potential Acquisition Transaction among the possibilities of transactions solicited or explored, (iv) any other Announcement that in the reasonable judgment of the Calculation Agent is reasonably likely to result in an Acquisition Transaction, or (v) any Announcement of any material change or amendment to any previous Transaction Announcement (including any Announcement of the abandonment of any such previously announced Acquisition Transaction, agreement, letter of intent, understanding or intention). "Announcement" as used in this definition of Transaction Announcement shall include only public announcements made by Counterparty or one of its subsidiaries or any other party to an executed agreement, letter of intent or understanding with the Counterparty or one of its subsidiaries, in respect of the relevant Acquisition Transaction (or an authorized representative of any of the foregoing).

"**Acquisition Transaction**" means (i) any Merger Event (and for purposes of this definition the definition of Merger Event shall be read with the references therein to "100%" being replaced by "30%" and to "50%" by "75%" and as if the clause beginning immediately following the definition of Reverse Merger therein to the end of such definition were deleted) or Tender Offer, or any other transaction involving the merger of Counterparty with or into any third party, (ii) the sale or transfer of all or substantially all of the assets of Counterparty, (iii) a recapitalization, reclassification, binding share exchange or other similar transaction, (iv) any acquisition, lease, exchange, transfer, disposition (including by way of spin-off or distribution) of assets (including any capital stock or other ownership interests in subsidiaries) or other similar event by Counterparty or any of its subsidiaries where the aggregate consideration transferable or receivable by or to Counterparty or its subsidiaries exceeds 30% of the market capitalization of Counterparty and (v) any transaction in which Counterparty or its board of directors has a legal obligation to make a recommendation to its shareholders in respect of such transaction (whether pursuant to Rule 14e-2 under the Exchange Act or otherwise).

10. Other Provisions.

(a) *Alternative Calculations and Payment on Early Termination and on Certain Extraordinary Events*. If either party would owe the other party any amount pursuant to Sections 12.2, 12.3, 12.6, 12.7 or 12.9 of the Equity Definitions or pursuant to Section 6(d)(ii) of the Agreement (a "**Payment Obligation**"), Counterparty shall have the right, in its sole discretion, to satisfy or to require Dealer to satisfy, as the case may be, any such Payment Obligation, in whole or in part, by the Share Termination Alternative (as defined below) by giving irrevocable telephonic notice to Dealer, confirmed in writing within one Scheduled Trading Day, no later than 9:30 A.M. New York City time on the Merger Date, Tender Offer Date, Announcement Date, Early Termination Date or date of cancellation or termination in respect of an Extraordinary Event, as applicable ("**Notice of Share Termination**"); *provided* that if Dealer would owe Counterparty the Payment Obligation and Counterparty does not elect to require Dealer to satisfy such Payment Obligation by the Share Termination Alternative in whole, Dealer shall have the right, in its sole discretion, to elect to satisfy any portion of such Payment Obligation that Counterparty has not so elected by the Share Termination Alternative, notwithstanding Counterparty's failure to elect; and *provided further* that Counterparty shall not have the right to so elect (but, for the avoidance of doubt, Dealer shall have the right to so elect) in the event of (i) an Insolvency, a Nationalization, a Merger Event or a Tender Offer, in each case, in which the consideration or proceeds to be paid to holders of Shares consists solely of cash or (ii) an Event of Default in which Counterparty is the Defaulting Party or a Termination Event in which Counterparty is the sole Affected Party, which Event of Default or Termination Event resulted from an event or events within Counterparty's control. Upon such Notice of Share Termination, the following provisions shall apply on the Scheduled Trading Day immediately following the Merger Date, Tender Offer Date, Announcement Date, Early Termination Date or date of cancellation or termination in respect of an Extraordinary Event, as applicable, with respect to the Payment Obligation or such portion of the Payment Obligation for which the Share Termination Alternative has been elected (the "**Applicable Portion**"):

