

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, 2015

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

(State or Other Jurisdiction of Incorporation or Organization)

47-3096382

(I.R.S. Employer Identification No.)

260 Jimmy Ann Drive
Daytona Beach, Florida

(Address of Principal Executive Offices)

32114

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 incorporate 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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 \$29.00 per share as reported on the New York Stock Exchange on June 30, 2015, was approximately \$1.1 billion.

Number of shares of common stock outstanding as of February 26, 2016: 37,833,855

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2016 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2015, are incorporated by reference into Part III of this Form 10-K.

TOPBUILD CORP.
TABLE OF CONTENTS

	<u>Page No.</u>
<u>PART I.</u>	
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	6
<u>Item 1B. Unresolved Staff Comments</u>	18
<u>Item 2. Properties</u>	18
<u>Item 3. Legal Proceedings</u>	18
<u>Item 4. Mine Safety Disclosures</u>	18
<u>PART II.</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	19
<u>Item 6. Selected Historical Financial Data</u>	20
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 8. Financial Statements and Supplementary Data</u>	33
<u>Report of the Independent Registered Certified Public Accounting Firm</u>	33
<u>Consolidated Balance Sheets</u>	34
<u>Consolidated Statements of Operations</u>	35
<u>Consolidated Statements of Cash Flows</u>	36
<u>Consolidated Statements of Changes in Equity</u>	37
<u>Notes to Consolidated Financial Statements</u>	38
<u>Item 9. Changes in Disagreements with Accountants on Accounting and Financial Disclosure</u>	59
<u>Item 9A. Controls and Procedures</u>	59
<u>Item 9B. Other Information</u>	59
<u>PART III.</u>	
<u>Item 10. Directors, Executive Officers, and Corporate Governance</u>	61
<u>Item 11. Executive Compensation</u>	61
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters</u>	61
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	61
<u>Item 14. Principal Accountant Fees and Services</u>	61
<u>PART IV.</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	62
<u>Index to Exhibits</u>	63
<u>Signatures</u>	65

PART I

Item 1. BUSINESS

Overview

TopBuild Corp., headquartered in Daytona Beach, Florida, is the leading installer and distributor of insulation products to the United States construction industry, based on revenue. Prior to June 30, 2015, we operated as a subsidiary of Masco Corporation, which trades on the New York Stock Exchange (“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 from Masco (“Separation”) was completed and on July 1, 2015, we began trading on the NYSE under the symbol “BLD.”

Segment Overview

Installation (TruTeam)

We provide insulation installation services nationwide through our TruTeam contractor services business which has over 180 installation branches located in 44 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 73% of our installation segment’s sales, we also install other building products including rain gutters, garage doors, fireplaces, 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 in a new home is regulated by various building and energy codes.

Our TruTeam customer base includes the largest single-family homebuilders in the United States (“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. This includes pre-construction plan reviews that use 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 70 distribution centers in 35 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*.

Background

Demand for our insulation products and services is driven by new single-family residential and multi-family construction, remodeling and repair activity, commercial construction, building codes, and the growing need for energy efficiency. Being a leader in both installation and distribution allows us to more effectively reach a broader set of customers, 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 branches building and maintaining local customer relationships. At the same time, our local operations benefit from centralized functions such as information technology, credit, and purchasing.

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, a strong local presence, 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, allows 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 having both an installation and distribution business 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 the 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 housing growth wherever it occurs.

Diversified lines of business. In response to the housing downturn in prior years, we enhanced our ability to serve the residential repair/remodel and commercial construction markets. Although the residential repair/remodel and commercial construction markets are affected by many of the same macroeconomic and local economic factors that drive residential new construction, residential repair/remodel and commercial construction have historically followed different cycles than

residential new construction. We have thus positioned our business to benefit from a greater mix of residential repair/remodel activity and commercial construction activity than we have historically, which helps reduce volatility because we are less dependent on residential new construction, and also enables us to better respond to changes in customer demand.

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 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 branch- and distribution center-based 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 information technology, credit and purchasing, 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 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. As a result, 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. 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 3% or more of our total revenues. Our top ten customers accounted for approximately 10% of our total sales in 2015.

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 building products from four primary U.S. based residential fiberglass insulation manufacturers: Owens Corning, Knauf, CertainTeed, and Johns Manville. 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 have good relationships with our suppliers.

Employees

At December 31, 2015, we had approximately 8,000 employees. Approximately 490 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., 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 Report on Form 10-K, our Quarterly Reports on Form 10-Q, and our Current Reports on Form 8-K as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission (the "SEC").

Item 1A. RISK FACTORS

There are a number of business risks and uncertainties that could affect our business. These risks and uncertainties could cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be most relevant to our business activities. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, also may impact our business, financial condition, and results of operations. We urge investors to consider carefully the risk factors described below in evaluating the information contained in this Report.

Our historical financial information is not necessarily indicative of our future financial condition or future results of operations, nor does it reflect what our financial condition or results of operations would have been as an independent public company during the periods presented prior to the Separation.

Our historical financial information included in this Report is not necessarily indicative of our future financial condition, future results of operations or future cash flows, nor does it reflect what our financial condition, results of operations, or cash flows would have been as an independent public company during the periods presented prior to the Separation. In particular, the historical financial information included in this Report is not necessarily indicative of our future financial condition, results of operations, or cash flows primarily because of the following factors:

- Our historical financial results for the periods prior to the Separation reflect allocations of expenses for services historically provided by Masco, and this allocation of Masco corporate expenses may be significantly lower than the comparable expenses we would have incurred as an independent company.
- Our working capital requirements and capital expenditures historically have been satisfied as part of Masco's corporate-wide cash management and capital expenditure programs, and our cost of debt and other capital may have significantly differed from that reflected in our historical financial statements.
- The historical financial information prior to the Separation may not fully reflect the costs associated with being an independent public company.

We have limited history operating as an independent public company. We have incurred significant costs to create the corporate infrastructure necessary to operate as an independent public company, and may continue to do so.

We currently pay Masco for certain support services on a transitional basis and Masco will continue to provide some of these services to us, generally through June 30, 2016, with a possible extension of 12 months, pursuant to the Transition Services Agreement. Any interruption in these services could have a material adverse effect on our business, financial condition, results of operations, and cash flows. In addition, at the end of this transition period, we will need to perform these functions ourselves or hire third parties to perform these functions on our behalf. The costs associated with performing or outsourcing these functions may exceed the amounts reflected in our historical financial statements or that we have agreed to pay Masco during the transition period. A significant increase in the costs of performing or outsourcing these functions could materially and adversely affect our business, financial condition, results of operations, and cash flows.

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 and not fully recovered from the housing crisis.

Our business relies on residential new construction activity and, to a lesser but significant extent on residential repair/remodel and commercial construction activity in the U.S., which is cyclical. Macroeconomic and local economic conditions, including consumer confidence levels, fluctuations in home prices, unemployment and underemployment levels, student loan debt, household formation rates, 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. Adverse changes or uncertainty regarding these and other factors could result in a decline in spending on residential new construction, residential repair/remodel, and commercial construction projects, which could adversely affect our results of operations and our financial position.

While improving, residential new construction, residential repair/remodel, and commercial construction activity (including consumer spending for big ticket remodeling projects) continue to be below historical average levels, which has affected our operating results. While markets have stabilized from the downturn in recent years, there remains significant uncertainty regarding the timing and extent of a full recovery in residential new construction and residential repair/remodel activity and the resulting demand levels for building products we install and/or distribute. In addition to the influence of cyclical macroeconomic and local conditions discussed above, other factors that pose challenges for the markets to return to historical levels of activity include:

- A significant number of homeowners have outstanding principal balances on their mortgage loans which exceed the market value of their homes, impeding their ability to purchase another home or begin a remodeling project they may desire and otherwise be able to afford.
- While decreasing, there are relatively high levels of mortgage loan delinquencies, defaults, and foreclosures that could add to an inventory of lender-owned homes that may be sold in competition with new and resale homes at low, distressed prices or that generate short sales activity at such price levels.
- The size and nature of new homes decreased during the downturn and shifted to a greater mix of multifamily housing units such as apartments and condominiums, which are often smaller than single-family housing units and require less insulation and other building products.
- Tighter lending standards and practices for mortgage loans limit consumers' ability to qualify for mortgage financing to purchase a home.
- Tighter lending standards for commercial credit for smaller builders, as well as for the development of new lots, limit builders' ability to qualify for financing for new development.

- Relatively high levels of student debt and consumer debt, and relatively low consumer confidence, inhibit consumers' willingness to accept available financing for new construction.
- Certain unfavorable demographic trends, such as historically low household formation rates, tend to result in lower home ownership rates than historical averages.

Given these challenges, the present recovery may not continue or gain further momentum and activity in our lines of business may not return to historic levels, which would have a significant adverse effect on the growth potential of our business, and on our financial condition, operating results, and cash flows.

We may not be successful in integrating acquisitions.

Part of our strategy to grow our business is dependent on our ability to make acquisitions that result in an increase in revenues and operating profit.

Our acquisition strategy requires that we successfully integrate acquired companies into our business practices as well as our procurement, management, and our enterprise-wide information technology systems. We may not be successful in implementing our business practices or systems. Any such difficulties, or increased costs associated with such integration, could affect our financial performance and operations.

If we are unable to integrate acquisitions, it could have a material adverse effect on our growth strategy, business, financial condition, and results of operations.

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

Our installation and distribution 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. 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 procure our materials, primarily fiberglass insulation, from leading manufacturers in the industry. While we believe that we have strong 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. This volatility of selling prices and materials availability has in the past had, and may in the future have, a significant impact on our results of operation. 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. Any re-sourcing of building products to one or more new supplier could, therefore, take time and involve significant costs. Accordingly, the loss of a key supplier, or a substantial decrease in the availability of products or components from our suppliers, could disrupt our business and adversely impact 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.

To be successful, we must attract, develop, and retain highly qualified and talented personnel who have the experience, knowledge, and expertise to successfully implement our key business strategies. We also must attract, develop, and retain our sales and labor force while maintaining labor costs. We compete for employees, including branch managers, sales people, regional management, and executive officers, with a broad range of employers in many different industries, and we invest significant resources in recruiting, developing, motivating, and retaining them. The failure to attract and retain key employees, or to develop effective succession planning to assure smooth transitions of those employees and their knowledge, customer relationships, and expertise could negatively affect our competitive position and operating results. Further, as the economy continues to recover, if we are unable to cost-effectively recruit, train, and retain sufficient skilled sales and labor personnel, including sales representatives, branch managers, installers, and truck drivers, we may not be able to adequately satisfy increased demand for our products and services, which could impact our operating results. In

the past, we have also experienced challenges securing personnel for certain of our labor force due to lack of proper immigration status.

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. If we are unable to attract or retain qualified employees, it could adversely impact our operating results.

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

We operate our business through a network of dispersed branch locations and distribution facilities throughout the U.S., supported by corporate executives and services in our headquarters, with branch and regional 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 overall profitability, business, results of operations, financial condition, and prospects.

In addition, the operating results of a specific individual branch or distribution facility may differ from that of another branch or distribution facility for a variety of reasons including business apportionment, management practices, competitive landscape, regulatory requirements, and local economic conditions. As a result, certain of our branches or distribution facilities may experience higher or lower levels of growth than other branches or distribution facilities. Therefore, our overall financial performance and results of operations may not be indicative of the performance and results of operations of any individual branch or distribution facility.

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 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, which could have a material adverse effect on our financial condition, results of operations, and cash flows.

Increases in fuel costs could adversely affect our results of operations.

The price of oil has fluctuated over the last few years, creating volatility in our fuel costs. We do not currently hedge our fuel costs. Increases in fuel costs can negatively impact our costs to deliver our products to our customers and thus increase our cost of sales. If we are unable to increase the selling price of our products to our customers to cover any increases in fuel costs, results of operations may be adversely affected.

We face significant competition.

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. We face significant pricing pressure from competitors in both our installation and distribution businesses. 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. 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.

Our ability to maintain our competitive position in our industry and grow our businesses depends upon successfully maintaining our relationships with major suppliers and customers; cost-effectively recruiting and retaining our sales and labor force including key sales representatives, branch managers, installers, and truck drivers in a tight labor market; delivering superior customer service and quality installations; implementing growth strategies; leveraging our scale; and managing our cost structure, none of which is assured. If we are unable to compete effectively, our business, financial condition, results of operations, and cash flows would be materially and adversely affected.

Our business is seasonal and is susceptible to adverse weather conditions and natural disasters.

Our industry is seasonal. 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.

Severe weather and natural disasters can cause delays or halts and increased costs in the construction of new homes, residential repair/remodeling projects, and commercial construction projects. We may underestimate the impact of seasonality in any given period. Severe weather is often unpredictable, which contributes to earnings volatility and makes forecasting our results of operation more difficult. Severe weather and seasonality may have an adverse impact on our business, including our financial position, cash flows from operations, and results of operations.

In addition, we may experience business interruptions and property or other damage due to severe weather or natural disasters. If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses resulting from adverse weather or natural disasters, our business and results of operations will be adversely affected. In addition, damage to homes or commercial sites caused by adverse weather or a natural disaster can cause our insurance costs to increase.

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, and other proceedings and litigation, including class actions.

We rely on our suppliers to provide us with the building products that we install and/or distribute. Due to the difficulty of controlling the quality of products sourced from our suppliers, we are exposed to risks relating to the quality of such products and to limitations on our recourse against such suppliers.

In addition, we are exposed to potential claims by our employees or others based on job related hazards. For example, certain types of insulation, particularly spray foam applications, require our employees to handle potentially hazardous or toxic substances. While we place significant focus on employee safety and our employees who handle potentially hazardous or toxic materials, including but not limited to lead-based paint, receive specialized training and wear protective clothing, there is still a risk that they, or others, may be exposed to these substances. Exposure to these substances could

result in significant injury to our employees and others, including site occupants, and damage to our property or the property of others, including natural resource damage, for which we may be liable.

We have also experienced class action lawsuits in recent years predicated upon claims for antitrust, product liability, construction defects, competition, and wage and hour issues. We have generally denied liability and have vigorously defended these cases. Due to their scope and complexity, however, these lawsuits can be particularly costly to defend and resolve, and we have and may continue to incur significant costs as a result of these types of lawsuits.

Our builder and contractor customers are subject to construction defect and warranty claims in the ordinary course of their business. Our contractual arrangements with these customers may include our agreement to defend and indemnify them against various liabilities. These claims, often asserted several years after completion of construction, can result in complex lawsuits or claims against the builders, contractors, and many of their subcontractors, including us, and may require us to incur defense and indemnity costs even when our services or distributed products are not the principal basis for the claims.

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 and 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. In addition, our ability to integrate new products and product lines into our distribution network could affect our ability to compete. The success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations. Our expansion into new markets may present competitive, distribution, and regulatory challenges that differ from current ones. We may be less familiar with new product categories and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Growth into new markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors and may not be supported by our historical product suppliers. To the extent we are reliant upon expansion into new geographic, industry, and product markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be negatively affected.

We may be adversely affected by any natural or man-made disruptions to our facilities.

We currently maintain a broad network of distribution facilities and installation branches throughout the U.S. Any widespread disruption to our facilities resulting from fire, earthquake, weather-related events, an act of terrorism, or any other cause could damage a significant portion of our inventory and supply stock, and could materially impair our ability to provide installation and/or distribution services for our customers. Moreover, we could incur significantly higher costs and longer lead times associated with our installation and distribution services to our customers during the time that it takes for us to reopen or replace a damaged facility. If any of these events were to occur, our financial condition, operating results, and cash flows could be materially and adversely affected.

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 because of their market share, and ability to leverage such market share, in the highly fragmented building products supply and services industry. The housing industry downturn resulted in significantly increased pricing pressures from homebuilders and other customers. These pricing pressures have adversely affected our operating results and cash flows. In addition, consolidation among homebuilders, and changes in homebuilders' purchasing policies or payment practices could result in additional pricing pressure. Moreover, during the housing downturn, several of our homebuilder customers defaulted on amounts owed to us or extended their payable days as a result of their financial condition. If such payment failures or delays were to recur, it could significantly adversely affect our financial condition, operating results, and cash flows.

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 product needs 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. In addition, our distribution customers may elect to establish their own building products manufacturing and distribution facilities, or give advantages to manufacturing or distribution intermediaries in which they have an economic stake. These changes in the supply chain could adversely affect our financial condition, operating results, and cash flows.

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

Approximately 490 of our employees are currently covered by collective bargaining or other similar labor agreements that expire on various dates from May 2016 through June 2019. 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 are required to take significant noncash charges, our financial resources could be reduced and our financial flexibility may be negatively affected.

We have recorded significant goodwill and other intangible assets related to prior 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, residential repair/remodel, and commercial construction 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.

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.

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, which encompass all of our major business functions. We rely upon such 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. Any failure by us to properly maintain and protect our information systems could thus adversely impact our ability to attract and serve customers, and could cause us to incur higher operating costs and experience delays in the execution of our business strategies.

Since we rely heavily on information technology, both in serving our customers and in our enterprise infrastructure, in order to achieve our objectives, we may be vulnerable to damage or intrusion from a variety of cyber-attacks including computer viruses, worms, or other malicious software programs that gain access to our systems. Despite the precautions we take to mitigate the risks of such events, an attack on our enterprise information technology system could result in theft or disclosure of our proprietary or confidential information, or a breach of confidential customer or employee information. Such events 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.

Our business relies significantly on the expertise of our employees, and we generally do not have an intellectual property position 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 to our installation services. 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 position is more vulnerable than it would be if it were protected primarily by patents. If we fail to protect our proprietary rights successfully, our competitive position could suffer, which could harm our operating results. 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. Recently, building codes and consumer preferences have begun to shift towards environmentally friendly and energy-efficient building products. In addition, state and local governments may change building codes periodically for perceived safety or other reasons. Our competitive advantage is due, in part, to our ability to respond to changes in consumer preferences and building codes. In particular, our Environments For Living[®] program is designed to make homes more energy-efficient, comfortable, and durable. 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.

The volatile and challenging economic environment of recent years has caused shifts in consumer preferences and purchasing practices, and changes in the business models and strategies of our customers. This has led to a shift in the quantity, type, and prices of products demanded by our customers. For example, demand has increased for multi-family housing units such as apartments and condominiums, which are typically smaller, with correspondingly less insulation, than single-family houses. These shifts have negatively impacted our sales and profitability, and it is uncertain whether these shifts represent long-term changes in preferences.

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

Economic and credit market conditions, the performance of the construction industry, and our financial performance, as well as other factors including restrictions under the Tax Matters Agreement related to the Separation, 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 worsening of current housing market or other construction industry conditions, and the macroeconomic and local economic factors that affect our industry, could require us to seek additional capital and may have a material adverse effect on our ability to secure such capital on favorable terms, if at all. In addition, from and until the second anniversary of the Separation, the Tax Matters Agreement generally will prohibit us and our affiliates from taking certain actions that could cause the Separation and certain related transactions to fail to qualify as tax-free transactions, which includes certain issuances of our common stock.

Restrictions in our existing credit facility, 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 existing term loan and revolving credit facility, or 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, 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
- 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. (See *Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.*) 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.

The provisions of our credit facility or other debt instruments may affect our ability to obtain future financing and pursue attractive business opportunities and our flexibility in planning for, and reacting to, changes in business conditions. In addition, a failure to comply with the provisions of our existing credit facility, any future credit facility, or other debt instruments could result in a default or an event of default that could enable our lenders or other debt holders to declare the outstanding principal of that debt, together with accrued and unpaid interest, to be immediately due and payable. If the payment of our debt is accelerated, our assets may be insufficient to repay such debt in full, and our stockholders could experience a partial or total loss of their investment.

Any adverse credit rating could increase our costs of borrowing money and limit our access to capital markets and commercial credit.

We do not currently intend to seek credit ratings from Moody's Investor Service, Standard & Poor's, or another rating service. However, if Moody's, Standard & Poor's, or another rating service rates our credit, such rating could be below investment grade. Further, an initial credit rating could be lowered or withdrawn entirely by a ratings agency if, in its judgment, the circumstances warrant. If any such ratings are lowered, or are otherwise below investment grade, our borrowing costs could increase and our funding sources could decrease. Actual or anticipated changes or downgrades in future ratings, including any announcement that our ratings are under review for a downgrade, could adversely affect our business, cash flows, financial condition, and operating results.

We may be affected by significant restrictions due to the Separation in order to avoid triggering significant tax-related liabilities.

The Tax Matters Agreement generally will prohibit us from taking certain actions that could cause the Separation and certain related transactions to fail to continue to qualify as tax-free transactions, including the following:

- From and until the second anniversary of the Separation, neither we nor any of our subsidiaries may sell, exchange, distribute, or otherwise dispose of any assets held by us or our subsidiaries, except for assets that, in the aggregate, do not constitute more than 15% of our total assets.
- From and until the second anniversary of the Separation (or otherwise pursuant to a "plan" within the meaning of Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Code")), we may not cause or permit any business combination or transaction which, individually or in the aggregate, could result in one or more persons acquiring directly or indirectly a forty percent (40%) or greater interest in us for purposes of Section 355(e) of the Code.
- From and until the second anniversary of the Separation, we may not discontinue the active conduct of our business (within the meaning of Section 355(b)(2) of the Code).
- From and until the second anniversary of the Separation, we may not sell or otherwise issue our common stock, other than pursuant to issuances that satisfy certain regulatory safe harbors set forth in Treasury Regulations related to stock issued to employees and retirement plans.
- From and until the second anniversary of the Separation, we may not redeem or otherwise acquire any of our common stock, other than pursuant to open-market repurchases of less than 20% of our common stock (in the aggregate).
- From and until the second anniversary of the Separation, we may not amend our certificate of incorporation or other organizational documents, or take any other action, whether through a stockholder vote or otherwise, affecting the voting rights of our common stock.
- More generally, we may not take any action that could reasonably be expected to cause the Separation and certain related transactions to fail to qualify as tax-free transactions under Section 368(a)(1)(D) and Section 355 of the Code.

If we take any of the actions above and such actions result in tax-related losses to Masco, then we generally will be required to indemnify Masco for such tax-related losses. Due to these restrictions and indemnification obligations under the Tax Matters Agreement, we may be limited in our ability to pursue strategic transactions, equity or convertible debt financings, or other transactions that may otherwise be in our best interests. Our potential indemnity obligation to Masco might discourage, delay, or prevent a change of control that our stockholders may consider favorable to our ability to pursue strategic transactions, equity or convertible debt financings, or other transactions that may otherwise be in our best interests.

In connection with the Separation, Masco indemnified us for certain liabilities and we indemnify 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 insure us against the full amount of liabilities for which it will be allocated responsibility, and Masco may not be able to satisfy its indemnification obligations to us in the future.

Pursuant to the Separation and Distribution Agreement and other agreements with Masco, Masco agreed to indemnify us for certain liabilities, and we agreed to indemnify Masco for certain liabilities. 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.

Some of our directors and officers may have actual or potential conflicts of interest because of their equity ownership in Masco, and some of our directors may have actual or potential conflicts of interest because they also serve on the Masco board of directors.

Because of their current or former positions with Masco, some of our directors and executive officers may own shares of Masco common stock or have options to acquire shares of Masco common stock, and such holdings may be significant for some of these individuals compared to their total assets. In addition, one of our directors, Mr. Dennis Archer, serves on the Masco board of directors. This ownership or service on both boards of directors may create, or may create the appearance of, conflicts of interest when these directors and officers are faced with decisions that could have different implications for Masco and us. For example, potential conflicts of interest could arise in connection with the resolution of any dispute that may arise between Masco and us regarding the terms of the agreements governing the Separation and the relationship between the companies.

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 your investment may decline in value.

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 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 Report

Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

The market price of our common stock could decline significantly as a result of sales of a large number of shares of our common stock. These sales, or the perception that these sales might occur, could depress the market price of our common stock.

All of our shares of common stock, other than those held by our “affiliates”, are freely tradable without restriction or registration under the Securities Act. Shares held by our affiliates, which include our directors and executive officers, can be sold subject to volume, manner of sale, and notice provisions under Rule 144. We estimate that our directors and executive officers, who may be considered “affiliates” for purposes of Rule 144, beneficially own less than 1% of our common stock.

In the future, we may issue shares of our common stock in connection with investments or acquisitions. The amount of shares of our common stock issued in connections with an investment or acquisition could constitute a material portion of our then-outstanding shares of our common stock.

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:

- Providing for a classified board of directors
- Providing that our directors may be removed by our stockholders only for cause
- Establishing supermajority vote requirements for our stockholders to amend certain provisions of our certificate of incorporation and our bylaws
- 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 may be 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 COMMENTS

None.

Item 2. PROPERTIES

We operate over 180 installation branch locations and over 70 distribution centers in the United States, most of which are leased. We currently lease a 63,404 square foot facility for our corporate and TruTeam (Installation segment) headquarters located at 260 Jimmy Ann Drive, Daytona Beach, Florida, 32114. Our existing headquarters lease will be terminated when we move into our new, 65,700 square foot corporate office, currently under construction at 75 N. Williamson Boulevard in Daytona Beach, FL 32114. The new office is expected to be completed during the fourth quarter of 2016. The lease on our new corporate office will expire approximately 12 years after substantial completion of the landlord's work, assuming no exercise of any options set forth in the lease. Additionally, we also lease a 17,510 square foot facility for our Service Partners (Distribution Segment) corporate headquarters located at 1029 Technology Park Drive, Glen Allen, Virginia, 23059. Our Service Partners headquarters lease expires on May 31, 2020, 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 II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our common stock is traded on the NYSE under the symbol “BLD”. The following table presents the high and low sales prices of our common stock for each quarter starting July 1, 2015, the date on which our stock began trading “regular way” on the NYSE:

2015	High		Low	
Third quarter	\$	36.36	\$	26.67
Fourth quarter	\$	33.33	\$	27.58

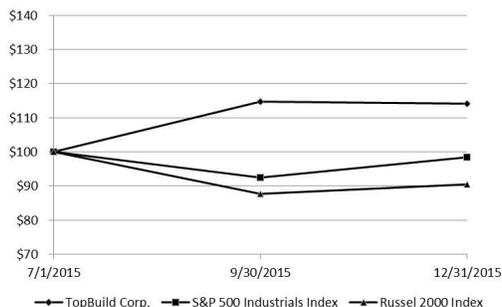
As of February 26, 2016, there were approximately 3,500 holders of our issued and outstanding common stock.

Dividends. No dividends were paid during the years ended December 31, 2015 and 2014. Our credit agreement, in certain circumstances, limits the amount of dividends we may distribute. We do not anticipate declaring any such cash dividends to holders of our common stock in the foreseeable future.

Issuer Purchases of Equity Securities. During the fourth quarter ended December 31, 2015, we did not repurchase any of our equity securities.