Share Termination Alternative:	Applicable and means, if delivery pursuant to the Share Termination Alternative is owed by Dealer, that Dealer shall deliver to Counterparty the Share Termination Delivery Property on the date on which the Payment Obligation would otherwise be due pursuant to Section 12.7 or 12.9 of the Equity Definitions or Section 6(d)(ii) of the Agreement, as applicable, or such later date as the Calculation Agent may reasonably determine (the "**Share Termination Payment Date**"), in satisfaction of the Payment Obligation or the Applicable Portion, as the case may be. If delivery pursuant to the Share Termination Alternative is owed by Counterparty, paragraphs 2 through 5 of Annex A shall apply as if such delivery were a settlement of the Transaction to which Net Share Settlement (as defined in Annex A) applied, the Cash Settlement Payment Date were the Early Termination Date, the Forward Cash Settlement Amount were zero (0) *minus* the Payment Obligation (or the Applicable Portion, as the case may be) owed by Counterparty, and "Shares" as used in Annex A were replaced by "Share Termination Delivery Units."
Share Termination Delivery Property:	A number of Share Termination Delivery Units, as calculated by the Calculation Agent, equal to the Payment Obligation (or the Applicable Portion, as the case may be) divided by the Share Termination Unit Price. The Calculation Agent shall adjust the Share Termination Delivery Property by replacing any fractional portion of a security therein with an amount of cash equal to the value of such fractional security based on the values used to calculate the Share Termination Unit Price.
Share Termination Unit Price:	The value to Dealer of property contained in one Share Termination Delivery Unit on the date such Share Termination Delivery Units are to be delivered as Share Termination Delivery Property, as determined by the Calculation Agent in its

discretion by commercially reasonable means and notified by the Calculation Agent to the parties at the time of notification of the Payment Obligation. For the avoidance of doubt, the parties agree that in determining the Share Termination Delivery Unit Price the Calculation Agent may consider the purchase price paid in connection with the purchase of Share Termination Delivery Property.

Share Termination Delivery Unit: In the case of a Termination Event, Event of Default, Delisting or Additional Disruption Event, one Share or, in the case of an Insolvency, Nationalization, Merger Event or Tender Offer, one Share or a unit consisting of the number or amount of each type of property received by a holder of one Share (without consideration of any requirement to pay cash or other consideration in lieu of fractional amounts of any securities) in such Insolvency, Nationalization, Merger Event or Tender Offer. If such Insolvency, Nationalization, Merger Event or Tender Offer involves a choice of consideration to be received by holders, such holder shall be deemed to have elected to receive the maximum possible amount of cash.

Failure to Deliver: Applicable

Other applicable provisions: If Share Termination Alternative is applicable, the provisions of Sections 9.8, 9.9, 9.10, 9.11 (except that the Representation and Agreement contained in Section 9.11 of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws arising as a result of the fact that Counterparty is the issuer of the Shares or any portion of the Share Termination Delivery Units) and 9.12 of the Equity Definitions will be applicable as if "Physical Settlement" applied to the Transaction, except that all references to "Shares" shall be read as references to "Share Termination Delivery Units".

(b) *Equity Rights.* Dealer acknowledges and agrees that this Confirmation is not intended to convey to it rights with respect to the Transaction that are senior to the claims of common stockholders in the event of Counterparty's bankruptcy. For the avoidance of doubt, the parties agree that the preceding sentence shall not apply at any time other than during Counterparty's bankruptcy to any claim arising as a result of a breach by Counterparty of any of its obligations under this Confirmation or the Agreement. For the avoidance of doubt, the parties acknowledge that this Confirmation is not secured by any collateral that would otherwise secure the obligations of Counterparty herein under or pursuant to any other agreement.

(c) *Indemnification*. In the event that Dealer or the Calculation Agent or any of their Affiliates becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Confirmation other than due to the willful misconduct, bad faith or gross negligence of Dealer, Counterparty shall reimburse Dealer or the Calculation Agent or such Affiliate for its reasonable legal and other out-of-pocket expenses (including the cost of any investigation and preparation) incurred in connection therewith within 30 days of receipt of notice of such expenses, and shall indemnify and hold Dealer or the Calculation Agent or such Affiliate harmless on an after-tax basis against any losses, claims, damages or liabilities to which Dealer or the Calculation Agent or such Affiliate may become subject in connection with any such action, proceeding or investigation. If for any reason the foregoing indemnification is unavailable to Dealer or the Calculation Agent or such Affiliate or insufficient to hold it harmless, then Counterparty shall contribute to the amount paid or payable by Dealer or the Calculation Agent or such Affiliate as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by Counterparty on the one hand and Dealer or the Calculation Agent or such Affiliate on the other hand in the matters contemplated by this Confirmation or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits received by Counterparty on the one hand and Dealer or the Calculation Agent or such Affiliate on the other hand in the matters contemplated by this Confirmation but also the relative fault of Counterparty and Dealer or the Calculation Agent or such Affiliate with respect to such losses, claims, damages or liabilities and any other relevant equitable considerations. The relative benefits received by Counterparty, on the one hand, and Dealer or the Calculation Agent or such Affiliate, on the other hand, shall be in the same proportion as the Prepayment Amount bears to the customary brokerage commission for share repurchases multiplied by the Initial Shares. The reimbursement, indemnity and contribution obligations of

Counterparty under this Section 10(c) shall be in addition to any liability that Counterparty may otherwise have, shall extend upon the same terms and conditions to the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of Dealer or the Calculation Agent and their Affiliates and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of Counterparty, Dealer or the Calculation Agent, any such Affiliate and any such person. Counterparty also agrees that neither Dealer, the Calculation Agent nor any of such Affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to Counterparty for or in connection with any matter referred to in this Confirmation except to the extent that any losses, claims, damages, liabilities or expenses incurred by Counterparty result from the gross negligence or bad faith of Dealer or the Calculation Agent or a breach by Dealer or the Calculation Agent of any of its covenants or obligations hereunder. The foregoing provisions shall survive any termination or completion of the Transaction.

(d) *Staggered Settlement*. If Dealer would owe Counterparty any Shares pursuant to the "Settlement Terms" above, Dealer may, by notice to Counterparty on or prior to the Settlement Date (a "**Nominal Settlement Date**"), elect to deliver the Shares deliverable on such Nominal Settlement Date on two or more dates (each, a "**Staggered Settlement Date**") or at two or more times on the Nominal Settlement Date as follows: (i) in such notice, Dealer will specify to Counterparty the related Staggered Settlement Dates (each of which will be on or prior to such Nominal Settlement Date) or delivery times and how it will allocate the Shares it is required to deliver under "Settlement Terms" above among the Staggered Settlement Dates or delivery times; and (ii) the aggregate number of Shares that Dealer will deliver to Counterparty hereunder on all such Staggered Settlement Dates and delivery times will equal the number of Shares that Dealer would otherwise be required to deliver on such Nominal Settlement Date.

(e) *Adjustments*. For the avoidance of doubt, whenever the Calculation Agent is called upon to make an adjustment pursuant to the terms of this Confirmation or the Definitions to take into account the effect of an event, the Calculation Agent shall make such adjustment by reference to the effect of such event on the Hedging Party, assuming that the Hedging Party maintains a commercially reasonable hedge position.

(f) *Transfer and Assignment*. Dealer may transfer or assign its rights and obligations hereunder and under the Agreement, in whole or in part, to any of its Affiliates without the consent of Counterparty provided such Affiliates have an unconditional guaranty from Dealer with respect to its performance under this Transaction or the creditworthiness of such Affiliates is at least equal to, or better than, Dealer's creditworthiness at the time of such transfer or assignment, and provided further that such transfer shall not cause a Tax Event, Illegality or other Termination Event.

(g) *Additional Termination Events*. It shall constitute an Additional Termination Event with respect to which the Transaction is the sole Affected Transaction and Counterparty is the sole Affected Party and Dealer shall be the party entitled to designate an Early Termination Date pursuant to Section 6(b) of the Agreement if, at any time during the Relevant Period, the price per Share on the Exchange, as determined by the Calculation Agent, is at or below the Threshold Price (as provided in Annex B to this Confirmation).

The declaration by the Issuer of any Dividend, the ex-dividend date for which occurs or is scheduled to occur before the Relevant Dividend End Date, will constitute an Additional Termination Event, with Counterparty as the sole Affected Party and all Transactions hereunder as the Affected Transactions. "**Relevant Dividend Period End Date**" means: (A) if Annex A applies, the last day of the Settlement Valuation Period, or (B) otherwise, the Termination Date.