Securities Authorized for Issuance under Equity Compensation Plans. The information required by this item will be set forth under the heading “Compensation of Executive Officers” in our 2016 Proxy Statement and is incorporated herein by reference

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 stock began trading “regular way” on the NYSE, through December 31, 2015, with the total cumulative return of the Russel 2000 Index and the Standard and Poor’s Industrials Index (“S&P 500 Industrials Index”). The graph and table assumes 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.



Index	Period ended:		
	7/1/2015	9/30/2015	12/31/2015
TopBuild Corp.	\$ 100	\$ 115	\$ 114
S&P 500 Industrials Index	100	92	98
Russel 2000 Index	100	88	90

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 financial statements and notes thereto included in this Report. The Consolidated Statements of Operations data for the years ended December 31, 2015, 2014, and 2013, and the Consolidated Balance Sheet data as of December 31, 2015, and 2014, are derived from our audited financial statements included in this Report. The Consolidated Statements of Operations data for the year ended December 31, 2012, and the Consolidated Balance Sheet data as of December 31, 2013, were derived from our audited financial statements not included in this report. The Consolidated Statements of Operations data for the year ended December 31, 2011, and the Consolidated Balance Sheet data as of December 31, 2012, and 2011, are derived from our unaudited financial statements not included in this 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 and as such our historical results are not necessarily indicative of future results. For more information, see *Item 8. Financial Statements and Supplementary Data, Note 1 – Summary of Significant Accounting Policies: Basis of Presentation.*

<i>(in thousands)</i>	Year ended December 31,				
	2015	2014	2013	2012 (b)	2011
Net sales	\$ 1,616,580	\$ 1,512,077	\$ 1,411,524	\$ 1,207,889	\$ 1,076,557
Operating profit (loss)	83,531	40,717	24,103	(115,928)	(98,158)
Income (loss) from continuing operations	\$ 79,123	\$ 10,496	\$ (11,551)	\$ (154,375)	\$ (137,893)
Income (loss) per common share on income (loss) from continuing operations (a):					
Basic	\$ 2.10	\$ 0.28	\$ (0.31)	\$ (4.10)	\$ (3.66)
Diluted	\$ 2.09	\$ 0.28	\$ (0.31)	\$ (4.10)	\$ (3.66)
At period end:					
Total assets	\$ 1,642,249	\$ 1,476,424	\$ 1,466,946	\$ 1,450,663	\$ 1,451,294
Long-term debt	193,457	—	—	—	—
Equity	\$ 915,729	\$ 952,291	\$ 1,002,685	\$ 1,026,749	\$ 1,103,657

- (a) For comparative purposes, the computation of basic and diluted earnings per common share for prior year periods presented was calculated using the shares distributed at Separation.
- (b) In July 2012 Masco reached a settlement agreement to the Columbus Drywall litigation. Masco and its insulation installation companies named in the suit agreed to pay \$76 million in return for dismissal with prejudice and full release of all claims. Masco and its insulation installation companies denied that the challenged conduct was unlawful and admitted no wrongdoing as part of the settlement. A settlement was reached to eliminate the considerable expense and uncertainty of this lawsuit.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION 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.

The following discussion and certain other sections of this Report contain statements reflecting our views about our future performance. Forward-looking statements can be identified by words such as "anticipate," "intend," "plan," "believe," "estimate," "expect," "assume," "seek," "appear," "may," "should," "will," "forecast," 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 such forward-looking statements. We caution you against relying on any of these forward-looking statements. In addition to the various factors included in the "Executive Summary," "Competitive Advantages," "Strategy," "Critical Accounting Policies and Estimates," and "Material Trends in Our Business" sections, 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; 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 the Separation. These and other factors are discussed in detail under the caption "Risk Factors" in Item 1A of this Report. Any forward-looking statement made by us speaks only as of the date on which it was made. 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 the leading installer and distributor of insulation products to the United States ("U.S.") construction industry, based on revenue. Demand for our products and services is driven primarily by residential new construction, residential repair/remodel, and commercial construction 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 organically grow our business 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.

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 value local relationships, quality, and timeliness. Our national footprint includes over 180 installation services branches which are locally branded businesses that are recognized within the communities in which they operate. We have over 70 distribution centers primarily serving local contractors, lumberyards, retail 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 with the United States, 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 recovery through focused organic growth and accretive aligned acquisitions
- Gain share in commercial construction
- Continue to leverage our expertise in building science to benefit from the increasing focus on energy efficiency and trends in building codes

Our operating results depend heavily on residential new construction activity and, to a lesser extent, on residential repair/remodel and commercial construction 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.

We are optimistic on housing and expect the current moderate pace of improvement to continue for several years. The U.S. housing market has grown from approximately 587,000 housing starts in 2010 to approximately 1,111,400 housing starts in 2015, well below the 50-year historical average of approximately 1.5 million starts per year. We believe that while the current headwinds of credit availability, student debt, and labor shortages within the construction industry are moderating the rate of recovery, they are also extending the recovery cycle. We believe there is pent-up demand for housing, and this demand will eventually be satisfied with higher levels of new construction.

2015 Results

In 2015 our results were positively affected by increased sales volume of residential new construction and commercial construction activity and increased selling prices. Our sales volume increased across our businesses. Compared to 2014, our Installation segment contributed sales volume increases of 4.5 percent and our Distribution segment contributed sales volume increases of 0.6 percent to our total sales increase, prior to intercompany eliminations. Selling price increases, primarily in our Installation segment, increased our sales by 1.9 percent compared to 2014. Our operating results were positively affected by increased sales volume and a more favorable relationship between selling prices and commodity costs. We also benefitted from our past business rationalizations and other cost savings initiatives, including headcount reductions.

Liquidity and Capital Resources

Prior to the Separation, we largely funded our growth through cash provided by our operations combined with support from Masco through its operating cash flows, its long-term bank debt, and its issuance of securities in the financial markets, including issuances for certain mergers and acquisitions.

Subsequent to the Separation, we have had access to liquidity through our cash from operations and available borrowing capacity under our revolving credit facility. Cash flows are seasonally stronger in the third and fourth quarters as a result of increased new construction activity.

On June 9, 2015, we entered into a Credit Agreement with a bank group. The credit agreement consists of a senior secured term loan facility of \$200 million, which was used to finance a \$200 million cash distribution to Masco in connection with the Separation, and a senior secured revolving facility, which provides for borrowing and/or standby letter of credit issuances of up to \$125 million. Together, the term loan facility and revolving facility are referred to as the "credit facility." Additional borrowing capacity under the credit facility may be accessed by the Company in an aggregate amount not to exceed \$100 million without the consent of the lenders, subject to certain conditions (including existing or new lenders providing commitments in respect of such additional borrowing capacity). For additional information, see *Item 8, Financial Statements and Supplementary Data, Note 5 - Long-term Debt*.

Undrawn capacity under our credit facility provides additional borrowing capacity for working capital and other general corporate purposes. As of December 31, 2015, we had standby letters of credit outstanding of approximately \$55.1 million. The standby letters of credit were issued to secure financial obligations related to our workers compensation, general insurance, and auto liability programs. Our historical financial statements for periods prior to the Separation include letter of credit costs, as Masco allocated these costs to us in related party interest expense.

We had cash and cash equivalents of approximately \$112.8 million and \$3.0 million at December 31, 2015 and 2014, respectively. Our cash and cash equivalents consist of AAA-rated money market funds as well as cash held in our demand deposit accounts.

The following table summarizes our total liquidity, in thousands:

	December 31,		
	2015	2014	2013
Cash and cash equivalents	\$ 112,848	\$ 2,965	\$ 3,021
Revolving credit facility	125,000	—	—
Less: standby letters of credit	(55,096)	—	—
Available borrowings	69,904	—	—
Total liquidity	<u>\$ 182,752</u>	<u>\$ 2,965</u>	<u>\$ 3,021</u>

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 12 months.

Cash Flows

Significant sources and (uses) of cash and cash equivalents for the years ending December 31 areas follows, in thousands:

	2015	2014	2013
Net cash from operating activities	\$ 56,011	\$ 71,861	\$ 24,672
Purchases of property and equipment	(13,644)	(13,141)	(14,008)
Proceeds from sale of property and equipment	805	999	281
Other investing, net	632	880	(541)
Net transfer from (to) Former Parent	72,965	(60,655)	(18,124)
Cash distribution paid to Former Parent	(200,000)	—	—
Proceeds from issuance of long-term debt	200,000	—	—
Repayment of long-term debt	(5,000)	—	—
Payment of debt issuance costs	(1,715)	—	—
Other financing, net	(171)	—	—
Cash and cash equivalents increase (decrease)	<u>\$ 109,883</u>	<u>\$ (56)</u>	<u>\$ (7,720)</u>
Working capital (receivables, net plus inventories, less accounts payable) as a % of net sales	6.2 %	6.5 %	8.4 %

As of December 31, 2015 and 2014, our working capital was 6.2 percent and 6.5 percent of net sales, respectively. One of our objectives in managing working capital is to reduce working capital as a percentage of net sales. This can be accomplished by a number of factors including timelier collections of accounts receivables or improving payment terms with our suppliers. The reduction in working capital as a percentage of net sales in 2015, compared with 2014, was primarily the result of increased sales and improved supplier terms. The reduction in working capital as a percentage of net sales in 2014, compared with 2013, was the result of increased sales, improved management of accounts receivable and inventory, and improved terms with suppliers.

Cash provided by operating activities for the year ended December 31, 2015 decreased \$15.9 million from the comparable period ended December 31, 2014, primarily due to changes in deferred income taxes, the recognition of a non-cash employee benefit policy change, reduced depreciation, the non-recurring impact of improved supplier terms received in 2014, and amortization expense related to a software system which was fully depreciated in 2014, partially offset by an increase in net income driven by increased sales volume of residential new construction and commercial construction activity. Cash provided by operating activities for the year ended December 31, 2014, increased \$47.2 million from the comparable period ended December 31, 2013, primarily due to an increase in net income of \$22.1 million driven by increased sales volume of residential new construction and commercial construction activity. In addition, cash from operations in 2014 benefited from improved working capital of \$20.3 million.

Net cash used for investing activities was \$12.2 million for the year ended December 31, 2015 which was primarily comprised of \$13.6 million in purchases of property and equipment, partially offset by \$0.8 million of proceeds from the sale of property and equipment. Net cash used for investing activities was \$11.3 million for the year ended December 31, 2014, which was primarily comprised of \$13.1 million in purchases of property and equipment partially offset by \$1.0 million of proceeds from the sale of property and equipment. Net cash used for investing activities was \$14.3 million for the year ended December 31, 2013, which was primarily comprised of \$14.0 million in purchases of property and equipment, partially offset by \$0.3 million of proceeds from the sale of property and equipment.

Net cash from (for) financing activities was \$66.1 million, \$(60.7) million, and \$(18.1) million for the years ended December 31, 2015, 2014, and 2013, respectively. During the year ended December 31, 2015, we received \$200.0 million in proceeds from the issuance of long-term debt which was remitted to our Former Parent in connection with the Separation. Additionally, we received a transfer from our Former Parent of \$73.0 million, partially offset by repayments of our long-term debt and payment of debt issuance costs. During the years ended December 31, 2014 and 2013, we made transfers of \$60.7 million and \$18.1 million, respectively, to our Former Parent.

Costs of environmental responsibilities and compliance with existing environmental laws and regulations have not had, nor do we expect them to have, a material effect on our capital expenditures, financial position, or results of operations.

Results of Operations

We report our financial results in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). However, we believe that certain non-GAAP performance measures and ratios, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, our reported results.

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

	Year Ended December 31,		
	2015	2014	2013
Net sales	\$ 1,616,580	\$ 1,512,077	\$ 1,411,524
Cost of sales	1,258,551	1,180,409	1,108,846
<i>Cost of sales ratio</i>	77.9 %	78.1 %	78.6 %
Gross profit	358,029	331,668	302,678
<i>Gross profit margin</i>	22.1 %	21.9 %	21.4 %
Selling, general, and administrative expense	274,498	290,951	278,575
<i>Selling, general, and administrative expense to sales ratio</i>	17.0 %	19.2 %	19.7 %
Operating profit	83,531	40,717	24,103
<i>Operating profit margin</i>	5.2 %	2.7 %	1.7 %
Other expense, net	(9,416)	(12,379)	(13,329)
Income tax benefit (expense) from continuing operations	5,008	(17,842)	(22,325)
Income (loss) from continuing operations	\$ 79,123	\$ 10,496	\$ (11,551)
<i>Net margin on continuing operations</i>	4.9 %	0.7 %	(0.8)%

2015, 2014, and 2013 Comparison

Sales and Operations

Net sales for 2015 increased 6.9 percent, or \$104.5 million, to \$1,616.6 million. The increase was driven by sales volume growth in both Installation and Distribution segments. Our sales benefited from increased volume in residential new construction and commercial construction activity, increased insulation sales driven by changing building code requirements, and increased selling prices.

Net sales for 2014 increased 7.1 percent, or \$100.6 million. The increase was driven by sales volume growth in the Installation and Distribution segments, primarily due to increased residential new construction and commercial construction activity and, to a lesser extent, residential repair/remodel activity. In addition, 2014 benefited from increased insulation sales volume driven by changing building code requirements and increased selling prices.

Our gross profit margins were 22.1 percent, 21.9 percent and 21.4 percent for 2015, 2014, and 2013, respectively. Our increases in gross profit margins reflect increased sales volume and the related absorption of fixed costs, a more favorable relationship between selling prices and material costs, and benefits associated with business rationalization and cost savings initiatives.

Selling, general, and administrative expense as a percent of sales was 17.0 percent, 19.2 percent, and 19.7 percent for 2015, 2014, and 2013, respectively. Reduced selling, general, and administrative expense as a percent of sales is a result of increasing sales volume and price benefits associated with business rationalizations, and other cost savings initiatives.

Our selling, general, and administrative expense includes allocations of Masco general corporate expense for the periods prior to the Separation of \$13.6 million, \$21.9 million, and \$22.1 million in 2015, 2014, and 2013, respectively. Such expense may not be indicative of our general corporate expense in the future.

During the fourth quarter of 2015, we modified our vacation policy from being granted based on prior year service to being earned on a per pay period approach. This employee benefit policy change resulted in a \$9.9 million expense reduction, which is reflected as a \$6.1 million reduction of cost of sales and a \$3.8 million reduction of selling, general, and administrative expenses in our Consolidated Statements of Operations. This item is reflected as a non-cash employee benefit policy change in our Consolidated Statements of Cash Flows.

Operating margins, as reported for 2015, 2014, and 2013 were 5.2 percent, 2.7 percent, and 1.7 percent, respectively. Operating margins, before general corporate expense, for 2015, 2014, and 2013 were 6.6 percent, 4.1 percent and 3.3 percent, respectively. Improvements in operating margins in 2015, 2014, and 2013 were positively affected by increased sales volume, a more favorable relationship between selling prices and commodity costs, and benefits associated with business rationalizations and other cost savings initiatives.

Other Income (Expense), Net

Interest expense was \$9.5 million in 2015 of which \$3.2 million was incurred under the TopBuild credit facility while \$6.3 million was allocated by Masco prior to the Separation. Interest expenses was \$12.4 million and \$13.4 million in 2014 and 2013, respectively, and was exclusively related to a Masco allocation. Such expense may not be indicative of our interest expense in the future.

Income (Loss) from Continuing Operations

Income (loss) from continuing operations was \$79.1 million, \$10.5 million, and \$(11.6) million in 2015, 2014, and 2013, respectively.

Income Tax Benefit (Expense) from Continuing Operations

Our effective tax rates for income (loss) from continuing operations were (7) percent, 63 percent, and 207 percent in 2015, 2014, and 2013, respectively. Compared to our normalized tax rate of 38 percent, the variance in the effective tax rates in 2015, 2014, and 2013 was primarily due to changes in the U.S. Federal and certain state valuation allowances.

Material Trends in Our Business

We believe there are several meaningful trends that indicate U.S. housing demand will recover to levels consistent with the historical average of the past 50 years. These trends include low interest rates relative to historical averages, the aging of housing stock, population growth, and household formation. We expect these trends to also drive long-term growth in repair/remodel expenditures and commercial construction activity.

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 lower construction activity. Historically, the installation of insulation lags housing starts by several months.

2015, 2014, and 2013 Business Segment Results

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

	Year ended December 31,			Percent Increase	Percent Increase
	2015	2014	2013	2015	2014
Net sales by business segment:					
Installation	\$ 1,057,553	\$ 963,351	\$ 904,570	9.8 %	6.5 %
Distribution	646,441	628,810	578,141	2.8 %	8.8 %
Intercompany eliminations and other adjustments	(87,414)	(80,084)	(71,187)		
Net sales	\$ 1,616,580	\$ 1,512,077	\$ 1,411,524	6.9 %	7.1 %
Operating profit by business segment:					
		2015	2014	2013	
Installation	\$	55,232	\$ 23,970	\$ 6,160	
Distribution		55,700	52,334	46,405	
Intercompany eliminations and other adjustments (a)		(4,796)	(13,639)	(6,389)	
Operating profit before general corporate expense		106,136	62,665	46,176	
General corporate expense, net		(22,605)	(21,948)	(22,073)	
Operating profit, as reported	\$	83,531	\$ 40,717	\$ 24,103	
Operating Profit Margins:					
		2015	2014	2013	
Installation		5.2 %	2.5 %	0.7 %	
Distribution		8.6 %	8.3 %	8.0 %	
Operating profit margin before general corporate expense		6.6 %	4.1 %	3.3 %	
Operating profit margin, as reported		5.2 %	2.7 %	1.7 %	

(a) Intercompany eliminations include the elimination of intercompany profit of \$15.6 million, \$14.1 million, and \$11.2 million for the years ending December 31, 2015, 2014, and 2013, respectively. Other adjustments primarily include differences between estimated and actual corporate costs allocated to the segments. During the years ended December 31, 2015, 2014, and 2013, other adjustments were \$10.8 million, \$0.5 million, and \$4.8 million, respectively.

2015, 2014, and 2013 Business Segment Results Discussion

Changes in operating profit margins in the following business segment results discussion exclude general corporate expense, net in 2015, 2014, and 2013, as applicable.

The construction industry is expanding both in residential new home and commercial construction, and is subject to inflationary pressures on costs. We are seeing the impact of this growth with increases in the cost of building materials. We realized higher material costs, principally for insulation, in each of the three years ended December 31, 2015, 2014, and 2013. Insulation is the largest commodity we purchase in our business segments. We have been successful to date in achieving price increases to more than offset the increased commodity costs.

Installation

Sales

Sales increased \$94.2 million or 9.8 percent in 2015 compared to 2014. Such increases were primarily due to increased sales volume, which increased sales by 7.4 percent. Increased sales volume is primarily related to a higher level of activity in residential new construction and commercial construction and changing building code requirements. Sales also increased by 2.3 percent due to increased selling prices. Such increases were partially offset by a greater number of multi-family housing starts versus single-family housing starts, the former of which uses less insulation per unit.

Sales increased \$58.8 million or 6.5 percent in 2014 compared to 2013. Such increases were primarily due to increased sales volume, which increased sales 3.8 percent. Increased sales volume was primarily driven by a higher level of activity in residential new construction and commercial construction and changing building code requirements. Sales also increased by 3.4 percent due to increased selling prices. Such increases were partially offset by a greater number of multi-family housing starts versus single-family housing starts, the former of which uses less insulation per unit.

Operating Results

Operating profit increased \$31.3 million in 2015 compared to 2014, primarily due to increased sales volume and a more favorable relationship between selling prices and commodity costs. Operating profit was also positively affected by cost savings initiatives including process improvements, sourcing savings, and an employee benefit policy change. These changes were partially offset by a less favorable product mix due to higher multi-family housing starts (which use less insulation per unit) than in the prior years, as well as higher insurance costs.

Operating profit increased \$17.8 million in 2014 compared to 2013, primarily due to increased sales volume and a more favorable relationship between selling prices and commodity costs. Such increases were partially offset by a greater number of multi-family housing starts versus single-family housing starts, the former of which uses less insulation per unit.

Distribution

Sales

Net sales increased \$17.6 million or 2.8 percent in 2015 compared to 2014. Such increases were primarily due to increased sales volume, which increased sales by 1.6 percent. Increased sales volume was driven by a higher level of activity in residential new construction and commercial construction, including metal building insulation. Sales volume increases were partially offset in the first quarter of 2015 by an acceleration of sales in the fourth quarter of 2014, following the announcement of a price increase for fiberglass insulation. We also saw lower roofing sales due to consolidation in the industry. Sales increased by 1.3% due to increased selling prices.

Net sales increased \$50.7 million or 8.8 percent in 2014 compared to 2013. Such increases were primarily due to increased sales volume, which increased sales by 7.6 percent driven by a higher level of activity in residential new construction and commercial construction, including metal building insulation. Sales also increased by 1.7% due to increased selling prices.

Operating Results

Operating profit increased \$3.4 million in 2015 compared to 2014 due to increased sales volume and a more favorable product mix, including increased sales of higher margin insulation products compared to lower margin roofing products. This segment also benefited from a more favorable relationship between selling prices and commodity costs.

Operating profit increased by \$5.9 million in 2014 compared to 2013, primarily due to increased sales volume, partially offset by a less favorable relationship between selling prices and material costs.

Commitments and Contingencies

Litigation

We are subject to 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 defect, insurance coverage, personnel and employment disputes, antitrust issues and other matters, including class actions. We believe we have adequate defenses in these matters, and that the likelihood that the outcome of these matters would have a material adverse effect on us is remote. However, there is no assurance that we will prevail in these 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 results of operations.

Other Commitments

We enter into contracts, which include customary indemnifications that are standard for the industries in which we operate. Such indemnifications include customer claims against builders for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide customary indemnifications relating to various items including the enforceability of trademarks, legal and environmental issues, and asset valuations. We evaluate the probability that amounts may be incurred, and appropriately record an estimated liability when probable.

Critical Accounting Policies and Estimates

We prepare our Consolidated Financial Statements in conformity with U.S. 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 based on the amount of material installed and associated labor costs at our customers' locations compared to the total expected cost for the contract. The amount of revenue recognized for our Installation segment which had not been billed as of December 31, 2015 and 2014, was \$23.7 million and \$23.6 million, respectively. Revenue from our distribution segment is recognized when title to products and risk of loss transfers to our customers. We record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives. 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 record the excess of purchase cost over the fair value of net tangible assets of acquired companies as goodwill or other identifiable 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 complete the impairment testing of goodwill 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, are 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, including capital expenditures, 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.

In 2015 and 2014 we did not recognize any impairment charges for goodwill. As of December 31, 2015, 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.

A ten percent decrease in the estimated fair value of our reporting units at October 31, 2015, our measurement date, would not have resulted in any additional analysis of goodwill impairment for any reporting unit.

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 a prior period, we had recorded a valuation allowance against our U.S. Federal and certain state deferred tax assets as a non-cash charge to income tax expense. In reaching this conclusion, we considered the significant decline in residential new construction, high level of foreclosure activity, and the slower than anticipated recovery in the U.S. housing market which led to U.S. operating losses, causing us to be in a three-year cumulative U.S. loss position.

During the years ended December 31, 2010, 2011, and 2012, objective and verifiable negative evidence, such as continued U.S. operating losses and significant impairment charges for U.S. goodwill in 2010, continued to outweigh positive evidence necessary to reduce the valuation allowance. As a result, we recorded increases in the valuation allowance against our U.S. Federal and certain state deferred tax assets as a non-cash charge to income tax expense during the years ended December 31, 2010, 2011, and 2012.

A return to sustainable profitability in the U.S. is required before we would change our judgment regarding the need for a valuation allowance against our deferred tax assets.

Although the strengthening in residential new construction activity resulted in profitability for our operations in 2013 and 2014, we continued to record a full valuation allowance against the U.S. Federal and certain state deferred tax assets. We arrived at this conclusion due to the Company's (i) low amount of profit in 2013 and 2014, (ii) continued the three year cumulative loss position throughout the year ended December 31, 2014, and (iii) lack of taxable income after evaluating the four sources of taxable income generally allowed under ASC 740 in determining whether or not a deferred asset may be realized.

In the fourth quarter of 2015 we recorded a \$35.5 million tax benefit (\$13.5 million of Federal and \$22.0 million of State & local net of federal benefit) from the release of the valuation allowance against its U.S. Federal and certain state deferred tax assets due primarily to a return to sustainable profitability in our U.S. operations. In reaching this conclusion, we considered the Company's strong results in the third and fourth quarters reflecting (i) continued improvement in both new home construction and repair/remodel activity in the U.S. and (ii) the Company's ability to function as a standalone business. We also considered our progress on strategic initiatives to reduce costs and expand the breadth of our market positions, which contributed to the continued improvement in our operations over the past few years.

The reduction in the valuation allowance in 2015 resulted in a net positive income tax benefit of \$5.0 million and a negative effective tax rate of 7% for the year. Excluding the valuation allowance release of \$35.5 million, our effective tax rate would have been 41% for the year ended December 31, 2015, comprised of a 35% U.S. Federal statutory rate and 6% of State and local taxes, net of U.S. Federal tax benefit and Other, net. This rate is higher than would normally be expected due to various nondeductible expenses related to the Separation transaction and other adjustments primarily related to the Separation.

For the activity through the first six months of 2015, we will file tax returns as a member of the Masco consolidated group for federal and certain state jurisdictions. As a result, certain tax attributes, primarily the net operating loss carryforwards, are treated as an asset of the Masco group and may be utilized by the Masco group through the end of December 31, 2015, Masco's tax year-end. It is anticipated that all of our U.S. Federal net operating loss carryforward and certain state net operating loss carryforwards will be utilized by the Masco consolidated group. In accordance, the deferred tax assets relating to the net operating loss carryforwards for federal and certain state jurisdictions were transferred to Masco, in the amount of \$401 million, with a similar transfer of the related valuation allowance.

Due to the fact that TopBuild's current income tax expense is based on a full year, notwithstanding that it was a member of Masco's consolidated group through June 30, 2015, an adjustment of \$2.6 million was required to made to equity to record the appropriate current income tax payable on a standalone basis.

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.

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, 2015 and 2014, other than operating leases, letters of credit issued under our revolving credit facility, 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, 2015, in thousands:

	Payments Due by Period						
	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	\$37,033	\$27,224	\$17,406	\$ 8,909	\$ 3,847	\$ 6,639	\$101,058
Principal repayments of long-term debt	15,000	20,000	20,000	25,000	115,000	—	195,000
Interest payments on long-term debt (a)	4,613	4,175	3,691	3,191	1,346	—	17,016
Standby Letters of Credit and Commitment Fees (b)	1,363	1,363	1,363	1,363	682	—	6,134
Total	\$58,009	\$52,762	\$42,460	\$38,463	\$120,875	\$ 6,639	\$319,208

(a) Interest has been calculated using the interest rate on our long-term debt as of December 31, 2015, of 2.42%

(b) Assumes our standby letters of credit remain constant during the term of our credit facility.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Prior to the Separation, we participated in Masco’s centralized cash management program and were funded through an intercompany loan arrangement whereby Masco provided daily liquidity, as needed, to fund our operations. As a result of this intercompany funding arrangement, prior to the Separation, we had no external indebtedness that exposed us to interest rate risk. Our historical financial statements include standby letter of credit costs, as Masco allocated these costs to TopBuild in related party interest expense allocations.