(h) *Amendments to Equity Definitions.* The following amendments shall be made to the Equity Definitions:

(i) Section 11.2(a) of the Equity Definitions is hereby amended by deleting the words "a diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "a material economic effect on the relevant Transaction";

(ii) The first sentence of Section 11.2(c) of the Equity Definitions, prior to clause (A) thereof, is hereby amended to read as follows: '(c) If "Calculation Agent Adjustment" is specified as the Method of Adjustment in the related Confirmation of a Share Option Transaction or Share Forward Transaction, then following the announcement or occurrence of any Potential Adjustment Event, the Calculation Agent will determine whether such Potential Adjustment Event has a material economic effect on the Transaction and, if so, will (i) make appropriate adjustment(s), if any, to any one or more of:' *and* the portion of such sentence immediately preceding clause (ii) thereof is hereby amended by deleting the words "diluting or concentrative".

and the words "(*provided* that no adjustments will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Shares)" and replacing such latter phrase with the words "(and, for the avoidance of doubt, adjustments may be made to account solely for changes in volatility, stock loan rate or liquidity relative to the relevant Shares)";

(iii) Section 11.2(e)(vii) of the Equity Definitions is hereby amended by deleting the words "diluting or concentrative effect on the theoretical value of the relevant Shares" and replacing them with the words "material economic effect on the relevant Transaction";

(iv) Section 12.6(a)(ii) of the Equity Definitions is hereby amended by (1) deleting from the fourth line thereof the word "or" after the word "official" and inserting a comma therefor, and (2) deleting the semi-colon at the end of subsection (B) thereof and inserting the following words therefor "or (C) at Dealer's option, the occurrence of any of the events specified in Section 5(a)(vii) (1) through (9) of the ISDA Master Agreement with respect to that issuer";

(v) Section 12.9(b)(iv) of the Equity Definitions is hereby amended by (A) deleting (1) subsection (A) in its entirety, (2) the phrase "or (B)" following subsection (A) and (3) the phrase "in each case" in subsection (B); and (B) replacing the phrase "neither the Non-Hedging Party nor the Lending Party lends Shares" with the phrase "such Lending Party does not lend Shares" in the penultimate sentence;

(vi) Section 12.9(b)(v) of the Equity Definitions is hereby amended by (A) adding the word "or" immediately before subsection "(B)" and deleting the comma at the end of subsection (A); and (B)(1) deleting subsection (C) in its entirety, (2) deleting the word "or" immediately preceding subsection (C) and (3) replacing in the penultimate sentence the words "either party" with "the Hedging Party" and (4) deleting clause (X) in the final sentence; and

(vii) Section 12.9(b)(vi) of the Equity Definitions is hereby amended by: (A) adding the word "or" immediately before subsection "(B)" and deleting the comma at the end of subsection (A); and (B) (1) deleting subsection (C) in its entirety, (2) deleting the word "or" immediately preceding subsection (C) and (3) deleting the final sentence in its entirety and replacing it with the sentence "The Hedging Party will determine the Cancellation Amount payable by one party to the other".

(i) *No Netting and Set-off.* Each party waives any and all rights it may have to set off obligations arising under the Agreement and the Transaction against other obligations between the parties, whether arising under any other agreement, applicable law or otherwise.

(j) *Disclosure.* Effective from the date of commencement of discussions concerning the Transaction, either party and each of such party's respective employees, representatives, or other agents may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Transaction and all materials of any kind (including opinions or other tax analyses) that are provided to Counterparty relating to such tax treatment and tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

(k) *Designation by Dealer*. Notwithstanding any other provision in this Confirmation to the contrary requiring or allowing Dealer to purchase, sell, receive or deliver any Shares or other securities to or from Counterparty, Dealer may designate any of its Affiliates to purchase, sell, receive or deliver such Shares or other securities and otherwise to perform Dealer's obligations in respect of the Transaction and any such designee may assume such obligations. Dealer may assign the right to receive Payment Shares to any third party who may legally receive Payment Shares. Dealer shall be discharged of its obligations to Counterparty only to the extent of any such performance. For the avoidance of doubt, Dealer hereby acknowledges that notwithstanding any such designation hereunder, to the extent any of Dealer's obligations in respect of any Transaction are not completed by its designee, Dealer shall be obligated to continue to perform or to cause any other of its designees to perform in respect of such obligations.

(l) *Wall Street Transparency and Accountability Act of 2010.* The parties hereby agree that none of (i) Section 739 of the Wall Street Transparency and Accountability Act of 2010 (the "WSTAA"), (ii) any similar legal certainty provision included in any legislation enacted, or rule or regulation promulgated, on or after the Trade Date, (iii) the enactment of the WSTAA or any regulation under the WSTAA, (iv) any requirement under the WSTAA or (v) any amendment made by the WSTAA shall limit or otherwise impair either party's right to terminate, renegotiate, modify, amend or supplement this Confirmation or the Agreement, as applicable, arising from a termination event, force majeure, illegality, increased cost, regulatory change or similar event under this Confirmation, the Equity Definitions or the Agreement (including, but not limited to, any right arising from any Change in Law, Hedging Disruption, Increased Cost of Hedging or Illegality).

(m) *Tax Matters*

(i) *Withholding Tax imposed on payments to non-US counterparties under the United States Foreign Account Tax Compliance Act.* "Tax" and "Indemnifiable Tax", each as defined in Section 14 of the Agreement, shall not include any U.S. federal withholding tax imposed or collected pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (a "**FATCA Withholding Tax**"). For the avoidance of doubt, a FATCA Withholding Tax is a Tax the deduction or withholding of which is required by applicable law for the purposes of Section 2(d) of the Agreement.

(ii) *Tax documentation.* Counterparty shall provide to Dealer a valid U.S. Internal Revenue Service Form W-9, or any successor thereto, (i) on or before the date of execution of this Confirmation and (ii) promptly upon learning that any such tax form previously provided by Counterparty has become obsolete or incorrect. Additionally, Counterparty shall, promptly upon request by Dealer, provide such other tax forms and documents requested by Dealer.

(n) *Termination Currency.* The Termination Currency shall be USD.

(o) *Calculations and Payment Date upon Early Termination.* The parties acknowledge and agree that in calculating (a) the Close-Out Amount pursuant to Section 6 of the Agreement and (b) the amount due upon cancellation or termination of the Transaction (whether in whole or in part) pursuant to Article 12 of the Equity Definitions as a result of an Extraordinary Event, Dealer may (but need not) determine such amount based on (i) expected losses assuming a commercially reasonable (including, without limitation, with regard to reasonable legal and regulatory guidelines) risk bid were used to determine loss or (ii) the price at which one or more market participants would offer to sell to the Seller a block of Shares equal in number to the Seller's hedge position in relation to the Transaction. Notwithstanding anything to the contrary in Section 6(d)(ii) of the Agreement or Article 12 of the Equity Definitions, all amounts calculated as being due in respect of an Early Termination Date under Section 6(e) of the Agreement or upon cancellation or termination of the relevant Transaction under Article 12 of the Equity Definitions will be payable on the day that notice of the amount payable is effective; provided that if Counterparty elects to receive or deliver Share Termination Delivery Units in accordance with Section 10(a) above, such Share Termination Delivery Units shall be delivered on a date selected by Dealer as promptly as practicable.

(p) *Calculations.* Following any adjustment or calculation by the Calculation Agent hereunder, upon a written request by Counterparty, the Calculation Agent will provide to Counterparty within five (5) Exchange Business Days following receipt of such request, a report (in a commonly used file format for the storage and manipulation of financial data but without disclosing any proprietary models of the Calculation Agent or other information that it determines in good faith is or is likely to be proprietary or subject to contractual, legal or regulatory obligations not to disclose such information) displaying in reasonable detail the basis for such adjustment or calculation, as the case may be. Whenever the Calculation Agent is required or permitted to exercise discretion in any way, it will do so in good faith and in a commercially reasonable manner.

(q) *Waiver of Trial by Jury.* **EACH OF COUNTERPARTY AND DEALER HEREBY IRREVOCABLY WAIVES (ON ITS OWN BEHALF AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ON BEHALF OF ITS STOCKHOLDERS) ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THE TRANSACTION OR THE ACTIONS OF DEALER OR ITS AFFILIATES IN THE NEGOTIATION, PERFORMANCE OR ENFORCEMENT HEREOF.**

(q) *Governing Law; Jurisdiction*. **THIS CONFIRMATION AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS CONFIRMATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES COURT FOR THE SOUTHERN DISTRICT OF NEW YORK IN CONNECTION WITH ALL MATTERS RELATING HERETO AND WAIVE ANY OBJECTION TO THE LAYING OF VENUE IN, AND ANY CLAIM OF INCONVENIENT FORUM WITH RESPECT TO, THESE COURTS**.