On June 9, 2015, we entered into a credit agreement. The credit agreement consists of a senior secured term loan facility in the amount of \$200 million and a senior secured revolving facility in the amount of \$125 million.

Interest payable on both the term loan facility and revolving facility are based on a variable interest rate. As of December 31, 2015, we had \$195.0 million outstanding under our term loan facility. As a result, we are exposed to market risks related to fluctuations in interest rates on our outstanding indebtedness. For additional information on our credit agreement and how our interest rate is determined, see *Item 8, Financial Statements and Supplementary Data, Note 5 - Long-Term Debt*. Based on the current interest rate of 2.42 percent under the senior secured term loan facility, a 100 basis point increase in the interest rate would result in a \$1.9 million increase in our annual interest expense for the year ending December 31, 2016. There was no outstanding balance under the revolving facility as of December 31, 2015.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Shareholders of TopBuild Corp.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(i) present fairly, in all material respects, the financial position of TopBuild Corp. and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index appearing under Item 15(a)(ii) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Orlando, Florida
March 3, 2016

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

	As of December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112,848	\$ 2,965
Receivables, net of an allowance for doubtful accounts of \$3,399 and \$3,961 at December 31, 2015 and 2014, respectively	235,549	220,176
Inventories, net	118,701	106,972
Prepaid expenses and other current assets	13,263	5,117
Total current assets	480,361	335,230
Property and equipment, net	93,066	93,157
Goodwill	1,044,041	1,044,041
Other intangible assets, net	1,987	2,962
Deferred tax assets, net	20,549	—
Other assets	2,245	1,034
Total assets	\$ 1,642,249	\$ 1,476,424
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 253,311	\$ 228,720
Current portion of long-term debt	15,000	—
Accrued liabilities	58,369	72,747
Total current liabilities	326,680	301,467
Long-term debt	178,457	—
Deferred tax liabilities, net	181,254	182,281
Other liabilities	40,129	40,385
Total liabilities	726,520	524,133
Commitments and contingencies		
Equity:		
Preferred stock, \$0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2015	—	—
Common stock, \$0.01 par value: 250,000,000 shares authorized; 37,681,765 shares issued and outstanding at December 31, 2015	377	—
Additional paid-in capital	838,976	—
Retained earnings	76,376	—
Former Parent investment	—	952,291
Total equity	915,729	952,291
Total liabilities and equity	\$ 1,642,249	\$ 1,476,424

See notes to our consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Net sales	\$ 1,616,580	\$ 1,512,077	\$ 1,411,524
Cost of sales	1,258,551	1,180,409	1,108,846
Gross profit	358,029	331,668	302,678
Selling, general, and administrative expense	274,498	290,951	278,575
Operating profit	83,531	40,717	24,103
Other income (expense), net:			
Interest expense	(9,465)	(12,404)	(13,366)
Other, net	49	25	37
Other expense, net:	(9,416)	(12,379)	(13,329)
Income from continuing operations before income taxes	74,115	28,338	10,774
Income tax benefit (expense) from continuing operations	5,008	(17,842)	(22,325)
Income (loss) from continuing operations	79,123	10,496	(11,551)
Loss from discontinued operations, net	(152)	(1,093)	(1,187)
Net income (loss)	\$ 78,971	\$ 9,403	\$ (12,738)
Income (loss) per common share:			
Basic:			
Income (loss) from continuing operations	\$ 2.10	\$ 0.28	\$ (0.31)
Loss from discontinued operations, net	—	(0.03)	(0.03)
Net income (loss)	\$ 2.10	\$ 0.25	\$ (0.34)
Diluted:			
Income (loss) from continuing operations	\$ 2.09	\$ 0.28	\$ (0.31)
Loss from discontinued operations, net	—	(0.03)	(0.03)
Net income (loss)	\$ 2.09	\$ 0.25	\$ (0.34)

See notes to our consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Net Cash From (For) Operating Activities:			
Net income (loss)	\$ 78,971	\$ 9,403	\$ (12,738)
Adjustments to reconcile net income to net cash from (for) operating activities:			
Depreciation and amortization	12,108	26,079	27,488
Share-based compensation	4,651	3,762	3,903
Loss on sale of property and equipment	2,334	364	591
Provision for bad debt expense	4,219	3,563	3,379
Loss from inventory obsolescence	1,879	1,302	743
Non-cash employee benefit policy change	(9,861)	—	—
Deferred income taxes, net	(16,556)	16,711	21,609
Changes in certain assets and liabilities:			
Receivables, net	(19,591)	(19,225)	(25,620)
Inventories, net	(13,608)	(10,287)	(13,376)
Prepays and other current assets	(9,054)	100	(1,186)
Accounts payable	24,008	44,941	27,676
Accrued liabilities	(3,746)	(4,768)	(7,733)
Other, net	257	(84)	(64)
Net cash from operating activities	<u>56,011</u>	<u>71,861</u>	<u>24,672</u>
Cash Flows From (For) Investing Activities:			
Purchases of property and equipment	(13,644)	(13,141)	(14,008)
Proceeds from sale of property and equipment	805	999	281
Other, net	632	880	(541)
Net cash for investing activities	<u>(12,207)</u>	<u>(11,262)</u>	<u>(14,268)</u>
Cash Flows From (For) Financing Activities:			
Net transfer from (to) Former Parent	72,965	(60,655)	(18,124)
Cash distribution paid to Former Parent	(200,000)	—	—
Proceeds from issuance of long-term debt	200,000	—	—
Repayment of long-term debt	(5,000)	—	—
Payment of debt issuance costs	(1,715)	—	—
Other, net	(171)	—	—
Net cash from (for) financing activities	<u>66,079</u>	<u>(60,655)</u>	<u>(18,124)</u>
Cash and Cash Equivalents			
Increase (decrease) for the year	109,883	(56)	(7,720)
Beginning of year	2,965	3,021	10,741
End of year	<u>\$ 112,848</u>	<u>\$ 2,965</u>	<u>\$ 3,021</u>
Supplemental disclosure of cash paid for:			
Cash interest on long-term debt	\$ 2,233	\$ —	\$ —
Income taxes	20,992	1,134	717
Supplemental disclosure of noncash investing activities:			
Accruals for property and equipment	\$ 583	\$ —	\$ —

See notes to our consolidated financial statements.

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

	Common Stock (\$0.01 par value)	Additional Paid-in Capital	Retained Earnings	Former Parent Investment	Equity
Balance at December 31, 2012	\$ —	\$ —	\$ —	\$ 1,026,770	\$ 1,026,770
Net income	—	—	—	(12,738)	(12,738)
Net transfers to Former Parent	—	—	—	(11,350)	(11,350)
Balance at December 31, 2013	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,002,682</u>	<u>\$ 1,002,682</u>
Net income	—	—	—	9,403	9,403
Net transfers to Former Parent	—	—	—	(59,794)	(59,794)
Balance at December 31, 2014	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 952,291</u>	<u>\$ 952,291</u>
Net income	—	—	76,376	2,595	78,971
Separation-related adjustments	—	—	—	(118,356)	(118,356)
Reclassification of Former Parent investment in connection with the Separation	—	836,530	—	(836,530)	—
Issuance of common stock at Separation	377	(377)	—	—	—
Share-based compensation	—	2,823	—	—	2,823
Balance at December 31, 2015	<u>\$ 377</u>	<u>\$ 838,976</u>	<u>\$ 76,376</u>	<u>\$ —</u>	<u>\$ 915,729</u>

See notes to our consolidated financial statements.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. On June 30, 2015 (the “Effective Date”), Masco Corporation (“Masco” or the “Former Parent”) completed the separation (the “Separation”) of its Installation and Other Services businesses (the “Services Business”) from its other businesses. On the Effective Date, TopBuild Corp. (“TopBuild” or the “Company”), a Delaware corporation formed in anticipation of the Separation, became an independent public company which holds, through its subsidiaries, the assets and liabilities associated with the Services Business. The Separation was achieved through the distribution of 100 percent of the outstanding capital stock of TopBuild to holders of Masco Corporation common stock. Immediately following the Separation, Masco Corporation stockholders owned 100 percent of the outstanding shares of common stock of TopBuild. References to “TopBuild,” the “Company,” “we,” “our,” and “us” refer to TopBuild Corp. and its consolidated subsidiaries.

Prior to the Separation, the consolidated financial statements of TopBuild were prepared on a stand-alone basis and reflect the historical results of operations, financial position, and cash flows of Masco’s Services Business, including an allocable portion of corporate costs.

We report our business in two segments, Installation and Distribution. Our Installation segment principally includes the sales and installation of insulation and other building products. Our Distribution segment principally includes the distribution of insulation and other building products. Our segments are based on our operating units, for which financial information is regularly evaluated by our corporate operating executives.

Financial Statement Presentation. The consolidated financial statements have been developed in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Historically, stand-alone financial statements were not prepared for the Services Business. Separation related adjustments recorded in the Consolidated Statements of Changes in Equity primarily relate to a cash distribution of \$200 million made by TopBuild to Masco immediately prior to the Separation, offset by net transfers from the Former Parent.

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 equity in the Consolidated Balance Sheets as “Former Parent investment” and in the Consolidated Statements of Cash Flows as a financing activity in “Net transfer from (to) Former Parent.”

The accompanying consolidated financial statements for the periods prior to the Separation include allocations of general corporate expenses that were incurred by Masco for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs. These general corporate expenses were allocated to TopBuild on the basis of sales. Total allocated general corporate costs were \$13.6 million, \$21.9 million, and \$22.1 million for the years ended December 31, 2015, 2014, and 2013, respectively and are included in selling, general, and administrative expense.

Prior to the Separation, Masco incurred certain operating expenses on behalf of the Services Business which were allocated to TopBuild based on direct benefit or usage. These allocated operating expenses were \$5.6 million, \$17.8 million, and \$16.0 million for the years ended December 31, 2015, 2014, and 2013, respectively and are included in selling, general, and administrative expense. An estimate of these operating expenses were allocated to each of TopBuild’s reporting segment, based on a percentage of sales.

For the periods prior to the Separation, these consolidated financial statements may not reflect the actual expenses that would have been incurred had we operated as a stand-alone company and may not reflect the consolidated results of operations, financial position, and cash flows had we operated as a stand-alone company. Actual costs that would have been incurred had we operated as a stand-alone company prior to the Separation would depend on multiple factors including organizational structure and strategic decisions made in various areas, including information technology and infrastructure.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the first quarter ended March 31, 2015, we identified an error related primarily to the misallocation of a favorable legal settlement to general corporate expenses of TopBuild in the fourth quarter of 2014. The impact of the error was to understate the allocation of corporate expense reported as selling, general, and administrative expense and overstate operating profit by \$1.9 million. The error was not considered material to the previously reported 2014 financial statements. We recorded the correction of the error by an out-of-period adjustment in the first quarter of 2015 which is therefore reflected in the twelve months ended December 31, 2015 Consolidated Statements of Operations and Consolidated Statements of Cash Flows.

Use of Estimates and Assumptions in the Preparation of Financial Statements. The preparation of our consolidated financial statements in conformity with U.S. 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. We recognize revenue for our Installation segment using the percentage of completion method of accounting based on the amount of material installed and associated labor costs at our customers' locations compared to the total expected cost for the contract. The amount of revenue recognized for our Installation segment, which had not been billed as of December 31, 2015 and 2014, was \$23.7 million and \$23.6 million, respectively. Revenue from our distribution segment is recognized when title to products and risk of loss transfers to our customers. At time of sale we record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and other volume-based incentives.

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.

Interest and penalties on our uncertain tax positions, if recorded, are reported in income tax expense.

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, garage doors, fireplaces, fireproofing and firestopping products, roofing and shingles, shower enclosures, closet shelving, accessories, and other products. We value inventory at the lower of cost or market, where cost is determined by the first in-first out cost method.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventory value is evaluated at each balance sheet date to ensure that it is carried at the lower of cost or market. Inventory provisions are recorded to reduce inventory to the lower of cost or market 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, 2015 and 2014, 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 as follows:

Asset Class	Estimated Useful Life
Buildings and land improvements	20 – 40 years
Software and company vehicles	3 – 6 years
Equipment	3 – 15 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. 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).

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Intangible Assets*.

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, 2015 and 2014. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability. We also have 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, 2015 and 2014, the amount of this receivable and liability was \$1.8 million and \$1.4 million, respectively

Advertising. Advertising costs are expensed as incurred. Advertising expense, net of manufacturers support, was approximately \$1.5 million, \$2.5 million, and \$3.1 million for the years ended December 31, 2015, 2014, and 2013, respectively, and is included in selling, general, and administrative expense.

Share-based Compensation. Our share-based compensation program consists of restricted stock and stock option awards. We grant restricted stock awards with a fair value based on our closing stock price on the date of grant. Restricted stock awards generally vest ratably over five years. We also grant stock options for a fixed number of shares to certain employees with an exercise price equal to the market price of our common stock on the date of grant. Stock options generally become exercisable (vest ratably) over five years beginning on the first anniversary from the date of grant and expire no later than 10 years after the grant date. The fair value of stock option awards is determined using the Black-Scholes Options Pricing Model. We have elected to use the straight-line method to recognize compensation expense evenly over the respective service period for restricted stock awards and stock option grants. Share-based compensation expense is reported in selling, general, and administrative expense.

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.

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.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard for revenue recognition, Accounting Standards Codification 606 (“ASC 606”). The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. ASC 606 is effective for us for annual periods beginning January 1, 2018. We are currently evaluating the impact the adoption of this new standard will have on our results of operations.

In April 2014, the FASB issued Accounting Standards Update 2014-8 (“ASU 2014-8”), “Reporting of Discontinued Operations and Disclosure of Disposals of Components of an Entity,” which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. On January 1, 2015, we adopted ASU 2014-8. Adoption of the new standard did not have an impact on our financial position or results of operations.

In April 2015, the FASB issued Accounting Standards Update 2015-03 (“ASU 2015-03”), “Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs,” which requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. ASU 2015-3 is effective for us in the first quarter of 2016, however, we elected to early adopt this standard retrospectively during the fourth quarter of 2015. The adoption of this standard did not affect our Consolidated Statements of Operations. As we did not incur any debt issuance costs prior to the Separation there is no change to our Consolidated Balance Sheet as of December 31, 2014.

In July 2015, the FASB issued Accounting Standards Update 2015-11 (“ASU 2015-11”), “Simplifying the Measurement of Inventory.” Under the amendment, ASU 2015-11, inventory should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We do not expect the adoption of this amendment to have a material impact on our financial position or results of operations.

In November 2015, the FASB issued Accounting Standards Update 2015-17 (“ASU 2015-17”), “Balance Sheet Classification of Deferred Taxes.” This guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for us in the first quarter of 2017, however, we early adopted this new standard prospectively during the fourth quarter of 2015. As we adopted this guidance prospectively, prior periods were not retrospectively adjusted. The adoption of this standard did not affect our Consolidated Statements of Operations.

2. RELATED PARTY TRANSACTIONS

Prior to the Separation, interest was charged each month as an adjustment to Former Parent investment in TopBuild. Our Consolidated Statements of Operations reflect an interest expense charge of \$6.3 million, \$12.4 million, and \$13.4 million for the years ended December 31, 2015, 2014, and 2013, respectively. The charge was based on the monthly average intercompany balance payable to Masco based on a 12-month LIBOR plus two percent.

Prior to the Separation, transactions between us and Masco, with the exception of purchase transactions, are reflected in equity in the Consolidated Balance Sheets as “Former Parent investment” and in the Consolidated Statements of Cash Flows as a financing activity in “Net transfer from (to) Former Parent.” TopBuild related party purchases from Masco businesses aggregated \$2.6 million, \$6.7 million, and \$6.4 million for the years ended December 31, 2015, 2014, and 2013, respectively, and have been included in cost of sales. The amounts owed to Masco subsidiaries was \$0.6 million at December 31, 2014. 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 conjunction with the Separation, we executed several agreements with Masco. These agreements include a Tax Matters Agreement, a Transition Services Agreement, and an Employee Matters Agreement. The Tax Matters Agreement governs the parties’ respective rights, responsibilities, and obligations with respect to taxes. The Transition

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Services Agreement sets forth the terms on which Masco will provide to us and we will provide to Masco, on a transition basis, certain services or functions that the companies have historically shared. The Employee Matters Agreement governs our, and Masco's, compensation and employee benefit obligations with respect to current and former employees and non-employee directors of each company. Masco will continue to provide some of these services to us, generally through June 30, 2016, with a possible extension of 12 months.

One of our directors, Mr. Carl Camden, is the Chief Executive and President of Kelly Services, Inc. We purchased approximately \$0.2 million, \$0.1 million, and \$0.2 million of Kelly Services' services in the years ended December 31, 2015, 2014, and 2013, respectively.

Subsequent to the Separation, one of our Directors, Mr. Dennis Archer, continues to serve on the Masco board of directors

3. PROPERTY & EQUIPMENT

The following table sets forth our property and equipment by class as of December 31, 2015 and 2014 in thousands:

	As of December 31,	
	2015	2014
Land and improvements	\$ 7,950	\$ 8,055
Buildings	39,424	39,521
Equipment	85,217	80,818
Computer hardware and software	123,550	124,835
Company vehicles	36,988	38,965
	293,129	292,194
Less: Accumulated depreciation	(200,063)	(199,037)
Total property and equipment, net	\$ 93,066	\$ 93,157

Depreciation expense was \$11.1 million, \$24.9 million, and \$26.2 million for the years ended December 31, 2015, 2014, and 2013, respectively

4. GOODWILL AND OTHER INTANGIBLES

There were no changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2014. The goodwill balances by segment, were as follows, in thousands:

	Gross Goodwill at December 31, 2014	Gross Goodwill at December 31, 2015	Accumulated Impairment Losses	Net Goodwill at December 31, 2015
Installation	\$ 1,389,775	\$ 1,389,775	\$ (762,021)	\$ 627,754
Distribution	416,287	416,287	—	416,287
Total	\$ 1,806,062	\$ 1,806,062	\$ (762,021)	\$ 1,044,041

	Gross Goodwill at December 31, 2013	Gross Goodwill at December 31, 2014	Accumulated Impairment Losses	Net Goodwill at December 31, 2014
Installation	\$ 1,389,775	\$ 1,389,775	\$ (762,021)	\$ 627,754
Distribution	416,287	416,287	—	416,287
Total	\$ 1,806,062	\$ 1,806,062	\$ (762,021)	\$ 1,044,041

In the fourth quarters of 2015 and 2014, we completed our annual impairment testing of goodwill and other indefinite-lived intangible assets. The impairment tests in both 2015 and 2014 indicated there was no impairment of goodwill or other indefinite-lived intangible assets.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	For the years ended December 31,		
	2015	2014	2013
Gross definite-lived intangible assets	\$ 19,472	\$ 19,727	
Accumulated amortization	(17,892)	(17,172)	
Net definite-lived intangible assets	1,580	2,555	
Indefinite-lived intangible assets not subject to amortization	407	407	
Other intangible assets, net	<u>\$ 1,987</u>	<u>\$ 2,962</u>	
Amortization expense recognized	<u>\$ 1,026</u>	<u>\$ 1,166</u>	<u>\$ 1,267</u>

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
2016	\$ 722
2017	327
2018	106
2019	106
2020	106
Thereafter	213

5. LONG-TERM DEBT

In connection with the Separation, the Company and wholly-owned domestic subsidiaries (collectively, the “Guarantors”) entered into a credit agreement and related collateral and guarantee documentation (collectively, the “Credit Agreement”) with PNC Bank, National Association, as administrative agent, and the other lenders and agents party thereto. The Credit Agreement was executed by the parties thereto on June 9, 2015, with an effective date of June 30, 2015.

The Credit Agreement consists of a senior secured term loan facility (“term loan facility”) of \$200 million and a senior secured revolving credit facility (“revolving facility”) which provides borrowing availability of up to \$125 million. Together, the term loan facility and revolving facility are referred to as the credit facility. Additional borrowing capacity under the credit facility may be accessed by the Company in an aggregate amount not to exceed \$100 million without the consent of the lenders, subject to certain conditions (including existing or new lenders providing commitments in respect of such additional borrowing capacity). The credit facility is scheduled to mature on June 30, 2020.

The revolving facility includes a \$100 million sublimit for the issuance of letters of credit and a \$15 million sublimit for swingline loans. Swingline loans and letters of credit issued under the revolving facility reduce availability under the revolving facility.

The proceeds of the \$200 million term loan facility were used to finance a cash distribution to Masco in connection with the Separation. We expect to use the borrowing capacity under the revolving facility from time to time for working capital and funds for general corporate purposes.

Interest payable on the credit facility is based on either:

- the London interbank offered rate (“LIBOR”), adjusted for statutory reserve requirements (the “Adjusted LIBOR Rate”); or

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the Base Rate, which is defined as the highest of (a) the prime rate, (b) the federal funds open rate plus 0.50 percent, and (c) the daily LIBOR rate for a one-month interest period plus 1.0 percent,

plus, (A) in the case of Adjusted LIBOR Rate borrowings, applicable margins ranging from 1.00 percent to 2.00 percent per annum, and (B) in the case of Base Rate borrowings, spreads ranging from 0.00 percent to 1.00 percent per annum, depending on, in each of (A) and (B), the Company's Total Leverage Ratio, defined as the ratio of debt to EBITDA, ranging from less than or equal to 1.00:1.00 to greater than 2.50:1.00. The interest rate period with respect to the Adjusted LIBOR Rate interest rate option can be set at one-, two-, three-, or six-months, and in certain circumstances one-week or 12-months, as selected by the Company in accordance with the terms of the Credit Agreement. The interest rate as of December 31, 2015, was 2.42 percent. The effective interest rate on the term loan facility for the year ending December 31, 2015, was 2.23 percent.

The Company shall make payments on the outstanding principal amount of the term loan in quarterly principal installments based on annual amortization of (a) for the first year, 5 percent, (b) for the second, third, and fourth years, 10 percent per year, and (c) for the fifth year, 15 percent, with the remaining balance payable on the scheduled maturity date of the term loan.

The following table sets forth our principal payments for the following five years, in thousands:

Schedule of Debt Maturity by Years:	Total Principal Payments	
2016	\$	15,000
2017		20,000
2018		20,000
2019		25,000
2020		115,000
Total principal maturities	\$	195,000

The following table reconciles the principal balance of our long-term debt to our Consolidated Balance Sheets as of December 31, 2015 and 2014, in thousands:

	2015		2014	
Current portion of long-term debt	\$	15,000	\$	—
Long term portion of long-term debt		180,000		—
Unamortized debt issuance costs		(1,543)		—
Long-term debt	\$	193,457	\$	—

Borrowings under the credit facility are prepayable at the Company's option without premium or penalty. The Company is required to prepay the term loan with the net cash proceeds of certain asset sales, debt issuances, or casualty events, subject to certain exceptions.

The Credit Agreement contains certain covenants that limit, among other things, the ability of the Company and its subsidiaries 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. In addition, the Credit Agreement requires us to maintain a net leverage ratio, defined as the ratio of debt (less certain cash) to EBITDA, that is less than (i) from the date the Credit Agreement is entered into through December 31, 2015, 3.50:1.00; (ii) from March 31, 2016, through September 30, 2016, 3.25:1.00; and (iii) from and after December 31, 2016, 3.00:1.00. The Credit Agreement also requires us to maintain a minimum fixed charge coverage ratio of 1.10:1.00. The Credit Agreement contains customary events of default. We were compliant with all covenants as of December 31, 2015.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 the Company and the Guarantors.

We have standby letters of credit outstanding of approximately \$55.1 million as of December 31, 2015. The standby letters of credit were issued to secure financial obligations related to our workers compensation, general insurance, and auto liability programs.

6. FAIR VALUE MEASUREMENTS

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”). Authoritative guidance on fair value measurements and disclosures clarifies that a fair value measurement for a liability should reflect the entity’s non-performance risk. In addition, 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).

Fair Value on Recurring Basis

The carrying values of cash and cash equivalents, receivables, net, and accounts payables are considered to be representative of their respective fair values due to the short-term nature of these instruments.

Fair Value on Non-Recurring Basis

Fair value measurements were applied to our long-term debt. The carrying value of our long-term debt 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 the debt obligations were assumed on June 30, 2015. In addition, due to the floating-rate nature of our long-term debt, 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.

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

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION

Our reportable segments are as follows:

Installation principally includes the sale and installation of insulation and other building products. We sell primarily to the residential new construction market, but have seen increasing activity in both the commercial construction industry and repair/remodel of residential housing. In addition to insulation, our installed product lines include rain gutters, garage doors, fireplaces, fireproofing and firestopping products, shower enclosures, closet shelving, and other building products.

Distribution principally includes the distribution of insulation and other building products. Our distributed products include insulation, insulation accessories, rain gutters, and roofing, among others. 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 corporate operating executives 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 estimated corporate costs which are allocated to the segments based on various metrics including sales and headcount. To arrive at total segment operating profit, the aforementioned allocated estimated corporate costs are removed and replaced with actual corporate costs, which are allocated to the segments based on direct benefit or usage (such as salaries of corporate employees who directly support the segment). Differences between estimated and actual corporate costs are included in "Intercompany eliminations and other adjustments."

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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Insulation	72 %	71 %	70 %
Rain gutters	7	7	7
Accessories	4	4	4
Afterpaint (shower enclosures, closet shelving, mirrors/glass, bath accessories, etc.)	4	4	3
Garage doors	3	3	3
Fireplaces	2	2	3
Roofing materials	2	2	3
Fireproofing and firestopping	2	1	1
Other	4	6	6
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information about us by segment is as follows, in thousands:

	Net Sales			Operating Profit		
	2015	2014	2013	2015	2014	2013
Our operations by segment were (1):						
Installation	\$ 1,057,553	\$ 963,351	\$ 904,570	\$ 55,232	\$ 23,970	\$ 6,160
Distribution	646,441	628,810	578,141	55,700	52,334	46,405
Intercompany eliminations and other adjustments (2)	(87,414)	(80,084)	(71,187)	(4,796)	(13,639)	(6,389)
Total	\$ 1,616,580	\$ 1,512,077	\$ 1,411,524	106,136	62,665	46,176
General corporate expense, net (3)				(22,605)	(21,948)	(22,073)
Operating profit, as reported				83,531	40,717	24,103
Other expense, net				(9,416)	(12,379)	(13,329)
Income from continuing operations before income taxes				\$ 74,115	\$ 28,338	\$ 10,774

	Property Additions			Depreciation and Amortization			Total Assets	
	2015	2014	2013	2015	2014	2013	2015	2014
Our operations by segment were (1):								
Installation	\$ 9,802	\$ 9,270	\$ 10,505	\$ 8,371	\$ 22,564	\$ 23,924	\$ 927,303	\$ 904,118
Distribution	3,123	3,871	3,503	3,699	3,515	3,564	574,601	572,306
Corporate	1,302	—	—	38	—	—	140,345	—
Total, as reported	\$ 14,227	\$ 13,141	\$ 14,008	\$ 12,108	\$ 26,079	\$ 27,488	\$ 1,642,249	\$ 1,476,424

- (1) All of our operations are located in the United States.
- (2) Intercompany eliminations include the elimination of intercompany profit of \$15.6 million, \$14.1 million, and \$11.2 million for the years ending December 31, 2015, 2014, and 2013, respectively. Other adjustments primarily include differences between estimated and actual corporate costs allocated to the segments. During the years ended December 31, 2015, 2014, and 2013, other adjustments were \$10.8 million, \$0.5 million, and \$4.8 million, respectively.
- (3) General corporate expense, net included those expenses not specifically attributable to our segments.

8. DISCONTINUED OPERATIONS

The presentation of discontinued operations includes components which were sold, for which operations and cash flows can be clearly distinguished from the rest of the Company. We have no continuing involvement in these product lines or businesses. Expenses incurred subsequent to disposition are primarily related to the settlement of our self-insurance reserves.

Selected financial information for discontinued operations is presented in the following table, in thousands:

	Years Ended December 31,		
	2015	2014	2013
Loss before income tax	\$ (234)	\$ (702)	\$ (1,444)
Income tax benefit (expense)	82	(391)	257
Loss from discontinued operations, net	\$ (152)	\$ (1,093)	\$ (1,187)

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. ACCRUED LIABILITIES

The following table sets forth the components of accrued liabilities at December 31, 2015 and 2014, in thousands:

	2015		2014	
Salaries, wages, and commissions	\$	16,037	\$	24,704
Insurance reserves		20,274		24,892
Other		22,058		23,151
Total Accrued Liabilities	\$	58,369	\$	72,747

10. OTHER LIABILITIES

The following table sets forth the components of other liabilities at December 31, 2015 and 2014, in thousands:

	2015		2014	
Long-term portion of insurance reserves	\$	39,655	\$	39,972
Other		474		413
Total other liabilities	\$	40,129	\$	40,385

11. EMPLOYEE RETIREMENT PLANS

We provide a defined-contribution retirement plan for substantially all employees. In addition, we participate in 21 regional multi-employer pension plans, principally related to building trades; none of the plans are considered significant.

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 will be maintained and serviced by Masco; all future benefit accruals were frozen effective January 1, 2010.

Pre-tax expense related to our participation in the retirement plans was as follows, in thousands:

	Years Ended December 31,					
	2015		2014		2013	
Defined contribution plans	\$	3,451	\$	2,983	\$	3,095
Defined benefit plans		—		—		26
Multi-employer plans		5,829		4,514		3,567
	\$	9,280	\$	7,497	\$	6,688

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		Funding Plan Pending / Implemented	Contributions (in thousands)			Surcharge Imposed
		2015	2014		2015	2014	2013	
NCT	94-6050970/001	Red	Red	Yes	\$ 1,730	\$ 1,479	\$ 1,292	No

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. We are subject to 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 that the likelihood the outcome of these matters would have a material adverse effect on us is remote. However, there is no assurance that we will prevail in these 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 results of operations.

Other Matters. We enter into contracts, which include customary indemnifications that are standard for the industries in which we operate. Such indemnifications include customer claims against builders for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide customary indemnifications relating to various items including: the enforceability of trademarks; legal and environmental issues; and asset valuations. We evaluate the probability that amounts may be incurred 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. As of December 31, 2015 and 2014, we had performance bonds outstanding, totaling \$19.5 million and \$14.1 million, respectively. Performance bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. In addition, at December 31, 2015 and 2014, respectively, we had \$10.0 million and \$5.4 million of other types of bonds outstanding, principally license and insurance related.

We lease company vehicles and warehouse facilities, some under non-cancellable operating leases. We lease certain operating facilities from certain related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. Such leases approximate market value and are comprised of less than 40 of our leases. Rental expense is recorded in our Consolidated Statements of Operations and includes expense to such related parties. Our rental expense was as follows, in thousands:

	<u>Rent Expense (Including Related Parties)</u>	<u>Rent Expense with Related Parties</u>
2015	\$ 46,431	\$ 2,223
2014	39,387	2,660
2013	34,017	2,650

Future minimum lease payments at December 31, 2015 were as follows, in thousands:

	<u>Minimum Lease Payments (Including Related Parties)</u>	<u>Minimum Lease Payments with Related Parties</u>
2016	\$ 37,033	\$ 1,902
2017	27,224	1,577
2018	17,406	961
2019	8,909	8
2020	3,847	-
2021 & Thereafter	6,639	-

A corporate leased asset used by Masco was terminated and an accrual was established in 2014 for the difference between estimated proceeds and the contractual value. The corporate leased asset was disposed of on April 1, 2015, for the expected proceeds, and we received reimbursement from Masco.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INCOME TAXES

(In thousands)	2015	2014	2013
Income from continuing operations before income taxes:			
U.S.	\$ 74,115	\$ 28,338	\$ 10,774
Income tax expense (benefit) on income from continuing operations:			
Currently payable:			
U.S. Federal	\$ 9,656	\$ (28)	\$ (21)
State and local	1,811	1,162	738
Deferred:			
U.S. Federal	12,633	14,943	19,115
State and local	(29,108)	1,765	2,493
	<u>\$ (5,008)</u>	<u>\$ 17,842</u>	<u>\$ 22,325</u>
Deferred tax assets at December 31:			
Receivables, net	\$ 1,888	\$ 2,567	
Inventories, net	1,484	2,094	
Other assets, principally share-based compensation	1,883	5,427	
Accrued liabilities	11,095	11,594	
Long-term liabilities	15,957	26,156	
Net operating loss carryforward	31,197	434,090	
	63,504	481,928	
Valuation allowance	(815)	(454,610)	
	<u>62,689</u>	<u>27,318</u>	
Deferred tax liabilities at December 31:			
Property and equipment, net	13,899	15,318	
Intangibles, net	207,589	191,736	
Other	1,906	1,637	
	<u>223,394</u>	<u>208,691</u>	
Net deferred tax liability at December 31	<u>\$ 160,705</u>	<u>\$ 181,373</u>	

The FASB issued Accounting Standards Update 2015-17 (“ASU 2015-17”) “Balance Sheet Classification of Deferred Taxes”, in November of 2015. This guidance requires all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for us in the first quarter of 2017; however, we early adopted this new standard prospectively during the fourth quarter of 2015. See “Summary of Significant Accounting Policies” for more discussion on this subject.

At December 31, 2015 the net deferred tax liability of \$160.7 million consisted of net long-term deferred tax assets of \$20.6 million and net long-term deferred tax liabilities of \$181.3 million. At December 31, 2014 the net deferred tax liability of \$181.4 million consisted of net short-term deferred tax assets included in prepaid expenses and other current assets of \$0.9 million and net long-term deferred tax liabilities of \$182.3 million.

The deferred portion of state and local taxes includes a \$(33.7) million, \$(2.0) million, and \$0.8 million tax (benefit) expense resulting from a change in the valuation allowance against state and local deferred tax assets in the years ending December 31, 2015, 2014, and 2013, respectively.

Accounting guidance for income taxes requires that 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, future reversals 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

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

significant negative evidence in considering whether deferred tax assets are realizable. Accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of deferred tax assets.

In a prior period, we had recorded a valuation allowance against our U.S. Federal and certain state deferred tax assets as a non-cash charge to income tax expense. In reaching this conclusion, we considered the significant decline in residential new construction, high level of foreclosure activity, and the slower than anticipated recovery in the U.S. housing market which led to U.S. operating losses, causing us to be in a three-year cumulative U.S. loss position.

During the years ended December 31, 2010, 2011, and 2012, objective and verifiable negative evidence, such as continued U.S. operating losses and significant impairment charges for U.S. goodwill in 2010, continued to outweigh positive evidence necessary to reduce the valuation allowance. As a result, we recorded increases in the valuation allowance against our U.S. Federal and certain state deferred tax assets as a non-cash charge to income tax expense during the years ended December 31, 2010, 2011, and 2012.

A return to sustainable profitability in the U.S. is required before we would change our judgment regarding the need for a valuation allowance against our deferred tax assets.

Although strengthening residential new construction activity resulted in profitability for our operations in 2013 and 2014, we continued to record a full valuation allowance against the U.S. Federal and certain state deferred tax assets. We arrived at this conclusion due to the Company's (i) low amount of profit in 2013 and 2014, (ii) continued three-year cumulative loss position through the year ended December 31, 2014, and (iii) lack of taxable income after evaluating the sources of income generally allowed under ASC 740 in determining whether or not a deferred asset may be realized.

In the fourth quarter of 2015 we recorded a \$35.5 million tax benefit (\$13.5 million of Federal and \$22.0 million of state and local net of federal benefit) from the release of the valuation allowance against its U.S. Federal and certain state deferred tax assets due primarily to a return to sustainable profitability in our U.S. operations. In reaching this conclusion, we considered the Company's strong results in the third and fourth quarters reflecting (i) continued improvement in both new home construction and repair/remodel activity in the U.S. and (ii) the Company's ability to function as a standalone business. We also considered our progress on strategic initiatives to reduce costs and expand the breadth of our market positions, which contributed to the continued improvement in our operations over the past few years.

For activity through the first six months of 2015 we will file tax returns as a member of the Masco consolidated group for federal and certain state jurisdictions. As a result, certain tax attributes, primarily the net operating loss carryforward, are treated as an asset of the Masco group and may be utilized by the Masco group through the end of December 31, 2015, Masco's tax year-end. It is anticipated that all of our U.S. Federal net operating loss carryforward and certain state net operating loss carryforwards will be utilized by the Masco consolidated group. In accordance, the deferred tax assets relating to the net operating loss carryforwards for federal and certain state jurisdictions were transferred to Masco in the amount of \$401 million, with a similar transfer of the related valuation allowance.

Due to the fact that TopBuild's current income tax expense is based on a full year, notwithstanding that it was a member of Masco's consolidated group through June 30, 2015, an adjustment of \$2.6 million was required to be made to equity to record the appropriate current income tax payable on a standalone basis.

Of the deferred tax asset related to the net operating loss at December 31, 2015, \$31.2 million will expire between 2020 and 2035. Of the deferred tax asset related to the net operating loss at December 31, 2014, \$434.1 million will expire between 2020 and 2034.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2015	2014	2013
U.S. Federal statutory tax rate	35 %	35 %	35 %
State and local taxes, net of U.S. Federal tax benefit	(24)	7	19
U.S. Federal valuation allowance	(18)	20	150
Other, net	—	1	3
Effective tax rate	(7) %	63 %	207 %

The reduction in the valuation allowance in 2015 resulted in a negative effective tax rate for the year.

Income taxes paid were \$21.0 million, \$1.1 million, and \$0.7 million during the years ended December 31, 2015, 2014, and 2013, respectively.

We file income tax returns in the U.S. Federal jurisdiction and various state and local jurisdictions. For periods prior to the Separation we, as a member of the Masco consolidated group, participated in the Compliance Assurance Program (“CAP”). CAP is a real-time audit of the U.S. Federal income tax return that allows the Internal Revenue Service (“IRS”), working in conjunction with Masco, to determine tax return compliance with the U.S. Federal tax law prior to filing the return. This program provided us with greater certainty about our tax liability for a given year within months, rather than years, of filing the annual tax return and greatly reduced the need for recording a liability for U.S. Federal uncertain tax positions. 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, 2014. With few exceptions, we are no longer subject to state income tax examinations on filed returns for years before 2010.

At December 31, 2015, 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 tax positions not meeting the minimum statutory threshold to avoid payment of penalties in the year ended December 31, 2015.

14. INCOME (LOSS) 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.

For comparative purposes, the computation of basic and diluted earnings per common share for prior year periods presented was calculated using the shares distributed at Separation.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Years Ended December 31,		
	2015	2014	2013
Income (loss) from continuing operations	\$ 79,123	\$ 10,496	\$ (11,551)
Loss from discontinued operations, net	(152)	(1,093)	(1,187)
Net income (loss) - basic and diluted	<u>\$ 78,971</u>	<u>\$ 9,403</u>	<u>\$ (12,738)</u>
Weighted average number of common shares outstanding - basic	37,674,913	37,667,947	37,667,947
Dilutive effect of common stock equivalents:			
Restricted stock awards	93,688	—	—
Stock options	<u>12,274</u>	<u>—</u>	<u>—</u>
Weighted average number of common shares outstanding - diluted	37,780,875	37,667,947	37,667,947
Basic earnings (loss) per common share:			
Income (loss) from continuing operations	\$ 2.10	\$ 0.28	\$ (0.31)
Loss from discontinued operations, net	—	(0.03)	(0.03)
Net income (loss)	<u>\$ 2.10</u>	<u>\$ 0.25</u>	<u>\$ (0.34)</u>
Diluted earnings (loss) per common share:			
Income (loss) from continuing operations	\$ 2.09	\$ 0.28	\$ (0.31)
Loss from discontinued operations, net	—	(0.03)	(0.03)
Net income (loss)	<u>\$ 2.09</u>	<u>\$ 0.25</u>	<u>\$ (0.34)</u>

Certain restricted stock awards and stock options were excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive.

On June 30, 2015, we distributed 37.7 million shares of our common stock to Masco shareholders in conjunction with the Separation.

15. SHARE-BASED COMPENSATION

Prior to the Separation, our employees participated in the Masco share-based compensation program and received restricted stock awards and stock options. Effective July 1, 2015, our employees participate in the 2015 TopBuild Long-Term Incentive Plan (the "2015 Plan"). The 2015 Plan authorizes the Board of Directors to grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, and dividend equivalents. No more than 4.0 million shares of common stock may be issued under the 2015 Plan.

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 stock options and restricted stock awards 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.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015 and 2014, share-based compensation was \$4.7 million and \$3.8 million, respectively. The following table presents a summary of our share-based compensation activity for the six months ended December 31, 2015, in thousands (except per share amounts):

	Restricted Stock Awards		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, June 30, 2015	—	\$ —	—	\$ —	\$ —	\$ —
Replacement awards	468.7	20.32	162.5	7.84	19.78	
Granted	143.0	27.63	225.1	10.44	27.10	
Converted/Exercised	(21.0)	23.81	—	—	—	
Forfeited	(4.1)	21.49	—	—	—	
Balance, December 31, 2015	586.6	\$ 21.97	387.6	\$ 9.35	\$ 24.03	\$ 2,611.7
Exercisable, December 31, 2015			1.9	\$ 3.88	\$ 11.08	\$ 37.9

As of December 31, 2015, there was \$9.1 million of unrecognized compensation expense related to unvested restricted stock awards. Such awards had a weighted average remaining vesting period of 1.5 years. The total fair value of restricted stock awards that vested during the year ended December 31, 2015, was \$0.5 million.

As of December 31, 2015, there was \$3.0 million of unrecognized compensation expense related to unvested stock options. Such options had a weighted average remaining vesting period of 2.0 years and a weighted average remaining contractual life of 8.6 years. The total fair value of stock options that vested during the year ended December 31, 2015, was \$0.0 million. The weighted average remaining contractual term for vested but unexercised stock options is 4.8 years.

The fair value of stock options granted under the 2015 Plan was calculated using the Black-Scholes Options Pricing Model. The following table presents the assumptions used to estimate the fair values of the options granted:

Risk free interest rate	1.82 %
Expected volatility	37.00 %
Expected life (in years)	6.00
Dividend yield	0.00 %
Weighted average estimated fair value of options granted during the year	\$ 10.44

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth our quarterly results for each quarter of the years ending December 31, 2015 and 2014, in thousands (except per share amounts):

	2015				
	Q1 (a)	Q2	Q3	Q4	Total Year
Net sales	\$ 358,460	\$ 403,761	\$ 427,888	\$ 426,471	\$ 1,616,580
Gross profit	73,816	85,690	94,002	104,521	358,029
Operating profit (loss)	(1,147)	11,490	30,191	42,997	83,531
Income (loss) from continuing operations	(3,800)	6,630	16,624	59,669	79,123
Income (loss) from discontinued operations, net	1	(235)	—	82	(152)
Net income (loss)	\$ (3,799)	\$ 6,395	\$ 16,624	\$ 59,751	\$ 78,971
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.10)	\$ 0.18	\$ 0.44	\$ 1.58	\$ 2.10
Loss from discontinued operations, net	—	(0.01)	—	—	—
Net income (loss)	<u>\$ (0.10)</u>	<u>\$ 0.17</u>	<u>\$ 0.44</u>	<u>\$ 1.58</u>	<u>\$ 2.10</u>
Diluted income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.10)	\$ 0.18	\$ 0.44	\$ 1.57	\$ 2.09
Loss from discontinued operations, net	—	(0.01)	—	—	—
Net income (loss)	<u>\$ (0.10)</u>	<u>\$ 0.17</u>	<u>\$ 0.44</u>	<u>\$ 1.57</u>	<u>\$ 2.09</u>
	2014				
	Q1 (a)	Q2 (a)	Q3 (a)	Q4 (a)	Total Year (a)
Net sales	\$ 333,579	\$ 382,794	\$ 397,647	\$ 398,057	\$ 1,512,077
Gross profit	65,578	84,941	88,384	92,765	331,668
Operating profit (loss)	(7,868)	10,220	13,783	24,582	40,717
Income (loss) from continuing operations	(8,085)	6,182	6,458	5,941	10,496
Loss from discontinued operations, net	(496)	(348)	(79)	(170)	(1,093)
Net income (loss)	\$ (8,581)	\$ 5,834	\$ 6,379	\$ 5,771	\$ 9,403
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.21)	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.28
Loss from discontinued operations, net	(0.01)	(0.01)	—	—	(0.03)
Net income (loss)	<u>\$ (0.22)</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>	<u>\$ 0.16</u>	<u>\$ 0.25</u>
Diluted income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.21)	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.28
Loss from discontinued operations, net	(0.01)	(0.01)	—	—	(0.03)
Net income (loss)	<u>\$ (0.22)</u>	<u>\$ 0.15</u>	<u>\$ 0.17</u>	<u>\$ 0.16</u>	<u>\$ 0.25</u>

(a) For comparative purposes, the computation of basic and diluted earnings per common share for prior year periods presented was calculated using the shares distributed at Separation.

TOPBUILD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. SUBSEQUENT EVENTS

In connection with the preparation of our financial statements, and in accordance with U.S. GAAP, the Company evaluated subsequent events after the balance sheet date of December 31, 2015.

We continuously 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, management has approved a plan to close certain locations within our Installation and Distribution segments during the first and second quarters of 2016. We continue to assess the financial effect of these closures as the selection of locations has not been finalized. We believe these efforts are necessary to preserve our competitiveness and will provide lasting benefit over the long-term.

On March 1, 2016, the Company's Board of Directors authorized a share repurchase program (the "Share Repurchase Program"), pursuant to which the Company may purchase up to \$50 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 Share Repurchase Program does not obligate the Company to purchase any shares and expires in one year. 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.

TOPBUILD CORP.
SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Column A	For the years ended December 31, 2015, 2014, and 2013				
	Column B	Column C		Column D	Column E
	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
Description	Charged to Costs and Expenses	Charged to Other Accounts			
Allowances for doubtful accounts, deducted from accounts receivable in the balance sheet:					
2015	\$ 3,961	\$ 4,219	\$ —	\$ (4,781) ^(a)	\$ 3,399
2014	\$ 4,578	\$ 3,563	\$ —	\$ (4,180) ^(a)	\$ 3,961
2013	\$ 4,877	\$ 3,379	\$ —	\$ (3,678) ^(a)	\$ 4,578
Valuation allowance on deferred tax assets:					
2015	\$ 454,610	\$ —	\$ —	\$ (453,795) ^(b)	\$ 815
2014	\$ 452,600	\$ 3,950	\$ (1,940) ^(c)	\$ —	\$ 454,610
2013	\$ 436,380	\$ 16,990	\$ (770) ^(c)	\$ —	\$ 452,600

- (a) Deductions representing uncollectible accounts written off, less recoveries of accounts written off in prior years.
- (b) Of the \$453.8 million, \$47.2 million (of which \$13.5 million was related to federal deferred tax assets and \$33.7 million was related to state and local deferred tax assets, before federal tax benefit) is reflected in our Consolidated Statements of Operations in income tax benefit (expense) from continuing operations. The remaining \$406.6 million was related to federal and state net operating losses that were utilized by Masco in their separate consolidated return and written off at the time of Separation with the related deferred assets.
- (c) Valuation allowance on deferred tax assets recorded primarily in equity.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer have concluded, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), that as of December 31, 2015, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the three months ended December 31, 2015, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Item 9B – OTHER INFORMATION

Executive Severance Plan and Change in Control and Severance Agreement

On March 1, 2016, our board of directors adopted an Executive Severance Plan (the "Severance Plan"), which became effective on March 1, 2016. The Compensation Committee is responsible for designating which officers of the Company are eligible to participate in the Severance Plan (the "Severance Plan Participants"). On March 1, 2016, the Compensation Committee identified the following named executive officers as Severance Plan Participants: Robert Buck, John Peterson, Michelle Friel, Robin Reininger, Mark Moore, David Cushen, and Steve Raia.

In addition, on March 1, 2016, we entered into a Change in Control and Severance Agreement (the "Severance Agreement") with Gerald Volas, our Chief Executive Officer and a member of our board of directors (collectively with the Severance Plan Participants, the "Participants").

The Severance Plan and the Severance Agreement provide for the payment of severance and other benefits to the Participants in the event of a termination of employment with the Company, including in the following circumstances:

- A termination of a Participant's employment with the Company without Cause (as defined in the Severance Plan and the Severance Agreement), or a resignation of a Participant from such employment for Good Reason (as defined in the Severance Plan and the Severance Agreement), where, in each case, such termination occurs outside of a Change in Control Period (as defined in the Severance Plan and the Severance Agreement) (a "Non-Change in Control Termination");
- A termination of a Participant's employment with the Company without Cause, or a resignation of a Participant for Good Reason, where, in each case, such termination occurs during a Change in Control Period (a "Change in Control Termination");
- A termination of a Participant's employment (i) voluntarily by the Participant (other than for Good Reason and prior to the Participant's attainment of age 65), or (ii) for Cause by the Company; and

- A termination of a Participant's employment as a result of the Participant's Disability (as defined in the Severance Plan and the Severance Agreement), the Participant's death, or the Participant's resignation on or after the Participant's attainment of age 65 under circumstances other than a Non-Change in Control Termination or a Change in Control Termination (a "Normal Retirement").

The Severance Plan and the Severance Agreement provide for the payment of the following severance and other benefits (subject to certain conditions described in the Severance Plan and the Severance Agreement) in connection with the termination of a Participant:

- *Accrued Compensation* – In any termination, the Participant would receive all of the Participant's accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to the Participant under any Company-provided plans, policies or arrangements as of the Participant's termination date.
- *Severance Payments* –
 - In a Non-Change in Control Termination, a Severance Plan Participant would receive a lump-sum payment equal to one year of the Severance Plan Participant's base salary, and Mr. Volas would receive a lump-sum payment equal to two years of his base salary.
 - In a Change in Control Termination, a Severance Plan Participant would receive a lump-sum payment equal to two years of the Participant's base salary, and Mr. Volas would receive a lump-sum payment equal to three years of his base salary.
- *Target Bonus Payments* –
 - In a Non-Change in Control Termination, a Severance Plan Participant would receive a lump-sum payment equal to 100% of the Participant's target bonus, and Mr. Volas would receive a lump-sum payment equal to 200% of his target bonus.
 - In a Change in Control Termination, a Severance Plan Participant would receive a lump-sum payment equal to 200% of the Participant's target bonus, and Mr. Volas would receive a lump-sum payment equal to 300% of his target bonus.
- *Continuation Coverage* – In a Non-Change in Control Termination or a Change in Control Termination, a Participant would receive health care continuation benefits.
- *Accelerated Vesting of Equity Awards* – In a Change in Control Termination and, in most instances, a Normal Retirement, the Participant's then-outstanding equity compensation awards would be subject to accelerated vesting.

Copies of the Severance Plan and Severance Agreement are attached as Exhibits 10.10 and 10.11, respectively, and are incorporated herein by reference. The foregoing summary of the Severance Plan and the Severance Agreement does not purport to be complete and is qualified in its entirety by reference to the Severance Plan and the Severance Agreement

Termination of Severance Agreement

The Severance Agreement replaces and supersedes the letter severance agreement, dated June 11, 2015, by and between the Company and Mr. Volas (the "Preexisting Severance Agreement"). As a result, the Preexisting Severance Agreement was terminated on March 1, 2016.

TruTeam Management Structure

The Company split the management of TruTeam (Installation) into Eastern and Western divisions. On March 1, 2016, David Cushen became the Senior Vice President of Operations, TruTeam Contractor Services of the Western Division. Previously, Mr. Cushen was Senior Vice President of Operations, TruTeam Contractor Services.

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,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for the 2016 Annual Meeting of Stockholders (“2016 Proxy Statement”) to be filed with the SEC within 120 days of the year ended December 31, 2015, and is incorporated herein by reference.

Our Board of Directors has also adopted a Code of Business Ethics 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 of Business Ethics 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.