(r) [Reserved]

(s) *Maximum Share Delivery*. Notwithstanding anything to the contrary in this Confirmation, in no event shall Dealer be required to deliver any Shares, or any Shares or other securities comprising Share Termination Delivery Units, in excess of the Maximum Number of Shares set forth in Annex B to this Confirmation.

(t) *Communications with Employees of J.P. Morgan Securities LLC* If Counterparty interacts with any employee of J.P. Morgan Securities LLC with respect to any Transaction, Counterparty is hereby notified that such employee will act solely as an authorized representative of JPMorgan Chase Bank, NA. (and not as a representative of J.P. Morgan Securities LLC) in connection with such Transaction.

(u) *Counterparts*. This Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Confirmation by signing and delivering one or more counterparts.

Please confirm your agreement to be bound by the terms stated herein by executing the copy of this Confirmation enclosed for that purpose and returning it to us.

Yours sincerely,

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

By: /s/ Brett Chalmers
Name: Brett Chalmers
Title: Vice President

Confirmed as of the date first above written:

TOPBUILD CORP.

By: /s/ George Sellew
Name: George Sellew
Title: Treasurer

COUNTERPARTY SETTLEMENT PROVISIONS

1. The following Counterparty Settlement Provisions shall apply to the extent indicated under the Confirmation:

Settlement Currency:	USD
Settlement Method Election:	Applicable; *provided* that (i) Section 7.1 of the Equity Definitions is hereby amended by deleting the word "Physical" in the sixth line thereof and replacing it with the words "Net Share" and (ii) the Electing Party may make a settlement method election only if the Electing Party represents and warrants to Dealer in writing on the date it notifies Dealer of its election that, as of such date, (A) none of Counterparty and its officers and directors is aware of any material nonpublic information regarding Counterparty or the Shares and (B) it is electing the settlement method in good faith and not as part of a plan or scheme to evade compliance with the federal securities laws.
Electing Party:	Counterparty
Settlement Method Election Date:	The date that is the earlier of (i) 3 Exchange Business Days prior to the Scheduled Final Averaging Date and (ii) the second Exchange Business Day immediately following the Valuation Date.
Default Settlement Method:	Net Share Settlement
Special Settlement:	Either (i) a settlement to which this Annex A applies that follows the occurrence of a Transaction Announcement to which Section 9 of this Confirmation applies or (ii) any settlement to which paragraphs 2 through 5 of this Annex A apply that follows a termination or cancellation of the Transaction pursuant to Section 6 of the Agreement or Article 12 of the Equity Definitions to which Section 10(a) of this Confirmation applies.
Forward Cash Settlement Amount:	The Number of Shares to be Delivered *multiplied by* the Settlement Valuation Price.
Settlement Valuation Price:	The arithmetic average of the VWAP Prices for all Settlement Valuation Dates, subject to Averaging Date Disruption, determined as if each Settlement Valuation Date were an Averaging Date (with Averaging Date Disruption applying as if the last Settlement Valuation Date were the Final Averaging Date and the Settlement Valuation Price were the Settlement Price).
Settlement Valuation Dates:	A number of Scheduled Trading Days selected by Dealer in its commercially reasonable discretion, beginning on the Scheduled Trading Day immediately following the later of the Settlement Method Election Date and the Final Averaging Date.
Cash Settlement:	If Cash Settlement is applicable, then Counterparty shall pay to Dealer the absolute value of the Forward Cash Settlement Amount on the Cash Settlement Payment Date.
Cash Settlement Payment Date:	The date one Settlement Cycle following the last Settlement Valuation Date.
Net Share Settlement Procedures:	If Net Share Settlement is applicable, Net Share Settlement shall be made in accordance with paragraphs 2 through 5 below.

2. Net Share Settlement shall be made by delivery on the Cash Settlement Payment Date of a number of Shares equal to the product of (i) the absolute value of the Number of Shares to be Delivered and (ii) 100%, *plus* a commercially reasonable amount determined by Dealer to account for the fact that such Shares will not be registered for resale; *provided* that in the case of a Special Settlement, Net Share Settlement shall be made (i) by delivery on the Cash Settlement Payment Date (such date, the "**Net Share Settlement Date**") of a number of Shares (the "**Restricted Payment Shares**") with a value equal to the absolute value of the Forward Cash Settlement Amount, with such Shares' value based on the realizable market value thereof to Dealer (which value shall take into account an illiquidity discount resulting from the fact that the Restricted Payment Shares will not be registered for resale), as determined by the Calculation Agent (the "**Restricted Share Value**"), and paragraph 3 of this Annex A shall apply to such Restricted Payment Shares, and (ii) by delivery of the Make-Whole Payment Shares as described in paragraph 4 below.