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 2016 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 Stockholders” and “Equity Compensation Plan Information” in our 2016 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 2016 Proxy Statement, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item will be set forth under the heading “Proposal 2 - Ratification of the Appointment of Independent Registered Public Accounting Firm” in our 2016 Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- a. Listing of Documents:
- i. *Financial Statements.* Our Consolidated Financial Statements included in Item 8 hereof, as required at December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014, and 2013, 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. *Financial Statement Schedule.* Our Financial Statement Schedule appended hereto, as required for the years ended December 31, 2015, 2014, and 2013 consists of the following:
 - II. Valuation and Qualifying Accounts
 - iii. *Exhibits.* See separate Index to Exhibits hereafter.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Title	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
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). †The schedules to this agreement are 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.	10-Q	2.1	11/3/2015	
3.1	Amended and Restated Certificate of Incorporation of TopBuild Corp. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	10-Q	3.1	11/3/2015	
3.2	Amended and Restated Bylaws of TopBuild Corp. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2015).	10-Q	3.2	11/3/2015	
10.1	Credit Agreement, dated as of June 9, 2015, among TopBuild Corp. and PNC Bank, National Association, as administrative agent, and the other lenders and agents party thereto.	10-Q	10.1	11/3/2015	
10.2	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).	10-Q	10.2	11/3/2015	
10.3	Transition Services Agreement, dated as of June 29, 2015, by and 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).	10-Q	10.3	11/3/2015	
10.4	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).	10-Q	10.4	11/3/2015	
10.5	TopBuild Corp. 2015 Long Term Stock Incentive Plan.	10-Q	10.5	11/3/2015	
10.6	Form of Restricted Stock Award under the TopBuild Corp. 2015 Long-Term Stock Incentive Plan.	10-Q	10.6	11/3/2015	
10.7	Form of Non-Qualified Stock Option Award under the TopBuild Corp. 2015 Long-Term Stock Incentive Plan.	10-Q	10.7	11/3/2015	
10.8	Form of Restricted Stock Award for Non-Employee Directors under the TopBuild Corp. 2015 Long Term Stock Incentive Plan.	10-Q	10.8	11/3/2015	

[Table of Contents](#)

Exhibit No.	Exhibit Title	Incorporated By Reference			Filed Herewith
		Form	Exhibit	Filing Date	
10.9	Form of Performance Restricted Stock Award under the TopBuild Corp. 2015 Long-Term Incentive Plan				X
10.10	TopBuild Corp. Executive Severance Plan				X
10.11	Change in Control and Severance Agreement between Gerald Volas and 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. ‡Furnished herewith				
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. ‡Furnished herewith				
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

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

March 3, 2016

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Gerald Volas</u> Gerald Volas	Director, Chief Executive Officer (Principal Executive Officer)	March 3, 2016
<u>/s/ John S. Peterson</u> John S. Peterson	Vice President, Chief Financial Officer (Principal Financial Officer)	March 3, 2016
<u>/s/ Nicholas R. Thompson</u> Nicholas R. Thompson	Controller (Principal Accounting Officer)	March 3, 2016
<u>/s/ Alec C. Covington*</u> Alec C. Covington	Chairman of the Board	March 3, 2016
<u>/s/ Dennis W. Archer*</u> Dennis W. Archer	Director	March 3, 2016
<u>/s/ Carl T. Camden*</u> Carl T. Camden	Director	March 3, 2016
<u>/s/ Joseph S. Cantie*</u> Joseph S. Cantie	Director	March 3, 2016
<u>/s/ Mark A. Petrarca*</u> Mark A. Petrarca	Director	March 3, 2016
<u>/s/ Margaret M. Whelan*</u> Margaret M. Whelan	Director	March 3, 2016
*By: <u>/s/ Michelle A. Friel</u> Michelle A. Friel Attorney-in-Fact pursuant to a power of attorney		

**TOPBUILD CORP.
EXECUTIVE SEVERANCE PLAN**

Effective March 1, 2016

**TOPBUILD CORP.
EXECUTIVE SEVERANCE PLAN**

TABLE OF CONTENTS

Preamble	1
----------	---

**ARTICLE 1
REFERENCES AND DEFINITIONS**

1.1	Accrued Compensation	1
1.2	Base Salary	1
1.3	Board	2
1.4	Cause	2
1.5	Change in Control	2
1.6	Change in Control Period	3
1.7	Code	3
1.8	Committee	3
1.9	Company	4
1.10	Disability	4
1.11	Effective Date	4
1.12	Equity Awards	4
1.13	ERISA	4
1.14	Executive	4
1.15	Good Reason	4
1.16	Normal Retirement Age	4
1.17	Participant	5
1.18	Plan	5

**ARTICLE 2
ELIGIBILITY AND PARTICIPATION**

2.1	Eligibility	5
2.2	Participation	5
2.3	Duration of Participation	5
2.4	Reemployment	5
2.5	Non-Compete, Non-Solicitation and Confidentiality Agreement	5

**ARTICLE 3
PLAN BENEFITS**

3.1	Termination without Cause or for Good Reason, Unrelated to a Change in Control.	5
3.2	Termination without Cause or for Good Reason, in Connection with a Change in Control.	7
3.3	Voluntary Resignation prior to Normal Retirement Age; Termination for Cause	9
3.4	Disability; Death	9
3.5	Normal Retirement	10
3.6	Exclusive Remedy	11

ARTICLE 4
CONDITIONS AND LIMITATIONS ON BENEFITS

4.1	Release of Claims Agreement	11
4.2	Adherence to Non-Compete, Non-Solicitation and Confidentiality Agreement	11
4.3	Code Section 409A	11
4.4	Limitation on Payments	13

ARTICLE 5
ADMINISTRATION OF THE PLAN

5.1	Powers and Duties of the Committee	13
5.2	Agents	14
5.3	Claims for Benefits	14
5.4	Hold Harmless	16
5.5	Service of Process	16

ARTICLE 6
AMENDMENT OR TERMINATION OF THE PLAN

6.1	Right to Amend or Terminate the Plan	16
6.2	Notice of Amendment or Termination	16
6.3	Payment Upon Plan Termination	17

ARTICLE 7
GENERAL PROVISIONS AND LIMITATIONS

7.1	No Right to Continued Employment	17
7.2	Payment on Behalf of Payee	17
7.3	Nonalienation	17
7.4	Missing Payee	18
7.5	Required Information	18
7.6	Binding Effect	18
7.7	Merger or Consolidation	18
7.8	No Funding Created	18
7.9	Notices	19
7.10	No Duty to Mitigate	19
7.11	Severability	19
7.12	Entire Plan; Construction	19
7.13	Governing Law	19
7.14	Tax Withholding; No Company Representation	19

EXHIBITS

Non-Compete, Non-Solicitation and Confidentiality Agreement	Exhibit A
Severance Agreement, Waiver and Release	Exhibit B

**TOPBUILD CORP.
EXECUTIVE SEVERANCE PLAN**

PREAMBLE

TopBuild Corp. hereby establishes and adopts this TopBuild Corp. Executive Severance Plan, effective as of the Effective Date, to further the economic interests of the Company by providing severance benefits to selected Executives.

The Board recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the resultant uncertainty as to an Executive's responsibilities, compensation, or continued employment, may result in the departure or distraction of the Executive, which may be detrimental to the financial performance of the Company.

The Board believes that it is in the best interests of the Company and its stockholders to (i) assure that the Company will have the continued dedication and objectivity of selected Executives, notwithstanding the possibility, threat, or occurrence of a Change in Control, and (ii) provide selected Executives with an incentive to continue their employment prior to a Change in Control and to motivate them to maximize the value of the Company upon a Change in Control for the benefit of its stockholders.

The Board also believes that it is important to the interest of the Company and its stockholders to provide selected Executives with certain severance benefits upon their termination of employment under certain non-Change in Control circumstances.

The Plan is a "top-hat" plan within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of ERISA. As such, this Plan is subject to limited ERISA reporting and disclosure requirements, and is exempt from most other ERISA requirements. Distributions required or contemplated by this Plan or actions required to be taken under this Plan shall not be construed as creating a trust of any kind or a fiduciary relationship between the Company and any Executive, Participant, employee, or any other person.

**ARTICLE 1
REFERENCES AND DEFINITIONS**

Whenever used herein and capitalized, the following terms have the respective meanings indicated unless the context clearly requires otherwise.

- 1.1 "Accrued Compensation"** means all of a Participant's accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to the Participant under any Company-provided plans, policies, or arrangements as of the Participant's termination date.
- 1.2 "Base Salary"** means a Participant's total annual base rate of pay as in effect immediately prior to the Participant's termination of employment or, in the event of a termination during the Change in Control Period, if greater, at the level in effect immediately prior to the Change in Control. Base Salary shall not be reduced for any salary reduction contributions: (a) to cash or deferred arrangements under Code Section 401(k), (b) to a cafeteria plan under Code

Section 125, or (c) to a nonqualified deferred compensation plan. Base Salary shall not take into account any bonuses, commissions, reimbursed expenses, employer credits or contributions to a nonqualified deferred compensation plan (other than salary reduction contributions as described above), or any additional cash compensation or compensation payable in a form other than cash.

1.3 “Board” means the board of directors of TopBuild Corp.

1.4 “Cause” means:

- (a) a Participant’s material failure to perform his or her stated duties, and the Participant’s continued failure to cure such failure to the reasonable satisfaction of the Company within ten (10) days following written notice of such failure to the Participant from the Committee;
- (b) a Participant’s material violation of a Company policy (including any insider trading policy) or any written agreement or covenant with the Company;
- (c) a Participant’s conviction of, or entry of a plea of guilty or *nolo contendere* to, a felony (other than motor vehicle offenses the effect of which do not materially impair the Participant’s performance of his or her employment duties);
- (d) a willful act by a Participant that constitutes gross misconduct and which is injurious to the Company;
- (e) a Participant’s commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company;
- (f) the unauthorized use or disclosure by a Participant of any proprietary information or trade secrets of the Company or any other party to whom the Participant owes an obligation of nondisclosure as a result of the Participant’s relationship with the Company; or
- (g) a Participant’s willful failure to cooperate with an investigation by a governmental authority.

The determination as to whether a Participant is being terminated for Cause will be made in good faith by the Committee and will be final and binding on all interested parties. The foregoing definition does not in any way limit the Company’s ability to terminate a Participant’s employment relationship at any time.

1.5 “Change in Control” means the occurrence of any of the following events:

- (a) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“Person”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than thirty percent (30%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person who is considered to own more than thirty

percent (30%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

- (b) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection, if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or
- (c) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection, the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, more than thirty percent (30%) of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection. For purposes of this subsection, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction.

- 1.6 **"Change in Control Period"** means the period beginning two (2) months prior to, and ending twenty-four (24) months following, a Change in Control.
- 1.7 **"Code"** means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. All citations to sections of the Code and related Treasury Regulations are to such sections as they may from time to time be amended or renumbered.
- 1.8 **"Committee"** means the Compensation Committee of the Board.

- 1.9 “Company”** means TopBuild Corp. and will be interpreted to include any subsidiary, parent or affiliate, if applicable, or any successor company thereafter.
- 1.10 “Disability”** means that a Participant has been unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. Alternatively, a Participant will be deemed disabled if determined to be totally disabled by the Social Security Administration. Termination of employment resulting from Disability may only be effected after at least thirty (30) days’ written notice by the Company of its intention to terminate a Participant’s employment. In the event that a Participant resumes the performance of substantially all of his or her duties hereunder before his or her termination becomes effective, the notice of intent to terminate based on Disability will automatically be deemed to have been revoked.
- 1.11 “Effective Date”** means the original effective date of the Plan, March 1, 2016.
- 1.12 “Equity Awards”** means a Participant’s outstanding stock options, stock appreciation rights, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards.
- 1.13 “ERISA”** means the Employee Retirement Income Security Act of 1974, as now in effect or as hereafter amended. All citations to sections of ERISA are to such sections as they may from time to time be amended or renumbered.
- 1.14 “Executive”** means an individual who is employed by the Company at the Vice President level or higher.
- 1.15 “Good Reason”** means a Participant’s voluntary termination, within thirty (30) days following the expiration of the Company cure period (discussed below) on account of the occurrence of one or more of the following, without the Participant’s consent:
- (a) a material reduction of the Participant’s authority, duties or responsibilities, relative to his or her authority, duties or responsibilities in effect immediately prior to such reduction;
 - (b) a material reduction by the Company of the Participant’s annual base salary as in effect immediately prior to such reduction;
 - (c) the failure of the Company to obtain assumption of this Plan by any successor; or
 - (d) a material change in the geographic location of the Participant’s principal workplace; provided, that a relocation of less than fifty (50) miles from the Company’s headquarters will not be considered a material change in geographic location.

A Participant may not resign for Good Reason without first providing the Company with written notice within ninety (90) days of the initial existence of the Good Reason condition specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

- 1.16 “Normal Retirement Age”** means a Participant’s attainment of age sixty-five (65).

1.17 **“Participant”** means any Executive who commenced participation in the Plan as provided in Article 2.

1.18 **“Plan”** means the TopBuild Corp. Executive Severance Plan, as contained herein and as it may be amended from time to time hereafter.

ARTICLE 2 ELIGIBILITY AND PARTICIPATION

2.1 **Eligibility.** An Executive shall be eligible to become a Participant in the Plan if the Executive:

- (a) is a member of the Company’s “select group of management or highly compensated employees,” as defined in ERISA Sections 201(2), 301(a)(3), and 401(a)(1);
- (b) is designated in writing by the Committee as eligible to participate in the Plan; and
- (c) executes a Non-Compete, Non-Solicitation and Confidentiality Agreement pursuant to Section 2.5 below.

2.2 **Participation.** An Executive who is eligible to become a Participant under Section 2.1 shall become a Participant as of the later of (a) the date designated by the Committee, or (b) the date the Executive executes a Non-Compete, Non-Solicitation and Confidentiality Agreement pursuant to Section 2.5 below.

2.3 **Duration of Participation.** A Participant shall cease to be a Participant on the date the Participant is no longer eligible for or entitled to a benefit under this Plan.

2.4 **Reemployment.** If a Participant who has incurred a termination of employment again becomes an Executive, the Executive may again become a Participant in accordance with Section 2.1 at the sole discretion of the Committee, but such reemployment shall not change, suspend, delay, or otherwise affect payment of any benefit otherwise payable to the Participant under the terms of the Plan.

2.5 **Non-Compete, Non-Solicitation and Confidentiality Agreement.** Eligibility to participate in this Plan and the receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to this Plan is subject to Executive executing the Non-Compete, Non-Solicitation and Confidentiality Agreement in substantially the form attached hereto as Exhibit A.

ARTICLE 3 PLAN BENEFITS

3.1 **Termination without Cause or for Good Reason, Unrelated to a Change in Control.** If the Company terminates a Participant’s employment with the Company without Cause (excluding death or Disability) or if a Participant resigns from such employment for Good Reason, and, in each case, such termination occurs outside of the Change in Control Period, then subject to Article 4, the Participant will receive the following:

- (a) Accrued Compensation. The Company will pay the Participant all Accrued Compensation as soon as administratively feasible after termination.
- (b) Severance Payment. The Participant will receive a lump-sum payment (less applicable withholding taxes) equal to one (1) year of the Participant's Base Salary. Such lump-sum amount shall be payable upon the later of: (i) sixty (60) days following termination of employment, or (ii) such later date required by Section 4.3.
- (c) Bonus Payment. The Participant will receive a lump-sum payment equal to one hundred percent (100%) of the Participant's target bonus as in effect for the fiscal year in which the Participant's termination of employment occurs. For avoidance of doubt, the amount paid to the Participant pursuant to this subsection will not be prorated based on the actual amount of time the Participant is employed by the Company during the fiscal year (or the relevant performance period if something different than a fiscal year) during which the termination occurs. Such lump-sum amounts shall be payable upon the later of: (i) sixty (60) days following termination of employment, or (ii) such later date required by Section 4.3. In addition to the bonus payment described above, the Participant will receive a lump-sum payment equal to the bonus for the fiscal year in which his or her termination of employment occurs that the Participant would have earned had the termination of employment not occurred, determined based on the actual achievement of performance criteria over such fiscal year. The bonus payment to the Participant shall be calculated pro rata based on the portion of the fiscal year during which the Participant was an active employee of the Company and shall be paid following the end of the fiscal year at the time bonus payments are made to active employees of the Company.
- (d) Continuation Coverage. If the Participant elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), within the time period prescribed pursuant to COBRA for the Participant and his or her eligible dependents, then the Company will provide continuation of the Participant's medical insurance coverage for twelve (12) months. These benefits shall be provided by the Company to the Participant beginning immediately upon the date of the Participant's termination of employment. Such benefits shall be provided to the Participant at the same coverage level and cost to the Participant as in effect immediately prior to the date of the Participant's termination of employment. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event the Participant receives substantially similar benefits from a subsequent employer, as determined solely by the Company in good faith. For purposes of enforcing this provision, the Participant shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to be provided, to the Company in writing correct, complete, and timely information concerning the same.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, the Company will report the value of the group

health plan coverage (less any amount the Participant pays for such coverage) as taxable income to the Participant.

- (e) Equity Awards. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement:
- (i) the Participant's then-outstanding and unvested stock options will become vested pro rata as of his or her termination of employment date based on the portion of the vesting period during which the Participant was an active employee of the Company, and the Participant's outstanding and vested stock options as of the Participant's termination of employment date will remain exercisable until the three (3) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant;
 - (ii) the Participant's then-outstanding and unvested performance shares will become vested pro rata as of his or her termination date based on the portion of the vesting period during which the Participant was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which the Participant was an active employee of the Company and paid or delivered following the end of the relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and
 - (iii) the Participant's then-outstanding and unvested restricted stock will become vested pro rata as of his or her termination date based on the portion of the vesting period during which the Participant was an active employee of the Company.

3.2 Termination without Cause or for Good Reason, in Connection with a Change in Control. If the Company terminates a Participant's employment with the Company without Cause (excluding death or Disability) or if a Participant resigns from such employment for Good Reason, and, in each case, such termination occurs during the Change in Control Period, then subject to Article 4, the Participant will receive the following:

- (a) Accrued Compensation. The Company will pay the Participant the Accrued Compensation as soon as administratively feasible after termination.
- (b) Severance Payment. The Participant will receive a lump-sum payment (less applicable withholding taxes) equal to two (2) years of the Participant's Base Salary. Such lump-sum amount shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4.3.
- (c) Bonus Payment. The Participant will receive a lump-sum payment equal to two hundred percent (200%) of the greater of (i) the Participant's target bonus as in effect for the fiscal year in which the Change in Control occurs, or (ii) the Participant's target bonus as in effect for the fiscal year in which his or her termination of

employment occurs. For avoidance of doubt, the amount paid to the Participant pursuant to this subsection will not be prorated based on the actual amount of time the Participant is employed by the Company during the fiscal year (or the relevant performance period if something different than a fiscal year) during which the termination occurs. In addition to the bonus payment described above, the Participant will receive a lump-sum payment equal to one hundred percent (100%) of his or her target bonus as in effect for the fiscal year in which his or her termination of employment occurs calculated pro rata based on the portion of the performance period during which the Participant was an active employee of the Company. Such lump-sum amount shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4.3.

- (d) Continuation Coverage. If the Participant elects continuation coverage pursuant to COBRA within the time period prescribed pursuant to COBRA for the Participant and his or her eligible dependents, then the Company will provide continuation of the Participant's medical insurance coverage for twenty four (24) months. These benefits shall be provided by the Company to the Participant beginning immediately upon the date of the Participant's termination of employment. Such benefits shall be provided to the Participant at the same coverage level and cost to the Participant as in effect immediately prior to the date of the Participant's termination of employment. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event the Participant receives substantially similar benefits from a subsequent employer, as determined solely by the Company in good faith. For purposes of enforcing this provision, the Participant shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to be provided, to the Company in writing correct, complete, and timely information concerning the same.

Following the end of the COBRA continuation period, if such group health plan coverage is provided under a health plan that is subject to Code Section 105(h), the benefits payable under such health plan to the Participant shall comply with the requirements of Treasury Regulation section 1.409A-3(i)(1)(iv) and, if necessary, the Company shall amend such health plan to comply therewith.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, the Company will report the value of the group health plan coverage (less any amount the Participant pays for such coverage) as taxable income to the Participant.

- (e) Accelerated Vesting of Equity Awards. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement:
- (i) one hundred percent (100%) of the Participant's then-outstanding and unvested stock options will become vested in full;
 - (ii) one hundred percent (100%) of the Participant's then-outstanding and unvested performance shares will become vested in full; provided, however, that if an outstanding performance share is to vest and/or the amount of the

award to vest is to be determined based on the achievement of performance criteria, then the performance share will vest as to one hundred percent (100%) of the amount of the performance share assuming the performance criteria had been achieved at target levels for the relevant performance period(s); and

(iii) one hundred percent (100%) of the Participant's then-outstanding and unvested restricted stock will become vested in full.

(f) Extended Post-Termination Exercise Period. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the Participant's outstanding and vested stock options as of the Participant's termination of employment date will remain exercisable until the twelve (12) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant.

(g) No Duplication of Benefits. For the avoidance of doubt, if (i) the Participant incurred a termination prior to a Change in Control that qualifies the Participant for severance payments under Section 3.1, and (ii) a Change in Control occurs within the two (2)-month period following the Participant's termination of employment that qualifies the Participant for the superior benefits under this Section 3.2, then the Participant shall be entitled to the benefits calculated under this Section 3.2, less amounts already paid under Section 3.1.

3.3 Voluntary Resignation prior to Normal Retirement Age; Termination for Cause. If a Participant's employment with the Company terminates (i) voluntarily by the Participant (other than for Good Reason and prior to Normal Retirement Age), or (ii) for Cause by the Company, then the Participant will irrevocably forfeit the benefits under this Plan and will not be entitled to receive the severance or other benefits hereunder other than the Accrued Compensation. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon such resignation or termination for Cause:

(a) Forfeiture of Equity Awards. All outstanding and unvested Equity Awards will be immediately forfeited upon the Participant's voluntary resignation or termination of employment for Cause.

(b) Post-Termination Exercise Period. Upon the Participant's resignation, the Participant's outstanding and vested stock options as of the Participant's termination of employment date will remain exercisable until the three (3) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant. Upon the Participant's termination for Cause, the Participant's outstanding and vested stock options shall not be exercisable as of the Participant's termination of employment date.

3.4 Disability; Death. If the Company terminates a Participant's employment as a result of the Participant's Disability, or a Participant's employment terminates due to the Participant's death, then the Participant will irrevocably forfeit the benefits under this Plan and will not be entitled to receive the severance or other benefits hereunder other than the Accrued

Compensation. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon death or termination due to Disability:

(a) Accelerated Vesting of Equity Awards.

- (i) One hundred percent (100%) of the Participant's then-outstanding and unvested stock options will become vested in full;
- (ii) the Participant's then-outstanding and unvested performance shares will become vested pro rata as of the Participant's termination date based on the portion of the vesting period during which he or she was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which the Participant was an active employee of the Company and paid or delivered following the end of the relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and
- (iii) one hundred percent (100%) of the Participant's then-outstanding and unvested restricted stock will become vested in full.

- (b) Extended Post-Termination Exercise Period. The Participant's outstanding and vested stock options as of the Participant's termination of employment date will remain exercisable until the twelve (12) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant.

3.5 Normal Retirement. If a Participant resigns employment on or after Normal Retirement Age under circumstances other than those described in Sections 3.1 or 3.2 above, then the Participant will irrevocably forfeit the benefits under this Plan and will not be entitled to receive the severance or other benefits hereunder other than the Accrued Compensation. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon termination on or after Normal Retirement Age:

(a) Accelerated Vesting of Equity Awards.

- (i) the Participant's then-outstanding and unvested performance shares will become vested pro rata as of the Participant's termination date based on the portion of the vesting period during which he or she was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which the Participant was an active employee of the Company and paid or delivered following the end of the

relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and

(ii) one hundred percent (100%) of the Participant's then-outstanding and unvested restricted stock will become vested in full.

(b) Extended Post-Termination Exercise Period. The Participant's outstanding stock options as of the Participant's termination of employment date will vest in accordance with the terms of the applicable award agreement, but will remain exercisable until the earlier of the original maximum term or the tenth (10th) anniversary of the original date of grant.

3.6 Exclusive Remedy. In the event of a termination of a Participant's employment as set forth in this Article 3, the provisions of Article 3 are intended to be and are exclusive and in lieu of any other rights to severance pay or remedies to which the Participant is entitled, whether at law, tort or contract, in equity, or under the Plan (other than the payment of the Accrued Compensation).

ARTICLE 4 CONDITIONS AND LIMITATIONS ON BENEFITS

4.1 Release of Claims Agreement. The receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to the Plan is subject to the Participant signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit B (the "Release"), which must become effective and irrevocable no later than the sixtieth (60th) day following the Participant's termination of employment (the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, the Participant will forfeit any right to severance payments and any other benefits under the Plan. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

4.2 Adherence to Non-Compete, Non-Solicitation and Confidentiality Agreement. The receipt of any severance payments or other benefits (other than the Accrued Compensation) pursuant to this Plan is subject to the Participant executing and adhering to the provisions of the Non-Compete, Non-Solicitation and Confidentiality Agreement (the "Non-Compete Agreement") in substantially the form attached hereto as Exhibit A. A Participant will forfeit any entitlement to the severance payments or other benefits (other than the Accrued Compensation) pursuant to this Plan upon the Participant's breach of the Non-Compete Agreement. To the extent permitted by law, if the Company determines that a Participant has breached the Non-Compete Agreement, it will immediately cease any further payments and benefits under the Plan, and it will have the right to seek repayment of any such payments or benefits that have already been provided, without prejudice to any other remedies that may be available to the Company.

4.3 Code Section 409A.

(a) Notwithstanding anything to the contrary in the Plan, no severance pay or benefits to be paid or provided to a Participant, if any, pursuant to the Plan that, when considered together with any other severance payments or separation benefits, are considered

deferred compensation under Code Section 409A, and the final regulations and any guidance promulgated thereunder (together, the “Deferred Payments”) will be paid or otherwise provided until the Participant incurs a “separation from service” within the meaning of Code Section 409A. Similarly, no severance payable to the Participant, if any, pursuant to the Plan that otherwise would be exempt from Code Section 409A will be payable until the Participant incurs a “separation from service” within the meaning of Code Section 409A.

- (b) It is intended that, to the maximum extent permitted under Code Section 409A, none of the severance payments under the Plan will constitute Deferred Payments but rather will be exempt from Code Section 409A as a payment that would fall within the “short-term deferral period” as described in Section 4.3(d) below or resulting from an involuntary separation from service as described in Section 4.3(e) below. However, any severance payments or benefits under the Plan that would be considered Deferred Payments will be paid on, or, in the case of installments, will not commence until, the sixtieth (60th) day following the Participant’s separation from service, or, if later, such time as required by Section 4.3(c). Except as required by Section 4.3(c), any installment payments that would have been made to the Participant during the sixty (60) day period immediately following the Participant’s separation from service but for the preceding sentence will be paid to the Participant on the sixtieth (60th) day following the Participant’s separation from service and the remaining payments will be made as provided in the Plan.
- (c) Notwithstanding anything to the contrary in the Plan, if the Participant is a “specified employee” within the meaning of Code Section 409A at the time of the Participant’s termination (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following the Participant’s separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of the Participant’s separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Participant dies following his or her separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this subsection will be payable in a lump sum as soon as administratively practicable after the date of the Participant’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under the Plan is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.
- (d) Any amount paid under the Plan that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of Section 4.3(a) above.
- (e) Any amount paid under the Plan that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Code Section 409A Limit (as defined below) will not constitute Deferred Payments for purposes of Section 4.3(a) above. Code Section 409A Limit means two (2) times the lesser of: (i) a Participant’s annualized compensation based upon the annual rate of pay paid to the Participant during the Participant’s taxable year preceding the Participant’s taxable year of his or

her separation from service, and with such adjustments as are set forth in Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Code Section 401(a)(17) for the year in which the Participant's separation from service occurs.

- (f) The foregoing provisions are intended to comply with the requirements of Code Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Code Section 409A, and any ambiguities herein will be interpreted to so comply.

4.4 Limitation on Payments. In the event that the severance and other benefits provided for under the Plan or otherwise payable to a Participant (i) constitute "parachute payments" within the meaning of Code Section 280G, and (ii) but for this Section 4.4, would be subject to the excise tax imposed by Code Section 4999, then the Participant's benefits under Article 3 will be either

- (a) delivered in full, or
- (b) delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax under Code Section 4999,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Code Section 4999, results in the receipt by the Participant on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Code Section 4999. If a reduction in severance and other benefits constituting "parachute payments" is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (A) reduction of cash payments; (B) cancellation of awards granted "contingent on a change in ownership or control" (within the meaning of Code Section 280G), (C) cancellation of accelerated vesting of equity awards; (D) reduction of employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting will be cancelled in the reverse order of the date of grant of the Participant's equity awards.

Any determination required under this Section 4.4 will be made in writing by the Company's independent public accountants immediately prior to a Change in Control (the "Firm"), whose determination will be conclusive and binding upon all interested parties. For purposes of making the calculations required by this Section 4.4, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Code Sections 280G and 4999. The Company and the Participant will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section. The Company will bear all costs the Firm may incur in connection with any calculations contemplated by this Section 4.4.

ARTICLE 5 ADMINISTRATION OF THE PLAN

5.1 Powers and Duties of the Committee. The Committee shall have general responsibility for the administration of the Plan, including, but not limited to, complying with reporting and disclosure requirements, if any, and establishing and maintaining Plan records. The Committee may delegate to any Executive or other employee of the Company all or a portion

of its authority to perform any act hereunder, including, without limitation, those matters involving the exercise of discretion, provided that such delegation shall be subject to revocation at any time at the discretion of the Committee.

In the exercise of the Committee's sole and absolute discretion, the Committee shall interpret the Plan's provisions and determine the eligibility of individuals for benefits. The Committee shall have the maximum discretion permitted under law to interpret the Plan, and all decisions of the Committee shall be final and binding on all interested parties, subject to Section 5.3 below.

No individual serving as a Committee member or at the request of the Committee shall be entitled to act on or decide any matter relating solely to him or her or any of his or her rights or benefits under the Plan. In the event an individual is unable to act on any matter by reason of the foregoing restriction, the remaining Committee members shall act on such matter. The Committee shall not receive any special compensation for serving in the capacity of Committee but shall be reimbursed for any reasonable expenses incurred in connection herewith. Except as otherwise required by ERISA, no bond or other security shall be required of the Committee in any jurisdiction.

5.2 Agents. The Committee may engage such legal counsel, certified public accountants and other advisers and service providers, who may be advisers or service providers for the Company or an affiliate, and make use of such agents and clerical or other personnel, as it shall require or may deem advisable for purposes of the Plan. The Committee may rely upon the written opinion of any legal counsel or accountants engaged by the Committee, and may delegate to any such agent its authority to perform any act hereunder, including, without limitation, those matters involving the exercise of discretion, provided that such delegation shall be subject to revocation at any time at the discretion of the Committee.

5.3 Claims for Benefits. Any person claiming a benefit ("Claimant") under the Plan shall present the request in writing to the Committee.

(a) **Initial Claim Review.** If the claim is wholly or partially denied, the Committee will, within a reasonable period of time, and within ninety (90) days of the receipt of such claim, or if the claim is a claim on account of Disability, within forty-five (45) days of the receipt of such claim, provide the Claimant with written notice of the denial setting forth in a manner calculated to be understood by the Claimant:

- (i) The specific reason or reasons for which the claim was denied;
- (ii) Specific reference to pertinent provisions of the Plan, rules, procedures or protocols upon which the Committee relied to deny the claim;
- (iii) A description of any additional material or information that the Claimant may file to perfect the claim and an explanation of why this material or information is necessary;
- (iv) An explanation of the Plan's claims review procedure and the time limits applicable to such procedure and a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse determination upon review; and

- (v) In the case of an adverse determination of a claim on account of Disability, the information to the Claimant shall include, to the extent necessary, the information set forth in Department of Labor Regulation Section 2560.503-1(g)(1)(v).

If special circumstances require the extension of the forty-five (45) day or ninety (90) day period described above, the Claimant will be notified before the end of the initial period of the circumstances requiring the extension and the date by which the Committee expects to reach a decision. Any extension for deciding a claim will not be for more than an additional ninety (90) day period, or if the claim is on account of Disability, for not more than two additional thirty (30) day periods.

- (b) Review of Claim. If a claim for benefits is denied, in whole or in part, the Claimant may request to have the claim reviewed. The Claimant will have one hundred eighty (180) days in which to request a review of a claim regarding Disability, and will have sixty (60) days in which to request a review of all other claims. The request must be in writing and delivered to the Board, and the Board or its designee shall review the appeal (“appeal official”). If no such review is requested, the initial decision of the Committee will be considered final and binding.

The appeal official’s decision on review shall be sent to the Claimant in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the Claimant, as well as specific references to the pertinent Plan provisions, rules, procedures or protocols upon which the appeal official relied to deny the appeal. The appeal official shall consider all information submitted by the Claimant, regardless of whether the information was part of the original claim. The decision shall also include a statement of the Claimant’s right to bring an action under Section 502(a) of ERISA.

The appeal official’s decision on review shall be made not later than sixty (60) days (forty-five (45) days in the case of a claim on account of Disability) after its receipt of the request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than one hundred and twenty (120) days (ninety (90) days in the case of a claim on account of Disability) after receipt of the request for review. This notice to the Claimant shall indicate the special circumstances requiring the extension and the date by which the appeal official expects to render a decision and will be provided to the Claimant prior to the expiration of the initial forty-five (45) day or sixty (60) day period.

Notwithstanding the foregoing, in the case of a claim on account of Disability:

- (i) The review of the denied claim shall be conducted by a party who is neither the individual who made the benefit determination nor a subordinate of such person; and
- (ii) No deference shall be given to the initial benefit determination. For issues involving medical judgment, the reviewing party must consult with an independent health care professional who may not be the health care professional who decided the initial claim.

- (c) Legal Proceedings Regarding Claims. Claimants must follow the claims procedures included in this Section before taking action in any other forum regarding a claim. Any suit or legal action initiated by a Claimant must be brought by the Claimant no later than one (1) year following a final decision on the claim under these claims procedures. The one (1) year statute of limitations on suits for benefits shall apply in any forum where a Claimant initiates such suit or legal action. If a civil action is not filed within this period, the Claimant's claim will be deemed permanently waived and abandoned, and the Claimant will be precluded from reasserting it.

5.1 Hold Harmless. To the maximum extent permitted by law, the members of the Committee and the Board shall not be personally liable by reason of any contract or other instrument executed by such members or on such members' behalf in their capacity as the administrator of the Plan nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless, directly from its own assets (including the proceeds of any insurance policy the premiums of which are paid from the Company's own assets), the Committee and each other officer, employee, or director of the Company or an affiliate to whom any duty or power relating to the administration or interpretation of the Plan is delegated against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud, willful misconduct or bad faith.

5.5 Service of Process. The Committee or such other person designated by the Committee shall be the agent for service of process under the Plan.

ARTICLE 6 AMENDMENT OR TERMINATION OF THE PLAN

6.1 Right to Amend or Terminate the Plan

(a) Prior to a Change in Control, the Committee reserves the right at any time to amend or terminate the Plan, in whole or in part, and for any reason and without the consent of any Participant or other person. Following a Change in Control, the Plan may be amended or terminated only with the prior written consent of all Participants.

(b) In no event shall an amendment or termination modify, reduce, or otherwise affect the Company's obligations under the Plan made before the amendment or termination, as such obligations are defined under the provisions of the Plan existing immediately before such amendment or termination.

6.1 Notice of Amendment or Termination. Notice of any amendment or termination of the Plan shall be given by the Committee to each Participant and any other person entitled to a benefit hereunder.

6.3 Payment Upon Plan Termination. If the Plan is terminated, the Company may distribute all vested, accrued benefits under the Plan in a single lump sum payment after the date the Plan is terminated if and to the extent permitted under Code Section 409A and the related Treasury Regulations and other guidance issued thereunder. Accordingly, the Company may accelerate Deferred Payments hereunder in accordance with one of the following:

- (a) the termination of the Plan within twelve (12) months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U.S.C. 503(b)(1)(A), as provided in Treasury Regulation Section 1.409A-3(j)(4)(ix)(A); or
- (b) the termination of the Plan, provided that the termination does not occur proximate to a downturn in the financial health of the Company, if all arrangements that would be aggregated with the Plan under Treasury Regulation Section 1.409A-1(c) are terminated, and no payments other than payments that would be payable under the terms of the Plan if the termination had not occurred are made within twelve (12) months of the Plan termination, and all payments are made within twenty-four (24) months of the Plan termination, and no new arrangement that would be aggregated with the Plan under Treasury Regulation Section 1.409A-1(c) is adopted within three (3) years following the Plan termination, as provided in Treasury Regulation Section 1.409A-3(j)(4)(ix)(C); or
- (c) such other events and conditions as the IRS may prescribe in generally applicable published regulatory or other guidance under Code Section 409A.

ARTICLE 7
GENERAL PROVISIONS AND LIMITATIONS

- 7.1 No Right to Continued Employment.** Nothing contained in the Plan shall give any person the right to be retained in the employment of the Company or affect the right of the Company to dismiss any employee. The adoption and maintenance of the Plan shall not constitute a contract between the Company and an Executive or consideration for, or an inducement to or condition of, the employment of any Executive.
- 7.2 Payment on Behalf of Payee.** If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for such person's affairs because of illness or accident, or is a minor, or had died, then any payment due such person or such person's estate (unless a prior claim therefor has been made by a duly appointed legal representative) may, if the Committee so elects, be paid to such person's spouse, a child, a relative, an institute maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment hereunder. Any such payment shall be a complete discharge of the liability of the Plan and the Company therefor.
- 7.3 Nonalienation.** No interest, expectancy, benefit, payment, claim, or right of any Participant under the Plan shall be (a) subject in any manner to any claims of any creditor of the Participant or any other person; (b) subject to the debts, contracts, liabilities or torts of the Participant or any other person; or (c) subject to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge or encumbrance of any kind. If any person shall attempt to take any action contrary to this Section, such action shall be null and void and of no effect, and the Committee and the Company shall disregard such action and shall not in any manner be bound thereby and shall suffer no liability on account of its disregard thereof. If a Participant or any successor in interest hereunder shall become bankrupt or attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge any right hereunder, then such right or benefit shall, in the discretion of the Committee, cease and

terminate, and in such event the Committee may hold or apply the same or any part thereof for the benefit of the Participant or the spouse, children, or other dependents of the Participant, or any of them, in such manner and in such amounts and proportions as the Committee may deem proper.

- 7.4 Missing Payee.** If the Committee cannot ascertain the whereabouts of any person to whom a payment is due under the Plan, and if, after five (5) years from the date such payment is due, a notice of such payment due is mailed to the last known address of such person, as shown on the records of the Committee or the Company, and within three (3) months after such mailing such person has not made written claim therefor, the Committee may direct that such payment and all remaining payments otherwise due to such person be canceled on the records of the Plan and the amount thereof forfeited, and upon such cancellation, the Company shall have no further liability therefor, except that, in the event such person later notifies the Committee of such person's whereabouts and requests the payment or payments due to such person under the Plan, the amounts otherwise due but unpaid as of the date payment would have been made shall be paid to such person without interest or earnings accruals due to late payment.
- 7.5 Required Information.** Each Participant shall file with the Committee such pertinent information concerning himself or herself, or such other person as the Committee may specify, and no Participant or any successor in interest shall have any rights or be entitled to any benefits under the Plan unless such information is filed by or with respect to the Participant.
- 7.6 Binding Effect.** Obligations incurred by the Company pursuant to this Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Participant and any successor in interest of the Participant.
- 7.7 Merger or Consolidation.** In the event of a merger or consolidation by the Company with another entity, or the acquisition of substantially all of the assets or outstanding ownership interests of the Company by another entity, the obligations and responsibilities of the Company under this Plan shall be assumed by any such successor or acquiring entity, and all of the rights, privileges, and benefits of the Participants hereunder shall continue.
- 7.8 No Funding Created.** All payments provided under the Plan shall be paid from the general assets of the Company and no separate fund shall be established to secure payment. Notwithstanding the foregoing, the Company may establish a grantor trust to assist it in funding Plan obligations; provided, however, that such trust shall at all times remain located within the United States. Any payments made to a Participant or other person from any such trust shall relieve the Company from any further obligations under the Plan only to the extent of such payment. Nothing herein shall constitute the creation of a trust or other fiduciary relationship between the Company and any other person.
- 7.9 Notices.**
- (a) General. Notices and all other communications contemplated by the Plan will be in writing and will be deemed to have been duly given when sent electronically or personally delivered, when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid, or when delivered by a private courier service such as UPS, DHL or Federal Express that has tracking capability. In the

case of a Participant, notices will be sent to the e-mail address or addressed to the Participant at the home address, in either case which the Participant most recently communicated to the Company in writing. In the case of the Company, electronic notices will be sent to the e-mail address of the Chief Executive Officer or the General Counsel and mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Executive Officer or General Counsel.

- (b) Notice of Termination. Any termination by the Company for Cause or by the Participant for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 7.9(a). Such notice will indicate the specific termination provision under the Plan relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date.

7.10 No Duty to Mitigate. A Participant will not be required to mitigate the amount of any payment contemplated by the Plan, nor will any such payment be reduced by any earnings that the Participant may receive from any other source.

7.11 Severability. If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions hereof; instead, each provision shall be fully severable, and the Plan shall be construed and enforced as if said illegal or invalid provision had never been included herein.

7.12 Entire Plan; Construction. This document and any written amendments hereto (including any resolutions of the Company, the Committee or the Board) contain all the terms and provisions of the Plan and shall constitute the entire Plan, any other alleged terms or provisions being of no effect. Unless otherwise indicated, all references to Articles, Sections, and subsections shall be to the Plan as set forth in this document. The Article titles and the captions preceding Sections and subsections have been inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision. When the context so requires, the masculine pronoun shall be deemed to include the feminine and neuter and the singular to include the plural, and vice versa in each instance, unless the context clearly indicates otherwise.

7.13 Governing Law. This Plan shall be governed by and construed under the laws of the State of Florida, without regard to conflicts of law provisions, to the extent not preempted by ERISA or other applicable federal law.

7.14 Tax Withholding; No Company Representation. All payments made pursuant to this Plan will be subject to withholding of applicable income, employment and other taxes. The Company does not represent or guarantee that any particular federal, state or local income, payroll or other tax treatment will result from this Plan or the benefits provided hereunder. Each Participant, for himself or herself and his or her successors in interest, assumes full responsibility for all of his or her portion of federal, state and local taxes arising from the payments provided hereunder and by accepting benefits hereunder agrees to indemnify and hold the Committee, the Company and the Board harmless from any and all tax consequences, including interest and/or penalties, related to taxes owed and payable by the Participant or any successor in interest.

* * *

Approved by the Board on the 1st day of March, 2016, to be effective as of the Effective Date.

EXHIBIT A

NON-COMPETE, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT

This NON-COMPETE, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT (“Agreement”) between _____ (“Executive”) and TopBuild Corp. (together with its Affiliates, the “Company”), is effective as of _____, 20__.

Background

A. The Company and its Affiliates are engaged in the business of selling, distributing and installing a wide range of products for new residential and commercial construction and existing home improvement projects throughout the United States, including, but not limited to insulation, gutters, fireplaces and fire doors. The Company’s business depends upon the preservation of goodwill and continued confidentiality of proprietary information and trade secrets.

B. The Company wishes to employ Executive on an at-will basis as a _____, and Executive wishes to be so employed by the Company in this capacity.

C. The Company will train Executive in its business, and in carrying out Executive’s duties, Executive will become familiar with the Company’s confidential information and trade secrets and will acquire experience, skills and knowledge related to the Company’s business.

D. The parties agree that this Agreement is necessary to safeguard against the unauthorized disclosure or use of the Company’s confidential information and to preserve its goodwill and ongoing business value.

THEREFORE, in consideration of Executive’s employment by the Company and Executive’s eligibility to participate in the TopBuild Corp. Executive Severance Plan (the “Plan”), subject to the terms of the Plan, the Company’s willingness to disclose certain confidential information to Executive, the mutual promises contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

NON-DISCLOSURE

1. Confidential Information. Executive acknowledges that the Company has certain trade secrets and other confidential and proprietary information which it has acquired and developed, and will acquire and develop, at great effort and expense. Such information includes, without limitation, confidential information, whether in tangible or intangible form, regarding the Company’s products, services, marketing strategies, business plans, operations, costs, current or prospective customer information (including customer lists, requirements, creditworthiness, preferences and similar matters), product concepts, designs, specifications, research and development efforts, technical data and know-how, sales information (including pricing and other terms and conditions of sale), financial information, internal procedures, techniques, forecasts, methods, trade information, software programs, project requirements, inventions, trademarks, trade names, and all other information which is not generally known to those outside the Company (collectively, “Confidential Information”). Confidential Information does not include information that is or becomes available to the public other than as a result of disclosure by Executive.

2. Restricted Use of Confidential Information. In the course of Executive’s

employment, Executive will have access to and may help develop Confidential Information. Except as required in the performance of Executive's duties, Executive will not, either during Executive's employment or at any time thereafter, disclose any Confidential Information to others or use the Confidential Information for Executive's own benefit or for the benefit of others. All records, files, and documents relating to the Company's business shall remain the sole property of the Company and may not be copied without written permission. Upon the termination of Executive's employment, Executive agrees to promptly return all records, files, documents and other materials relating to the Company's business, whether in hard copy or electronic format. Executive shall not retain copies of such materials.

3. Nothing in this Agreement shall be construed to limit Executive's right to respond accurately and fully to any question, inquiry or request for information when required by legal process or from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or state or federal regulatory authority, regarding the Company, Executive's employment, or this Agreement. Executive is not required to contact the Company regarding the subject matter of any such communications before engaging in such communications

NON-SOLICITATION AND NON-COMPETITION

4. Need for Covenants. Executive understands that the Company has spent and will continue to spend substantial amounts of time, money and effort to develop its business, Confidential Information, reputation, goodwill (both associated with its trade name and geographic area of business), and its customer, supplier and employee relationships. Executive further understands that Executive will benefit from those investments and efforts. Executive acknowledges that Executive's use of any such matters to compete against the Company in an unrestricted manner would be unfair and detrimental to the Company. Executive agrees that taking advantage of any of the above-identified investments of time, money or effort expended by the Company would unfairly place the Executive at a competitive advantage over the Company. Executive further acknowledges the Company's need to protect its business interests by reasonably restricting Executive's ability to compete with the Company. Finally, Executive acknowledges that the Company would not employ, or continue to employ, Executive, or extend to Executive eligibility to participate in the Plan, without Executive's agreement to be bound by the provisions of this Agreement.

5. Definitions.

- (a) "Affiliate" means, as to any person or entity, any other person or entity (i) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, such person or entity or (ii) that has the power directly or indirectly to direct or cause the direction of the management and policies of such person or entity, through the ownership of voting securities, by contract or otherwise.
- (b) "Competitive Capacity" means performing the same or similar duties as those performed by Executive on behalf of the Company at any time during the 24 month period preceding the date of Executive's termination of employment.

- (c) “Competitive Products” means any product or service offered by the Company in the Territory or any product or service that directly or indirectly competes with or is substantially similar to such product or service. For illustrative purposes, these products may include insulation distribution and installation.
 - (d) “Competitor” means any person or entity (including Executive or an entity that Executive becomes affiliated with or renders services to) that offers, or is actively planning to offer, Competitive Products within the Territory.
 - (e) “Customer” means all customers and actively sought prospective customers of the Company with whom Executive had material contact in the performance of Executive’s duties at any time during the 24 month period preceding the date of Executive’s termination of employment.
 - (f) “Territory” means the United States of America.
 - (g) “Restricted Period” means the period of Executive’s employment with the Company or an Affiliate and for a period of twelve (12) months following date of Executive’s termination of employment for any reason, whether voluntary or involuntary.
 - (h) “Directly or indirectly” means conduct taken individually, through other individuals, or as a partner, shareholder, member, officer, director, manager, employee, salesperson, independent contractor, agent, or consultant for any other individual or entity.
6. Non-Solicitation/Non-Interference. During the Restricted Period, Executive shall not, either for Executive’s own account or for or on behalf of any Competitor, directly or indirectly, take any of the following actions:
- (a) Contact or otherwise solicit any employee, consultant, or independent contractor of the Company with the intention of encouraging such person to terminate his or her employment or other relationship with the Company, or employ or otherwise hire or engage any such person;
 - (b) Solicit, call upon, accept work and/or orders for product from, or initiate communication or contact with any Customer for the purpose of offering Competitive Products to such Customer, or otherwise offer Competitive Products to such Customer;
 - (c) Solicit, call upon or initiate communication or contact with any Customer, vendor or supplier of the Company for the purpose of encouraging such person to terminate, place elsewhere or reduce the volume of its business with the Company; or
 - (d) Otherwise attempt to directly or indirectly interfere with the Company’s business or its relationships with its employees, independent contractors, vendors, suppliers or Customers.
7. Non-Competition. During the Restricted Period, Executive shall not, either for

Executive's own account or for or on behalf of any Competitor, directly or indirectly, take any of the following actions:

- (a) (i) Have an ownership or financial interest in a Competitor, (ii) advise or consult with a Competitor concerning competitive activity in the Territory, or (iii) otherwise be employed by or provide services in a Competitive Capacity to a Competitor in the Territory;
- (b) Engage in the production, sale or distribution of Competitive Products in the Territory; or
- (c) Market, sell, or otherwise offer or provide Competitive Products in the Territory.

GENERAL PROVISIONS

8. Survival/Independent Agreement. Unless expressly set forth in a document signed by both parties, the restrictive covenants set forth herein shall survive the termination of this Agreement and the termination of Executive's employment for any reason, voluntary or involuntary. Executive's obligations hereunder are independent of Executive's employment. Any breach or alleged breach by the Company of any obligation to Executive shall not affect the binding nature of Executive's obligations under this Agreement or excuse or terminate Executive's obligations hereunder.

9. Scope. If any provision of this Agreement is found to be invalid in any jurisdiction, in whole or in part, such provision shall remain valid in all other jurisdictions. If any court determines that any provision of this Agreement is unenforceable because of the duration or scope of such provision, such provision shall not be rendered void, and such court shall have the power to amend the scope or duration of such provision, and in its amended form, such provision shall remain in full force and effect. If any provision of this Agreement is found to be void or unenforceable for any reason, all remaining provisions of this Agreement shall remain in full force and effect.

10. Specific Enforcement/Injunctive Relief. Executive agrees that it would be difficult to measure the Company's damages from a breach or threatened breach of this Agreement by Executive, but that such breach or threatened breach could result in damages that would be significant and irreparable. Executive agrees that the Company shall be entitled, in addition to any other remedies available at law, to seek injunctive or other equitable relief against such breach or threatened breach. If the Company prevails in any action brought to enforce this Agreement, the Company shall be entitled to costs and attorneys' fees incurred by it in such action. Notwithstanding any agreements to arbitrate disputes, the parties agree that a temporary restraining order, temporary injunctive relief, or permanent injunctive relief may be pursued and secured in court under Paragraph 10 to prevent immediate harm without waiving any party's ability to have all issues of final relief and damages made subject to sole and exclusive arbitration procedures.

11. Miscellaneous. The headings contained in this Agreement are for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

12. Governing Law. This Agreement shall be governed by the laws of the State of Florida, without regard to conflicts of law provisions.

13. Amendments; Assignments. No modification, amendment, extension or waiver of this Agreement shall be binding unless in writing and signed by the parties. The waiver by the Company of a breach of this Agreement shall not be construed as a waiver of any subsequent breach. Nothing in this Agreement shall be construed as a limitation upon the Company's right to modify or amend any of its manuals or policies in its sole discretion. This Agreement shall inure to the benefit of, and be binding upon the parties and their heirs, administrators, successors and assigns, and may be assigned by the Company to its successors and assigns and Affiliates. Executive may not assign any rights or obligations hereunder without the written consent of the Company.

14. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements between the parties in connection with the subject matter.

IN WITNESS WHEREOF, the parties have signed this Agreement effective as of the day and year first above written.

EXECUTIVE

Dated: _____

By: _____

Name: _____

COMPANY

Dated: _____

TOPBUILD CORP.

By: _____

Name: _____

Title: _____

EXHIBIT B

SEVERANCE AGREEMENT, WAIVER AND RELEASE

The parties to this Severance Agreement, Waiver and Release (this "Agreement"), _____ ("Executive") and _____, its affiliates, parents, successors, predecessors, and subsidiaries (collectively, the "Company") agree that:

Executive and the Company wish to end their at-will employment relationship effective _____ in a manner that is satisfactory to both Executive and the Company.

Executive and the Company, for the good and valuable consideration stated below, the sufficiency of which is acknowledged, agree as follows:

1. In exchange for the Company's promises in this Agreement, Executive, including Executive's heirs, administrators, executors, spouse, if any, successors, estate, representatives and assigns and all others claiming by or through Executive, voluntarily and knowingly releases the Company, its parent companies, their subsidiaries, divisions, affiliates, related companies, predecessors, successors, partners, members, directors, officers, trustees, employees, independent contractors, consultants, stockholders, owners, attorneys, agents, benefit plans, subrogees, insurers, representatives and assigns, whether alleged to have acted in their official capacities or personally (collectively, the "Released Parties"), completely and forever, from any and all claims, causes of action, suits, contracts, promises, or demands of any kind, which Executive may now have, whether known or unknown, intentional or otherwise, from the beginning of time to the Effective Date of this Agreement, with the sole and limited exception of the rights and claims reserved in Paragraph 2. The Effective Date of this Agreement is the date it is signed by Executive.

2. Executive understands and agrees that this Agreement covers all claims described in Paragraph 1, including, but not limited to, any alleged violation of the Civil Rights Act of 1991; Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act; the Employee Retirement Income Security Act; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; **the Age Discrimination in Employment Act as amended by the Older Workers Benefit Protection Act**; the Fair Labor Standards Act, to the extent permitted by law; the Occupational Safety and Health Act of 1970; and any other federal, state or local civil, labor, pension, wage-hour or human rights law, including [insert references to applicable state and local statutes], federal or state public policy, damages, contract or tort law; any claim arising under federal or state common law, including, but not limited to, constructive or wrongful discharge or intentional or negligent infliction of emotional distress; and any claim for costs or attorney's fees.