3. (a) All Restricted Payment Shares and Make-Whole Payment Shares shall be delivered to Dealer (or any affiliate of Dealer designated by Dealer) pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(a)(2) thereof.

(b) As of or prior to the date of delivery, Dealer and any potential purchaser of any such Shares from Dealer (or any affiliate of Dealer designated by Dealer) identified by Dealer shall be afforded a commercially reasonable opportunity to conduct a due diligence investigation with respect to Counterparty customary in scope for private placements of equity securities (including, without limitation, the right to have made available to them for inspection all financial and other records, pertinent corporate documents and other information reasonably requested by them).

(c) As of the date of delivery, Counterparty shall enter into an agreement (a "**Private Placement Agreement**") with Dealer (or any affiliate of Dealer designated by Dealer) in connection with the private placement of such Shares by Counterparty to Dealer (or any such affiliate) and the private resale of such Shares by Dealer (or any such affiliate), substantially similar to private placement purchase agreements customary for private placements of equity securities, in form and substance commercially reasonably satisfactory to Dealer, which Private Placement Agreement shall include, without limitation, provisions substantially similar to those contained in such private placement purchase agreements relating to the indemnification of, and contribution in connection with the liability of, Dealer and its affiliates, and the provision of customary opinions, accountants' comfort letters and lawyers' negative assurance letters, and shall provide for the payment by Counterparty of all fees and expenses in connection with such resale, including all fees and expenses of counsel for Dealer, and shall contain representations, warranties and agreements of Counterparty reasonably necessary or advisable to establish and maintain the availability of an exemption from the registration requirements of the Securities Act for such resales.

(d) Counterparty shall not take or cause to be taken any action that would make unavailable either (i) the exemption set forth in Section 4(a)(2) of the Securities Act for the sale of any Restricted Payment Shares or Make-Whole Payment Shares by Counterparty to Dealer or (ii) an exemption from the registration requirements of the Securities Act reasonably acceptable to Dealer for resales of Restricted Payment Shares and Make-Whole Payment Shares by the Dealer (or an affiliate of Dealer).

(e) Counterparty expressly agrees and acknowledges that the public disclosure of all material information relating to Counterparty is within Counterparty's control.

(f) In connection with the private placement of such shares by Counterparty to Dealer (or any affiliate of Dealer designated by Dealer) and the private resale of such shares by Dealer (or any such affiliate), Counterparty shall, if so requested by Dealer, prepare, in cooperation with Dealer, a private placement memorandum in form and substance reasonably satisfactory to Dealer.

4. If Restricted Payment Shares are delivered in accordance with paragraph 3 above, on the last Settlement Valuation Date, a balance (the "**Settlement Balance**") shall be established with an initial balance equal to the absolute value of the Forward Cash Settlement Amount. Following the delivery of Restricted Payment Shares or any Make-Whole Payment Shares, Dealer shall sell all such Restricted Payment Shares or Make-Whole Payment Shares in a commercially reasonable manner. At the end of each Exchange Business Day upon which sales have been made, the Settlement Balance shall be reduced by an amount equal to the aggregate proceeds received by Dealer or its affiliate upon the sale of such Restricted Payment Shares or Make-Whole Payment Shares, less a customary and commercially reasonable private placement fee for private placements of common stock by similar issuers. If, on any Exchange Business Day, all Restricted Payment Shares

and Make-Whole Payment Shares have been sold and the Settlement Balance has not been reduced to zero, Counterparty shall (i) deliver to Dealer or as directed by Dealer one Settlement Cycle following such Exchange Business Day an additional number of Shares (the "**Make-Whole Payment Shares**" and, together with the Restricted Payment Shares, the "**Payment Shares**") equal to (x) the Settlement Balance as of such Exchange Business Day *divided* by (y) the Restricted Share Value of the Make-Whole Payment Shares as of such Exchange Business Day or (ii) promptly deliver to Dealer cash in an amount equal to the then remaining Settlement Balance. This provision shall be applied successively until either the Settlement Balance is reduced to zero or the aggregate number of Restricted Payment Shares and Make-Whole Payment Shares equals the Maximum Deliverable Number. If on any Exchange Business Day, Restricted Payment Shares and Make-Whole Payment Shares remain unsold and the Settlement Balance has been reduced to zero, Dealer shall promptly return such unsold Restricted Payment Shares or Make-Whole Payment Shares.