This Agreement does not include, and Executive does not waive, any rights or claims: (1) which may arise after Executive signs this Agreement; (2) for alleged workplace injuries or occupational disease that arise under any state's workers' compensation laws; (3) for benefits in which Executive has a vested right under any pension plans; (4) which cannot be released by law; (5) to enforce this Agreement; or (6) to participate in any proceedings before an administrative agency responsible for enforcing labor and/or employment laws, (e.g., the Equal Employment Opportunity Commission). Executive agrees, however, to waive and release any right to receive any monetary award from such proceedings. Nothing in this Agreement shall be construed to limit Executive's right to respond accurately and fully to any question, inquiry or request for information when required by legal process or from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or

state or federal regulatory authority, regarding the Company, Executive's employment, or this Agreement. Executive is not required to contact the Company regarding the subject matter of any such communications before engaging in such communications

3. Except as set forth in Paragraph 2, Executive agrees to keep the terms of this Agreement confidential and not to disclose the terms of this Agreement to any third party at any time, other than to Executive's attorneys, taxing authorities, accountants, or as otherwise required by law. Executive agrees to use Executive's best efforts to ensure that the terms of this Agreement are kept confidential by Executive's spouse, heirs, assigns, attorneys, etc. Executive is not prohibited from disclosing the terms of this Agreement to Executive's spouse, if any, attorney, if any, or accountant, in a proceeding to enforce its terms, or as otherwise required by law or court order.

4. In exchange for Executive's promises contained herein, the Company agreed to provide Executive the benefits set forth in the TopBuild Corp. Executive Severance Plan (the "Plan") subject to the provisions of the Plan.

5. The parties agree that if any provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, including the general release language, the provision declared illegal or unenforceable will immediately become null and void, leaving the remainder of this Agreement in full force and effect.

6. Executive declares and expressly warrants that Executive is not Medicare eligible, that Executive is not a Medicare beneficiary, and that Executive is not within 30 months of becoming Medicare eligible; that Executive is not 65 years of age or older; that Executive is not suffering from end stage renal failure or amyotrophic lateral sclerosis; that Executive has not received Social Security benefits for 24 months or longer; and/or that Executive has not applied for Social Security benefits, and/or has not been denied Social Security disability benefits and is not appealing any denial of Social Security disability benefits.

Executive affirms, covenants and warrants that Executive has made no claim for illness or injury against, nor is Executive aware of any facts supporting any claim against, the Released Parties under which the Released Parties could be liable for medical expenses incurred by Executive before or after the execution of this Agreement. Because Executive is not a Medicare recipient as of the date of this release, Executive is aware of no medical expenses that Medicare paid and for which the Released Parties are or could be liable now or in the future. Executive agrees and affirms that, to the best of Executive's knowledge, no liens of any governmental entities, including those for Medicare conditional payments, exist.

7. In compliance with the Older Workers Benefit Protection Act, Executive is hereby advised to consult with an attorney regarding the terms, meaning and impact of this Agreement. In addition, Executive understands and agrees that: (a) by signing this Agreement, Executive waives and releases any claims Executive might have against any of the Released Parties, including, but not limited to, any claims under the Age Discrimination in Employment Act of 1967; (b) Executive has twenty one (21) days from the date of receipt of this Agreement to consider whether or not to execute this Agreement, which Executive waives by virtue of Executive's execution of the Agreement during the consideration period; and (c) after Executive signs this Agreement and it becomes effective, Executive has seven days from that date to change Executive's mind and revoke the Agreement. To revoke the Agreement, Executive must clearly communicate Executive's decision in writing to _____ by the seventh day following the Effective Date of this Agreement. Executive understands and agrees that should Executive revoke Executive's

release and waiver as to claims under the Age Discrimination in Employment Act of 1967, as amended, the Company's obligations under this Agreement and the Plan will become null and void.

8. Executive agrees that Executive will not, in any way, disparage the Company or any of the Released Parties. Further, Executive and the Company agree that they will not make, nor solicit, any comments, statements, or the like to the media, or to others, that may be considered to be derogatory or detrimental to the good name or business reputation of Executive or the Company.

9. Executive acknowledges that, through Executive's employment with the Company, Executive has acquired and had access to the Company's confidential and proprietary business information and trade secrets ("Confidential Information"). Executive acknowledges and agrees that the Company prohibits the use or disclosure of its Confidential Information and that the Company has taken all reasonable steps necessary to protect the secrecy of such Confidential Information. Executive acknowledges and agrees that "Confidential Information" includes any data or information that is valuable to the Company and not generally known to competitors of the Company or other outsiders, regardless of whether the confidential information is in printed, written or electronic form, retained in Executive's memory or has been compiled or created by Executive, including but not limited to: business plans; product designs, drawings and formulas; test and development data; customer or prospective customer, vendor, supplier and distributor information; financial information; marketing strategies; pending projects and proposals; personnel and payroll records; pricing data; contract terms; proprietary production processes; third party information that the Company has a duty to maintain as confidential; and other business-related information, which, if made available to the Company's competitors or the public, would be advantageous to such competitors and detrimental to the Company. Executive agrees that Executive has not and in the future will not use, or disclose to any third party, Confidential Information, unless compelled by law after reasonable advance notice to the Company, and further agrees to return all documents, disks, CDs, DVDs, drives, storage devices or any other item or source containing Confidential Information, or any other of the Company's property, to the Company upon execution of this Agreement. If Executive has any question regarding what data or information would be considered by the Company to be Confidential Information subject to this provision, Executive agrees to contact _____.

10. This Agreement contains the complete understanding between the parties, with the sole and limited exception of the Plan and the Non-Compete, Non-Solicitation and Confidentiality agreement between the Company and Executive dated _____, 20____, which shall remain in full force and effect. The parties agree that no promises or agreements will be binding or will modify this understanding unless in writing and signed by both parties.

11. The terms of the TruTeam Dispute Resolution Policy, revised December 2010 (a copy of which has been provided to Executive), are incorporated into this Agreement and shall apply to any alleged or actual breaches of this Agreement or any other claims arising out of Executive's employment with the Company and its affiliates that are not otherwise released by this Agreement.

12. This Agreement may be executed in multiple counterparts, each of which will be considered an original, and all of which will be considered a single memorandum. If Executive signs a facsimile copy of this Agreement, Executive also will provide the Company with a conforming original copy.

13. The validity, construction, and interpretation of this Agreement and the rights and duties of the parties to this Agreement will be governed by the laws of the State of Florida, without regard to any state conflict of law rules.

The parties agree that they have read this Agreement, understand and agree to its terms, and have knowingly and voluntarily signed it on the dates written below.

EXECUTIVE

Dated: _____

By: _____

Name: _____

COMPANY

Dated: _____

TOPBUILD CORP.

By: _____

Name: _____

Title: _____

TOPBUILD CORP.

CHANGE IN CONTROL AND SEVERANCE AGREEMENT

This Change in Control and Severance Agreement (the "Agreement") is made and entered into by and between Gerald Volas ("Executive") and TopBuild Corp., a Delaware corporation (together with its subsidiaries and affiliates, the "Company"), effective as of March 1, 2016 (the "Effective Date").

RECITALS

1. The Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the resultant uncertainty as to Executive's responsibilities, compensation, or continued employment, may result in the departure or distraction of Executive, which may be detrimental to the financial performance of the Company.

2. The Board believes that it is in the best interests of the Company and its stockholders to (i) assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat, or occurrence of a Change in Control, and (ii) provide Executive with an incentive to continue Executive's employment prior to a Change in Control and to motivate Executive to maximize the value of the Company upon a Change in Control for the benefit of its stockholders.

3. The Board believes that it is important to the interest of the Company and its stockholders to provide Executive with certain severance benefits upon Executive's termination of employment under certain non-Change in Control circumstances.

4. Certain capitalized terms used in the Agreement are defined in Section 6 below.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Term of Agreement. This Agreement will continue until the first to occur of (i) Executive's forfeiture of the benefits as provided hereunder upon termination of employment with the Company, or (ii) if Executive becomes entitled to benefits under Section 3 during the term of this Agreement, the date that all of the obligations of the parties hereto with respect to this Agreement have been satisfied.

2. At-Will Employment. The Company and Executive acknowledge that Executive's employment is and will continue to be at-will, as defined under applicable law. As an at-will employee, either the Company or Executive may terminate the employment relationship at any time, with or without Cause.

3. Severance Benefits.

(a) Termination without Cause or Resignation for Good Reason, Unrelated to a Change in Control. If the Company terminates Executive's employment with the Company without Cause (excluding death or Disability) or if Executive resigns from such employment for Good Reason, and, in each case, such termination occurs outside of the Change in Control Period, then subject to Section 4, Executive will receive the following:

(i) Accrued Compensation. As soon as administratively feasible after Executive's termination of employment, the Company will pay Executive all accrued but unpaid vacation, expense reimbursements, wages, and other benefits due to Executive under any Company-provided plans, policies, and arrangements ("**Accrued Compensation**").

(ii) Severance Payment. Executive will receive a lump-sum payment equal to two (2) years of Executive's base salary at the annual rate in effect immediately prior to Executive's termination date. Such lump-sum amount shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4(c).

(iii) Bonus Payment. Executive will receive a lump-sum payment equal to two hundred percent (200%) of Executive's target bonus as in effect for the fiscal year in which Executive's termination of employment occurs. For avoidance of doubt, the amount paid to Executive pursuant to this subsection will not be prorated based on the actual amount of time Executive is employed by the Company during the fiscal year (or the relevant performance period if something different than a fiscal year) during which the termination occurs. Such lump-sum amounts shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4(c). In addition to the bonus payment described above, Executive will receive a lump-sum payment equal to the bonus for the fiscal year in which Executive's termination of employment occurs that Executive would have earned had the termination of employment not occurred, determined based on the actual achievement of performance criteria over such fiscal year. The bonus payment to Executive shall be calculated pro rata based on the portion of the fiscal year during which Executive was an active employee of the Company and shall be paid following the end of the fiscal year at the time bonus payments are made to active employees of the Company.

(iv) Continuation Coverage. If Executive elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), within the time period prescribed pursuant to COBRA for Executive and Executive's eligible dependents, then the Company will provide continuation of Executive's medical insurance coverage for twenty four (24) months. These benefits shall be provided by the Company to Executive beginning immediately upon the date of Executive's termination of employment. Such benefits shall be provided to Executive at the same coverage level and cost to Executive as in effect immediately prior to the date of Executive's termination of employment. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Company in good faith. For purposes of enforcing this provision, Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to be provided, to the Company in writing correct, complete, and timely information concerning the same.

Following the end of the COBRA continuation period, if such group health plan coverage is provided under a health plan that is subject to Code Section 105(h), the benefits payable under such health plan to Executive shall comply with the requirements of Treasury Regulation section 1.409A-3(i)(1)(iv) and, if necessary, the Company shall amend such health plan to comply therewith.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, the Company will report the value of the group health plan coverage (less any amount Executive pays for such coverage) as taxable income to Executive.

(v) Equity Awards. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement:

(i) Executive's then-outstanding and unvested stock options will become vested pro rata as of Executive's termination date based on the portion of the vesting period during which Executive was an active employee of the Company, and Executive's outstanding and vested stock options as of Executive's termination of employment date will remain exercisable until the three (3) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant;

(ii) Executive's then-outstanding and unvested performance shares will become vested pro rata as of Executive's termination date based on the portion of the vesting period during which Executive was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which Executive was an active employee of the Company and paid or delivered following the end of the relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and

(iii) Executive's then-outstanding and unvested restricted stock will become vested pro rata as of Executive's termination date based on the portion of the vesting period during which Executive was an active employee of the Company.

(b) Termination without Cause or Resignation for Good Reason, in Connection with a Change in Control. If the Company terminates Executive's employment with the Company without Cause (excluding death or Disability) or if Executive resigns from such employment for Good Reason, and, in each case, such termination occurs during the Change in Control Period, then subject to Section 4, Executive will receive the following:

(i) Accrued Compensation. As soon as administratively feasible after Executive's termination of employment, the Company will pay Executive the Accrued Compensation.

(ii) Severance Payment. Executive will receive a lump-sum payment equal to three (3) years of Executive's annual base salary as in effect immediately prior to Executive's termination date or, if greater, at the level in effect immediately prior to the Change in Control. Such lump-sum amount shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4(c).

(iii) Bonus Payment. Executive will receive a lump-sum payment equal to three hundred percent (300%) of the greater of (a) Executive's target bonus as in effect for the fiscal year in which the Change in Control occurs, or (b) Executive's target bonus as in effect for the fiscal year in which Executive's termination of employment occurs. For avoidance of doubt, the amount paid to Executive pursuant to this subsection will not be prorated based on the actual amount of time Executive is employed by the Company during the fiscal year (or the relevant performance period if something different than a fiscal year) during which the termination occurs. In addition to the bonus payment described above, Executive will receive a lump-sum payment equal to one hundred percent (100%) of Executive's target bonus as in effect for the fiscal year in which Executive's termination of employment occurs calculated pro rata based on the portion of the performance period during which Executive was an active employee of the Company. Such lump-sum amount shall be payable upon the later of: (A) sixty (60) days following termination of employment, or (B) such later date required by Section 4(c).

(iv) Continuation Coverage. If Executive elects continuation coverage pursuant to COBRA within the time period prescribed pursuant to COBRA for Executive and Executive's eligible dependents, then the Company will provide continuation of Executive's medical insurance coverage for thirty six (36) months. These benefits shall be provided by the Company to Executive beginning immediately upon the date of Executive's termination of employment. Such benefits shall be provided to Executive at the same coverage level and cost to Executive as in effect immediately prior to the date of Executive's termination of employment. Such benefits shall count as COBRA continuation coverage.

Notwithstanding the above, these medical insurance benefits shall be discontinued prior to the end of the stated continuation period in the event Executive receives substantially similar benefits from a subsequent employer, as determined solely by the Company in good faith. For purposes of enforcing this provision, Executive shall be deemed to have a duty to keep the Company informed as to the terms and conditions of any subsequent employment and the corresponding benefits earned from such employment, and shall provide, or cause to be provided, to the Company in writing correct, complete, and timely information concerning the same.

Following the end of the COBRA continuation period, if such group health plan coverage is provided under a health plan that is subject to Code Section 105(h), the benefits payable under such health plan to Executive shall comply with the requirements of Treasury Regulation section 1.409A-3(i)(1)(iv) and, if necessary, the Company shall amend such health plan to comply therewith.

In addition, no later than the end of each calendar year in which such group health plan coverage is in effect, the Company will report the value of the group

health plan coverage (less any amount Executive pays for such coverage) as taxable income to Executive.

(v) Accelerated Vesting of Equity Awards. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement:

(A) one hundred percent (100%) of Executive's then-outstanding and unvested stock options will become vested in full;

(B) one hundred percent (100%) of Executive's then-outstanding and unvested performance shares will become vested in full; provided, however, that if an outstanding performance share is to vest and/or the amount of the award to vest is to be determined based on the achievement of performance criteria, then the performance share will vest as to one hundred percent (100%) of the amount of the performance share assuming the performance criteria had been achieved at target levels for the relevant performance period(s); and

(C) one hundred percent (100%) of Executive's then-outstanding and unvested restricted stock will become vested in full.

(vi) Extended Post-Termination Exercise Period. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, Executive's outstanding and vested stock options as of Executive's termination of employment date will remain exercisable until the twelve (12) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant.

(vii) No Duplication of Benefits. For the avoidance of doubt, if (x) Executive incurred a termination prior to a Change in Control that qualifies Executive for severance payments under Section 3(a), and (y) a Change in Control occurs within the two (2)-month period following Executive's termination of employment that qualifies Executive for the superior benefits under this Section 3(b), then Executive shall be entitled to a lump-sum payment of the amount calculated under this Section 3(b), *less* amounts already paid under Section 3(a).

(c) Voluntary Resignation prior to Normal Retirement; Termination for Cause. If Executive's employment with the Company terminates (i) voluntarily by Executive (other than for Good Reason and prior to attainment of Normal Retirement under section (e) below), or (ii) for Cause by the Company, then Executive will irrevocably forfeit the benefits under this Agreement and will not be entitled to receive the severance or other benefits hereunder other than the Accrued Compensation. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon such resignation or termination for Cause:

(i) Forfeiture of Equity Awards. All outstanding and unvested Equity Awards will be immediately forfeited upon Executive's voluntary resignation or termination of employment for Cause.

(ii) Post-Termination Exercise Period. Upon Executive's resignation, Executive's outstanding and vested stock options as of Executive's termination of employment date will remain exercisable until the three (3) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant. Upon Executive's termination for Cause, Executive's outstanding and vested stock options shall not be exercisable as of Executive's termination of employment date.

(d) Disability; Death. If the Company terminates Executive's employment as a result of Executive's Disability, or Executive's employment terminates due to Executive's death, then Executive will irrevocably forfeit the benefits under this Agreement and will not be entitled to receive the severance or other benefits hereunder other than the Accrued Compensation. Notwithstanding any other provision in any applicable equity compensation plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon death or termination due to Disability:

(i) Accelerated Vesting of Equity Awards.

(A) One hundred percent (100%) of Executive's then-outstanding and unvested stock options will become vested in full;

(B) Executive's then-outstanding and unvested performance shares will become vested pro rata as of Executive's termination date based on the portion of the vesting period during which Executive was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which Executive was an active employee of the Company and paid or delivered following the end of the relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and

(C) one hundred percent (100%) of Executive's then-outstanding and unvested restricted stock will become vested in full.

(ii) Extended Post-Termination Exercise Period. Executive's outstanding and vested stock options as of Executive's termination of employment date will remain exercisable until the twelve (12) month anniversary of the termination of employment date; provided, however, that the post-termination exercise period for any individual stock option will not extend beyond the earlier of its original maximum term or the tenth (10th) anniversary of the original date of grant.

(e) Normal Retirement. If Executive resigns employment on or after attainment of age sixty-five (65) under circumstances other than those described in Sections 3.1(a) or (b) above, then Executive will irrevocably forfeit the benefits under this Agreement and will not be entitled to receive the severance or other benefits hereunder other than the Accrued Compensation. Notwithstanding any other provision in any applicable equity compensation

plan and/or individual award agreement, the following provisions shall apply with respect to grants of equity compensation upon termination on or after Normal Retirement Age:

(i) Accelerated Vesting of Equity Awards.

(A) Executive's then-outstanding and unvested performance shares will become vested pro rata as of Executive's termination date based on the portion of the vesting period during which Executive was an active employee of the Company; provided, however, that if an outstanding performance share is to be determined based on the achievement of performance criteria, then the performance share will be determined based on the actual performance and attainment of the performance criteria over the relevant performance period(s), but the performance share shall be calculated pro rata based on the portion of the performance period during which Executive was an active employee of the Company and paid or delivered following the end of the relevant performance period(s) in accordance with the provisions of any applicable equity compensation plan and/or individual award agreement; and

(B) one hundred percent (100%) of Executive's then-outstanding and unvested restricted stock will become vested in full.

(ii) Extended Post-Termination Exercise Period. Executive's outstanding stock options as of Executive's termination of employment date will vest in accordance with the terms of the applicable award agreement, but will remain exercisable until the earlier of the original maximum term or the tenth (10th) anniversary of the original date of grant.

(f) Equity Awards Granted for Performance Prior to 2016. The provisions of this Agreement related to Equity Awards shall apply only with respect to Equity Awards granted for performance on or after January 1, 2016. Notwithstanding any provision of this Agreement to the contrary, Equity Awards granted to Executive with respect to performance on or before December 31, 2015 shall be governed by the provisions of any applicable agreement between Executive and the Company or a predecessor of the Company.

(g) Exclusive Remedy. In the event of a termination of Executive's employment as set forth in Section 3 of this Agreement, the provisions of Section 3 are intended to be and are exclusive and in lieu of any other rights to severance pay or remedies to which Executive otherwise may be entitled, whether at law, tort or contract, in equity, or under this Agreement (other than the payment of accrued but unpaid wages, as required by law, and any unreimbursed reimbursable expenses).

4. Conditions to Receipt of Severance

(a) Release of Claims Agreement. The receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to this Agreement is subject to Executive signing and not revoking a separation agreement and release of claims in substantially the form attached hereto as Exhibit A (the "**Release**"), which must become effective and irrevocable no later than the sixtieth (60th) day following Executive's termination of employment (the "**Release Deadline**"). If the Release does not become

effective and irrevocable by the Release Deadline, Executive will forfeit any right to severance payments or benefits under this Agreement. In no event will severance payments or benefits be paid or provided until the Release actually becomes effective and irrevocable.

(b) Confidential Information and Invention Assignment Agreements. The receipt of any severance payments or benefits (other than the Accrued Compensation) pursuant to this Agreement is subject to Executive signing, concurrent with the execution of this Agreement, the Non-Compete, Non-Solicitation and Confidentiality Agreement in substantially the form attached hereto as Exhibit B.

(c) Section 409A.

(i) Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits to be paid or provided to Executive, if any, pursuant to this Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Code, and the final regulations and any guidance promulgated thereunder ("**Section 409A**") (together, the "**Deferred Payments**") will be paid or otherwise provided until Executive has a "separation from service" within the meaning of Section 409A. Similarly, no severance payable to Executive, if any, pursuant to this Agreement that otherwise would be exempt from Section 409A will be payable until Executive has a "separation from service" within the meaning of Section 409A.

(ii) It is intended that, to the maximum extent permitted under Code Section 409A, none of the severance payments under this Agreement will constitute Deferred Payments but rather will be exempt from Section 409A as a payment that would fall within the "short-term deferral period" as described in Section 4(c)(iv) below or resulting from an involuntary separation from service as described in Section 4(c)(v) below. However, any severance payments or benefits under this Agreement that would be considered Deferred Payments will be paid on, or, in the case of installments, will not commence until, the sixtieth (60th) day following Executive's separation from service, or, if later, such time as required by Section 4(c)(iii). Except as required by Section 4(c)(iii), any installment payments that would have been made to Executive during the sixty (60) day period immediately following Executive's separation from service but for the preceding sentence will be paid to Executive on the sixtieth (60th) day following Executive's separation from service and the remaining payments will be made as provided in this Agreement.

(iii) Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's termination (other than due to death), then the Deferred Payments, if any, that are payable within the first six (6) months following Executive's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's separation from service, but before the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Payments will be payable in accordance with the payment

schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute a separate payment under Section 1.409A-2(b)(2) of the Treasury Regulations.

(iv) Any amount paid under this Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments for purposes of clause (i) above.

(v) Any amount paid under this Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute Deferred Payments for purposes of clause (i) above.

(vi) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition before actual payment to Executive under Section 409A.

5. Limitation on Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s benefits under Section 3 will be either:

(a) delivered in full, or

(b) delivered as to such lesser extent which would result in no portion of such benefits being subject to excise tax under Section 4999 of the Code,

whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in severance and other benefits constituting “parachute payments” is necessary so that benefits are delivered to a lesser extent, reduction will occur in the following order: (i) reduction of cash payments; (ii) cancellation of awards granted “contingent on a change in ownership or control” (within the meaning of Code Section 280G), (iii) cancellation of accelerated vesting of equity awards; (iv) reduction of employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting will be cancelled in the reverse order of the date of grant of Executive’s equity awards.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5 will be made in writing by the Company’s independent public accountants immediately prior to a Change in Control or such other person or entity to which the parties mutually agree (the “*Firm*”), whose determination will be conclusive and binding upon Executive and the Company. For purposes of making the calculations required by this Section 5, the Firm may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The

Company and Executive will furnish to the Firm such information and documents as the Firm may reasonably request in order to make a determination under this Section. The Company will bear all costs the Firm may incur in connection with any calculations contemplated by this Section 5.

6. Definition of Terms. The following terms referred to in this Agreement will have the following meanings:

(a) Cause. “**Cause**” will mean:

(i) Executive’s material failure to perform Executive’s stated duties, and Executive’s continued failure to cure such failure to the reasonable satisfaction of the Company within ten (10) days following written notice of such failure to Executive from the Board;

(ii) Executive’s material violation of a Company policy (including any insider trading policy) or any written agreement or covenant with the Company;

(iii) Executive’s conviction of, or entry of a plea of guilty or *nolo contendere* to, a felony (other than motor vehicle offenses the effect of which do not materially impair Executive’s performance of his employment duties);

(iv) a willful act by Executive that constitutes gross misconduct and which is injurious to the Company;

(v) Executive’s commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to the Company;

(vi) the unauthorized use or disclosure by Executive of any proprietary information or trade secrets of the Company or any other party to whom Executive owes an obligation of nondisclosure as a result of Executive’s relationship with the Company; or

(vii) Executive’s willful failure to cooperate with an investigation by a governmental authority.

The determination as to whether Executive is being terminated for Cause will be made in good faith by the Board and will be final and binding on Executive. The foregoing definition does not in any way limit the Company’s ability to terminate Executive’s employment relationship at any time as provided in Section 2 above, and the term “Company” will be interpreted to include any subsidiary, parent, affiliate or successor thereto, if applicable.

(b) Change in Control. “**Change in Control**” means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“**Person**”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than thirty percent (30%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than thirty percent (30%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, more than thirty percent (30%) of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction.

(c) Change in Control Period. "**Change in Control Period**" will mean the period beginning two (2) months prior to, and ending twenty-four (24) months following, a Change in Control.

(d) Code. "**Code**" will mean the Internal Revenue Code of 1986, as amended.

(e) Disability. "**Disability**" will mean that Executive has been unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months. Alternatively, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration. Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate Executive's employment. In the event that

Executive resumes the performance of substantially all of Executive's duties hereunder before the termination of Executive's employment becomes effective, the notice of intent to terminate based on Disability will automatically be deemed to have been revoked.

(f) Equity Awards. "*Equity Awards*" will mean Executive's outstanding stock options, stock appreciation rights, restricted stock units, performance shares, performance stock units and any other Company equity compensation awards.

(g) Good Reason. "*Good Reason*" will mean Executive's voluntary termination, within thirty (30) days following the expiration of any Company cure period (discussed below) following the occurrence of one or more of the following, without Executive's consent:

(i) a material reduction of Executive's authority, duties or responsibilities, relative to Executive's authority, duties or responsibilities in effect immediately prior to such reduction;

(ii) a material reduction by the Company of Executive's annual base salary as in effect immediately prior to such reduction;

(iii) the failure of the Company to obtain assumption of this Agreement by any successor; or

(iv) a material change in the geographic location of Executive's principal workplace; provided, that a relocation of less than fifty (50) miles from the Company's headquarters will not be considered a material change in geographic location.

Executive may not resign for Good Reason without first providing the Company with written notice within ninety (90) days of the initial existence of the Good Reason condition specifically identifying the acts or omissions constituting the grounds for Good Reason and a reasonable cure period of not less than thirty (30) days following the date of such notice.