5. Notwithstanding the foregoing, in no event shall Counterparty be required to deliver more than the Maximum Deliverable Number of Shares hereunder. "**Maximum Deliverable Number**" means the number of Shares set forth as such in Annex B to this Confirmation. Counterparty represents and warrants to Dealer (which representation and warranty shall be deemed to be repeated on each day from the date hereof to the Settlement Date or, if Counterparty has elected to deliver any Payment Shares hereunder in connection with a Special Settlement, to the date on which resale of such Payment Shares is completed (the "**Final Resale Date**")) that the Maximum Deliverable Number is equal to or less than the number of authorized but unissued Shares of Counterparty that are not reserved for future issuance in connection with transactions in such Shares (other than the transactions under this Confirmation) on the date of the determination of the Maximum Deliverable Number (such Shares, the "**Available Shares**"). In the event Counterparty shall not have delivered the full number of Shares otherwise deliverable as a result of this paragraph 5 (the resulting deficit, the "**Deficit Shares**"), Counterparty shall be continually obligated to deliver, from time to time until the full number of Deficit Shares have been delivered pursuant to this paragraph, Shares when, and to the extent that, (i) Shares are repurchased, acquired or otherwise received by Counterparty or any of its subsidiaries after the date hereof (whether or not in exchange for cash, fair value or any other consideration), (ii) authorized and unissued Shares reserved for issuance in respect of other transactions prior to such date which prior to the relevant date become no longer so reserved or (iii) Counterparty additionally authorizes any unissued Shares that are not reserved for other transactions. Counterparty shall immediately notify Dealer of the occurrence of any of the foregoing events (including the number of Shares subject to clause (i), (ii) or (iii) and the corresponding number of Shares to be delivered) and promptly deliver such Shares thereafter.

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR PORTIONS OF THIS EXHIBIT. THE COPY FILED HEREWITH OMITS THE INFORMATION SUBJECT TO THE CONFIDENTIALITY REQUEST. OMISSIONS ARE DESIGNATED AS [***]. A COMPLETE VERSION OF THIS EXHIBIT HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

ANNEX B

Prepayment Amount:	USD 50,000,000
Scheduled Final Averaging Date:	[***]
Scheduled Earliest Acceleration Date:	[***]
Initial Shares:	796,924 Shares
Price Adjustment Amount:	[***]
Maximum Stock Loan Rate:	200 basis points
Initial Stock Loan Rate:	25 basis points
Threshold Price:	USD 16.00
Maximum Deliverable Number:	1,875,117
Designated OMR Threshold:	[***]
Maximum Number of Shares:	[***]

Exhibit 21.1

SUBSIDIARIES OF TOPBUILD CORP.

Name	Jurisdiction of Organization
ADO Products, LLC	Minnesota
American Commercial Insulation, LLC	Delaware
Builder Services Group, Inc.	Florida
Service Partners, LLC	Virginia
Superior Contracting Corporation	Delaware
TopBuild Home Services, Inc.	Delaware
TopBuild Procurement, Inc.	Delaware
TopBuild Support Services, Inc.	Delaware

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerald Volas, certify that:

1. I have reviewed this Annual Report on Form 10-K of TopBuild Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: February 26, 2019

/s/ Gerald Volas
Gerald Volas
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John S. Peterson, certify that:

1. I have reviewed this Annual Report on Form 10-K of TopBuild Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: February 26, 2019

/s/ John S. Peterson
John S. Peterson
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerald Volas, Chief Executive Officer and Director of TopBuild Corp. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

(1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: February 26, 2019

/s/ Gerald Volas
Gerald Volas
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John S. Peterson, Vice President and Chief Financial Officer of TopBuild Corp. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

(1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: February 26, 2019

/s/ John S. Peterson
John S. Peterson
Vice President and Chief Financial Officer
(Principal Financial Officer)