(h) Section 409A Limit. "*Section 409A Limit*" will mean two (2) times the lesser of: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during Executive's taxable year preceding Executive's taxable year of Executive's termination of employment as determined under, and with such adjustments as are set forth in, Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's employment is terminated.

7. Successors.

(a) The Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets will assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" will include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this Section 7(a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Executive's Successors. The terms of this Agreement and all rights of Executive hereunder will inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Notice.

(a) General. Notices and all other communications contemplated by this Agreement will be in writing and will be deemed to have been duly given when sent electronically or personally delivered, when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid, or when delivered by a private courier service such as UPS, DHL or Federal Express that has tracking capability. In the case of Executive, notices will be sent to the e-mail address or addressed to Executive at the home address, in either case which Executive most recently communicated to the Company in writing. In the case of the Company, electronic notices will be sent to the e-mail address of the Chief Executive Officer or the General Counsel and mailed notices will be addressed to its corporate headquarters, and all notices will be directed to the attention of its Chief Executive Officer or General Counsel.

(b) Notice of Termination. Any termination by the Company for Cause or by Executive for Good Reason will be communicated by a notice of termination to the other party hereto given in accordance with Section 8(a) of this Agreement. Such notice will indicate the specific termination provision in this Agreement relied upon, will set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and will specify the termination date (which will be not more than ninety (90) days after the giving of such notice).

9. Resignation. Upon the termination of Executive's employment for any reason, Executive will be deemed to have resigned from all officer and/or director positions held at the Company and its affiliates voluntarily, without any further required action by Executive, as of the end of Executive's employment, and Executive, at the Board's request, will execute any documents reasonably necessary to reflect Executive's resignation.

10. Dispute resolution. The terms of the TruTeam Dispute Resolution Policy, revised December 2010 (a copy of which has been provided to Executive), are incorporated into this Agreement by reference and shall apply to any alleged or actual breaches of this Agreement or any other claims or disputes arising out of this Agreement.

11. Miscellaneous Provisions.

(a) No Duty to Mitigate. Executive will not be required to mitigate the amount of any payment contemplated by this Agreement, nor will any such payment be reduced by any earnings that Executive may receive from any other source.

(b) Waiver. No provision of this Agreement will be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party will be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

(d) Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto and supersedes in their entirety all prior representations, understandings, undertakings or agreements (whether oral or written and whether express or implied) of the parties with respect to the subject matter hereof. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto and which specifically mention this Agreement.

(e) Choice of Law. The validity, interpretation, construction and performance of this Agreement will be governed by the laws of the State of Florida, without regard to any state conflict of law rules. Any claims or legal actions by one party against the other arising out of the relationship between the parties contemplated herein (whether or not arising under this Agreement) will be commenced or maintained in any state or federal court located in the jurisdiction where the Company is headquartered, and Executive and the Company hereby submit to the jurisdiction and venue of any such court.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision hereof, which will remain in full force and effect.

(g) Tax Withholding: Representations. All payments made pursuant to this Agreement will be subject to withholding of applicable income, employment and other taxes. The Company does not represent or guarantee that any particular federal, state or local income, payroll or other tax treatment will result from this Agreement or the benefits provided hereunder. Executive assumes full responsibility for all of Executive's portion of federal, state and local taxes arising from the benefits provided hereunder and agrees to indemnify and hold the Company and the Company's affiliated and parent companies harmless from any and all tax consequences, including interest and/or penalties, related to taxes owed and payable by Executive.

(h) Counterparts. This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

[Remainder of page intentionally left blank; signature page to follow]

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year set forth below.

EXECUTIVE

Dated: March 1, 2016

By: /s/ Gerald Volas

Name: Gerald Volas

COMPANY

Dated: March 1, 2016

TOPBUILD CORP.

By: /s/ Alec Covington

Name: Alec Covington

Title: Chairman of the Board

EXHIBIT A

SEVERANCE AGREEMENT, WAIVER AND RELEASE

The parties to this Severance Agreement, Waiver and Release (this "Agreement"), Gerald Volas ("Executive") and _____, its affiliates, parents, successors, predecessors, and subsidiaries (collectively, the "Company") agree that:

Executive and the Company wish to end their at-will employment relationship effective _____ in a manner that is satisfactory to both Executive and the Company.

Executive and the Company, for the good and valuable consideration stated below, the sufficiency of which is acknowledged, agree as follows:

1. In exchange for the Company's promises in this Agreement, Executive, including Executive's heirs, administrators, executors, spouse, if any, successors, estate, representatives and assigns and all others claiming by or through Executive, voluntarily and knowingly releases the Company, its parent companies, their subsidiaries, divisions, affiliates, related companies, predecessors, successors, partners, members, directors, officers, trustees, employees, independent contractors, consultants, stockholders, owners, attorneys, agents, benefit plans, subrogees, insurers, representatives and assigns, whether alleged to have acted in their official capacities or personally (collectively, the "Released Parties"), completely and forever, from any and all claims, causes of action, suits, contracts, promises, or demands of any kind, which Executive may now have, whether known or unknown, intentional or otherwise, from the beginning of time to the Effective Date of this Agreement, with the sole and limited exception of the rights and claims reserved in Paragraph 2. The Effective Date of this Agreement is the date it is signed by Executive.

2. Executive understands and agrees that this Agreement covers all claims described in Paragraph 1, including, but not limited to, any alleged violation of the Civil Rights Act of 1991; Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act; the Employee Retirement Income Security Act; the Worker Adjustment and Retraining Notification Act; the Family and Medical Leave Act; **the Age Discrimination in Employment Act as amended by the Older Workers Benefit Protection Act**; the Fair Labor Standards Act, to the extent permitted by law; the Occupational Safety and Health Act of 1970; and any other federal, state or local civil, labor, pension, wage-hour or human rights law, including [insert references to applicable state and local statutes], federal or state public policy, damages, contract or tort law; any claim arising under federal or state common law, including, but not limited to, constructive or wrongful discharge or intentional or negligent infliction of emotional distress; and any claim for costs or attorney's fees.

This Agreement does not include, and Executive does not waive, any rights or claims: (1) which may arise after Executive signs this Agreement; (2) for alleged workplace injuries or occupational disease that arise under any state's workers' compensation laws; (3) for benefits in which Executive has a vested right under any pension plans; (4) which cannot be released by law; (5) to enforce this Agreement; or (6) to participate in any proceedings before an administrative agency responsible for enforcing labor and/or employment laws, (e.g., the Equal Employment Opportunity Commission). Executive agrees, however, to waive and release any right to receive any monetary award from such proceedings. Nothing in this Agreement shall be construed to limit Executive's right to respond accurately and fully to any question, inquiry or request for information when required by legal process or from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or state or federal

regulatory authority, regarding the Company, Executive's employment, or this Agreement. Executive is not required to contact the Company regarding the subject matter of any such communications before engaging in such communications

3. Except as set forth in Paragraph 2, Executive agrees to keep the terms of this Agreement confidential and not to disclose the terms of this Agreement to any third party at any time, other than to Executive's attorneys, taxing authorities, accountants, or as otherwise required by law. Executive agrees to use Executive's best efforts to ensure that the terms of this Agreement are kept confidential by Executive's spouse, heirs, assigns, attorneys, etc. Executive is not prohibited from disclosing the terms of this Agreement to Executive's spouse, if any, attorney, if any, or accountant, in a proceeding to enforce its terms, or as otherwise required by law or court order.

4. In exchange for Executive's promises contained herein, the Company agreed to provide Executive the benefits set forth in the Change in Control and Severance Agreement, dated _____ ("CIC Agreement") subject to the provisions of that Agreement.

5. The parties agree that if any provision of this Agreement is declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, including the general release language, the provision declared illegal or unenforceable will immediately become null and void, leaving the remainder of this Agreement in full force and effect.

6. Executive declares and expressly warrants that Executive is not Medicare eligible, that Executive is not a Medicare beneficiary, and that Executive is not within 30 months of becoming Medicare eligible; that Executive is not 65 years of age or older; that Executive is not suffering from end stage renal failure or amyotrophic lateral sclerosis; that Executive has not received Social Security benefits for 24 months or longer; and/or that Executive has not applied for Social Security benefits, and/or has not been denied Social Security disability benefits and is not appealing any denial of Social Security disability benefits.

Executive affirms, covenants and warrants that Executive has made no claim for illness or injury against, nor is Executive aware of any facts supporting any claim against, the Released Parties under which the Released Parties could be liable for medical expenses incurred by Executive before or after the execution of this Agreement. Because Executive is not a Medicare recipient as of the date of this release, Executive is aware of no medical expenses that Medicare paid and for which the Released Parties are or could be liable now or in the future. Executive agrees and affirms that, to the best of Executive's knowledge, no liens of any governmental entities, including those for Medicare conditional payments, exist.

7. In compliance with the Older Workers Benefit Protection Act, Executive is hereby advised to consult with an attorney regarding the terms, meaning and impact of this Agreement. In addition, Executive understands and agrees that: (a) by signing this Agreement, Executive waives and releases any claims Executive might have against any of the Released Parties, including, but not limited to, any claims under the Age Discrimination in Employment Act of 1967; (b) Executive has twenty one (21) days from the date of receipt of this Agreement to consider whether or not to execute this Agreement, which Executive waives by virtue of Executive's execution of the Agreement during the consideration period; and (c) after Executive signs this Agreement and it becomes effective, Executive has seven days from that date to change Executive's mind and revoke the Agreement. To revoke the Agreement, Executive must clearly communicate Executive's decision in writing to _____ by the seventh day following the Effective Date of this Agreement. Executive understands and agrees that should Executive revoke Executive's release and waiver as to claims under the Age Discrimination

in Employment Act of 1967, as amended, the Company's obligations under this Agreement and the CIC Agreement will become null and void.

8. Executive agrees that Executive will not, in any way, disparage the Company or any of the Released Parties. Further, Executive and the Company agree that they will not make, nor solicit, any comments, statements, or the like to the media, or to others, that may be considered to be derogatory or detrimental to the good name or business reputation of Executive or the Company.

9. Executive acknowledges that, through Executive's employment with the Company, Executive has acquired and had access to the Company's confidential and proprietary business information and trade secrets ("Confidential Information"). Executive acknowledges and agrees that the Company prohibits the use or disclosure of its Confidential Information and that the Company has taken all reasonable steps necessary to protect the secrecy of such Confidential Information. Executive acknowledges and agrees that "Confidential Information" includes any data or information that is valuable to the Company and not generally known to competitors of the Company or other outsiders, regardless of whether the confidential information is in printed, written or electronic form, retained in Executive's memory or has been compiled or created by Executive, including but not limited to: business plans; product designs, drawings and formulas; test and development data; customer or prospective customer, vendor, supplier and distributor information; financial information; marketing strategies; pending projects and proposals; personnel and payroll records; pricing data; contract terms; proprietary production processes; third party information that the Company has a duty to maintain as confidential; and other business-related information, which, if made available to the Company's competitors or the public, would be advantageous to such competitors and detrimental to the Company. Executive agrees that Executive has not and in the future will not use, or disclose to any third party, Confidential Information, unless compelled by law after reasonable advance notice to the Company, and further agrees to return all documents, disks, CDs, DVDs, drives, storage devices or any other item or source containing Confidential Information, or any other of the Company's property, to the Company upon execution of this Agreement. If Executive has any question regarding what data or information would be considered by the Company to be Confidential Information subject to this provision, Executive agrees to contact _____.

10. This Agreement contains the complete understanding between the parties, with the sole and limited exception of the CIC Agreement and the Non-Compete, Non-Solicitation and Confidentiality agreement between the Company and Executive dated the same date as the CIC Agreement, which shall remain in full force and effect. The parties agree that no promises or agreements will be binding or will modify this understanding unless in writing and signed by both parties.

11. The terms of the TruTeam Dispute Resolution Policy, revised December 2010 (a copy of which has been provided to Executive), are incorporated into this Agreement and shall apply to any alleged or actual breaches of this Agreement or any other claims arising out of Executive's employment with the Company and its affiliates that are not otherwise released by this Agreement.

12. This Agreement may be executed in multiple counterparts, each of which will be considered an original, and all of which will be considered a single memorandum. If Executive signs a facsimile copy of this Agreement, Executive also will provide the Company with a conforming original copy.

13. The validity, construction, and interpretation of this Agreement and the rights and duties of the parties to this Agreement will be governed by the laws of the State of Florida, without regard to any state conflict of law rules.

The parties agree that they have read this Agreement, understand and agree to its terms, and have knowingly and voluntarily signed it on the dates written below.

EXECUTIVE

Dated: _____

By: _____

Name: Gerald Volas

COMPANY

Dated: _____

TOPBUILD CORP.

By: _____

Name: _____

Title: _____

EXHIBIT B

NON-COMPETE, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT

This NON-COMPETE, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT (“Agreement”) between Gerald Volas (“Executive”) and TopBuild Corp. (together with its Affiliates, the “Company”), is effective as of March 1, 2016.

Background

A. The Company and its Affiliates are engaged in the business of selling, distributing and installing a wide range of products for new residential and commercial construction and existing home improvement projects throughout the United States, including, but not limited to insulation, gutters, fireplaces and fire doors. The Company’s business depends upon the preservation of goodwill and continued confidentiality of proprietary information and trade secrets.

B. The Company wishes to employ Executive on an at-will basis as Chief Executive Officer, and Executive wishes to be so employed by the Company in this capacity.

C. The Company will train Executive in its business, and in carrying out Executive’s duties, Executive will become familiar with the Company’s confidential information and trade secrets and will acquire experience, skills and knowledge related to the Company’s business.

D. The parties agree that this Agreement is necessary to safeguard against the unauthorized disclosure or use of the Company’s confidential information and to preserve its goodwill and ongoing business value.

THEREFORE, in consideration of Executive’s employment by the Company and the benefits provided under the Change in Control and Severance Agreement between the Company and Executive of even date herewith (“CIC Agreement”), subject to the terms of the CIC Agreement, the Company’s willingness to disclose certain confidential information to Executive, the mutual promises contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

NON-DISCLOSURE

1. Confidential Information. Executive acknowledges that the Company has certain trade secrets and other confidential and proprietary information which it has acquired and developed, and will acquire and develop, at great effort and expense. Such information includes, without limitation, confidential information, whether in tangible or intangible form, regarding the Company’s products, services, marketing strategies, business plans, operations, costs, current or prospective customer information (including customer lists, requirements, creditworthiness, preferences and similar matters), product concepts, designs, specifications, research and development efforts, technical data and know-how, sales information (including pricing and other terms and conditions of sale), financial information, internal procedures, techniques, forecasts, methods, trade information, software programs, project requirements, inventions, trademarks, trade names, and all other information which is not generally known to those outside the Company (collectively, “Confidential Information”). Confidential Information does not include information that is or becomes available to

the public other than as a result of disclosure by Executive.

2. Restricted Use of Confidential Information. In the course of Executive's employment, Executive will have access to and may help develop Confidential Information. Except as required in the performance of Executive's duties, Executive will not, either during Executive's employment or at any time thereafter, disclose any Confidential Information to others or use the Confidential Information for Executive's own benefit or for the benefit of others. All records, files, and documents relating to the Company's business shall remain the sole property of the Company and may not be copied without written permission. Upon the termination of Executive's employment, Executive agrees to promptly return all records, files, documents and other materials relating to the Company's business, whether in hard copy or electronic format. Executive shall not retain copies of such materials.

3. Nothing in this Agreement shall be construed to limit Executive's right to respond accurately and fully to any question, inquiry or request for information when required by legal process or from initiating communications directly with, or responding to any inquiry from, or providing testimony before, any self-regulatory organization or state or federal regulatory authority, regarding the Company, Executive's employment, or this Agreement. Executive is not required to contact the Company regarding the subject matter of any such communications before engaging in such communications

NON-SOLICITATION AND NON-COMPETITION

4. Need for Covenants. Executive understands that the Company has spent and will continue to spend substantial amounts of time, money and effort to develop its business, Confidential Information, reputation, goodwill (both associated with its trade name and geographic area of business), and its customer, supplier and employee relationships. Executive further understands that Executive will benefit from those investments and efforts. Executive acknowledges that Executive's use of any such matters to compete against the Company in an unrestricted manner would be unfair and detrimental to the Company. Executive agrees that taking advantage of any of the above-identified investments of time, money or effort expended by the Company would unfairly place the Executive at a competitive advantage over Company. Executive further acknowledges the Company's need to protect its business interests by reasonably restricting Executive's ability to compete with the Company. Finally, Executive acknowledges that the Company would not employ, or continue to employ, Executive, or enter into the CIC Agreement, without Executive's agreement to be bound by the provisions of this Agreement.

5. Definitions.

- (a) "Affiliate" means, as to any person or entity, any other person or entity (i) that directly or indirectly controls, is controlled by, or is under direct or indirect common control with, such person or entity or (ii) that has the power directly or indirectly to direct or cause the direction of the management and policies of such person or entity, through the ownership of voting securities, by contract or otherwise.
- (b) "Competitive Capacity" means performing the same or similar duties as those performed by Executive on behalf of the Company at any time during the 24 month period preceding the date of Executive's termination of employment.

- (c) “Competitive Products” means any product or service offered by the Company in the Territory or any product or service that directly or indirectly competes with or is substantially similar to such product or service. For illustrative purposes, these products may include insulation distribution and installation.
 - (d) “Competitor” means any person or entity (including Executive or an entity that Executive becomes affiliated with or renders services to) that offers, or is actively planning to offer, Competitive Products within the Territory.
 - (e) “Customer” means all customers and actively sought prospective customers of the Company with whom Executive had material contact in the performance of Executive’s duties at any time during the 24 month period preceding the date of Executive’s termination of employment.
 - (f) “Territory” means the United States of America.
 - (g) “Restricted Period” means the period of Executive’s employment with the Company or an Affiliate and for a period of 18 months following date of Executive’s termination of employment for any reason, whether voluntary or involuntary.
 - (h) “Directly or indirectly” means conduct taken individually, through other individuals, or as a partner, shareholder, member, officer, director, manager, employee, salesperson, independent contractor, agent, or consultant for any other individual or entity.
6. Non-Solicitation/Non-Interference. During the Restricted Period, Executive shall not, either for Executive’s own account or for or on behalf of any Competitor, directly or indirectly, take any of the following actions:
- (a) Contact or otherwise solicit any employee, consultant, or independent contractor of the Company with the intention of encouraging such person to terminate his or her employment or other relationship with the Company, or employ or otherwise hire or engage any such person;
 - (b) Solicit, call upon, accept work and/or orders for product from, or initiate communication or contact with any Customer for the purpose of offering Competitive Products to such Customer, or otherwise offer Competitive Products to such Customer;
 - (c) Solicit, call upon or initiate communication or contact with any Customer, vendor or supplier of the Company for the purpose of encouraging such person to terminate, place elsewhere or reduce the volume of its business with the Company; or
 - (d) Otherwise attempt to directly or indirectly interfere with the Company’s business or its relationships with its employees, independent contractors, vendors, suppliers or Customers.
7. Non-Competition. During the Restricted Period, Executive shall not, either for

Executive's own account or for or on behalf of any Competitor, directly or indirectly, take any of the following actions:

- (a) (i) Have an ownership or financial interest in a Competitor, (ii) advise or consult with a Competitor concerning competitive activity in the Territory, or (iii) otherwise be employed by or provide services in a Competitive Capacity to a Competitor in the Territory;
- (b) Engage in the production, sale or distribution of Competitive Products in the Territory; or
- (c) Market, sell, or otherwise offer or provide Competitive Products in the Territory .

GENERAL PROVISIONS

8. Survival/Independent Agreement. Unless expressly set forth in a document signed by both parties, the restrictive covenants set forth herein shall survive the termination of this Agreement and the termination of Executive's employment for any reason, voluntary or involuntary. Executive's obligations hereunder are independent of Executive's employment. Any breach or alleged breach by the Company of any obligation to Executive shall not affect the binding nature of Executive's obligations under this Agreement or excuse or terminate Executive's obligations hereunder.

9. Scope. If any provision of this Agreement is found to be invalid in any jurisdiction, in whole or in part, such provision shall remain valid in all other jurisdictions. If any court determines that any provision of this Agreement is unenforceable because of the duration or scope of such provision, such provision shall not be rendered void, and such court shall have the power to amend the scope or duration of such provision, and in its amended form, such provision shall remain in full force and effect. If any provision of this Agreement is found to be void or unenforceable for any reason, all remaining provisions of this Agreement shall remain in full force and effect.

10. Specific Enforcement/Injunctive Relief. Executive agrees that it would be difficult to measure the Company's damages from a breach or threatened breach of this Agreement by Executive, but that such breach or threatened breach could result in damages that would be significant and irreparable. Executive agrees that the Company shall be entitled, in addition to any other remedies available at law, to seek injunctive or other equitable relief against such breach or threatened breach. If the Company prevails in any action brought to enforce this Agreement, the Company shall be entitled to costs and attorneys' fees incurred by it in such action. Notwithstanding any agreements to arbitrate disputes, the parties agree that a temporary restraining order, temporary injunctive relief, or permanent injunctive relief may be pursued and secured in court under Paragraph 10 to prevent immediate harm without waiving any party's ability to have all issues of final relief and damages made subject to sole and exclusive arbitration procedures.

11. Miscellaneous. The headings contained in this Agreement are for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

12. Governing Law. This Agreement shall be governed by the laws of the State of Florida, without regard to conflicts of law provisions.

13. Amendments: Assignments. No modification, amendment, extension or waiver of this Agreement shall be binding unless in writing and signed by the parties. The waiver by the Company of a breach of this Agreement shall not be construed as a waiver of any subsequent breach. Nothing in this Agreement shall be construed as a limitation upon the Company's right to modify or amend any of its manuals or policies in its sole discretion. This Agreement shall inure to the benefit of, and be binding upon the parties and their heirs, administrators, successors and assigns, and may be assigned by the Company to its successors and assigns and Affiliates. Executive may not assign any rights or obligations hereunder without the written consent of the Company.

14. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements between the parties in connection with the subject matter.

IN WITNESS WHEREOF, the parties have signed this Agreement effective as of the day and year first above written.

EXECUTIVE

Dated: _____

By: _____

Name: Gerald Volas

COMPANY

Dated: _____

TOPBUILD CORP.

By: _____

Name: _____

Title: _____

TOPBUILD**TERMS AND CONDITIONS OF PERFORMANCE
RESTRICTED STOCK AWARDS GRANTED UNDER THE
TOPBUILD 2015 LONG TERM STOCK INCENTIVE PLAN**

These Terms and Conditions apply to an award to you of performance-based restricted stock (the "Grant") by TopBuild Corp. (the "Company"). The grant date, number of shares and performance and time vesting conditions and dates ("Grant Information") are set forth in Appendix A hereto and under "Restricted Awards/Units" tab located under the "Grants & Awards" heading of your dashboard at the Computershare website, and are incorporated herein by reference. By pressing "Acknowledge Grant" and "I agree" you agree to accept the Grant, and you voluntarily agree to these Terms and Conditions and the provisions of the 2015 Long Term Stock Incentive Plan (as adopted effective June 30, 2015, the "Plan"), and acknowledge that:

- You have read and understand these Terms and Conditions, and are familiar with the provisions of the Plan.
- You have received or have access to all of the documents referred to in these Terms and Conditions.
- All of your rights to the Grant are embodied in these Terms and Conditions and in the Plan, and there are no other commitments or understanding currently outstanding with respect to any other grants of options, restricted stock, except as may be evidenced by agreements duly executed by you and the Company.

You and the Company agree that all of the terms and conditions of the Grant (including the Grant Information) are set forth in these Terms and Conditions and in the Plan. These Terms and Conditions together with the Grant Information constitute your restricted stock award agreement (the "Agreement"). Please read these documents and the related Participation Guide/Prospectus carefully. Copies of the Plan, the Participation Guide/Prospectus dated February, 2016, and information about the Company are available in the "Documents" and "News Headlines" sections of www.computershare.com/employee/us.

The use of the words "employment" or "employed" shall be deemed to refer to employment by the Company and its subsidiaries and shall not include employment by an "Affiliate" (as defined in the Plan) which is not a subsidiary of the Company unless the Committee so determines at the time such employment commences.

Certificates for the shares of stock evidencing the Restricted Shares (as defined in the Plan) will not be issued but the shares will be registered in your name in book entry form promptly after your acceptance of this award. You will be entitled to vote and, to the extent permitted by company policy, receive any cash dividends (net of required tax withholding) on the Restricted Shares but you will not be able to obtain a stock certificate or sell, encumber or otherwise transfer the shares until the shares have been earned except in accordance with the Plan.

Provided you have been continuously employed by the Company since the date of the Grant, the restrictions on the shares will lapse and the final number of shares of stock awarded will be determined in accordance with the terms of Section 6(e) of the Plan and Appendix A.

If your employment should be terminated by reason of your permanent and total disability, death, retirement, or other termination, while Restricted Shares remain unvested the amounts of any payments due under this agreement will be determined in accordance with Sections 6(d)(iv), (v), (g), and (h) of the Plan and Company policy.

You agree not to engage in certain activities.

Notwithstanding the foregoing, if at any time you engage in an activity following your termination of employment which in the sole judgment of the Committee is detrimental to the interests of the Company, a subsidiary or affiliated company, all Restricted Shares for which restrictions have not lapsed will be forfeited to the Company. You acknowledge that such activity includes, but is not limited to, "Business Activities" (as defined below).

In addition you agree, in consideration for the Grant, and regardless of whether restrictions on shares subject to the Grant have lapsed, while you are employed or retained as a consultant by the Company or any of its subsidiaries and for a period of one year following any termination of your employment and, if applicable, any consulting relationship with the Company or any of its subsidiaries other than a termination in connection with a Change in Control (as defined in the Plan), not to engage in, and not to become associated in a "Prohibited Capacity" (as hereinafter defined) with any other entity engaged in, any Business Activities and not to encourage or assist others in encouraging any employee of the Company or any of its subsidiaries to terminate employment or to become engaged in any such Prohibited Capacity with an entity engaged in any Business Activities. "Business Activities" shall mean the design, development, manufacture, sale, marketing or servicing of any product or providing of services competitive with the products or services of (x) the Company or any subsidiary if you are employed by or consulting with the Company at any time while the Grant is outstanding, or (y) the subsidiary employing or retaining you at any time while the Grant is outstanding, to the extent such competitive products or services are distributed or provided either (1) in the same geographic area as are such products or services of the Company or any of its subsidiaries, or (2) to any of the same customers as such products or services of the Company or any of its subsidiaries are distributed or provided. "Prohibited Capacity" shall mean being associated with an entity as an employee, consultant, investor or another capacity where (1) confidential business information of the Company or any of its subsidiaries could be used in fulfilling any of your duties or responsibilities with such other entity, (2) any of your duties or responsibilities are similar to or include any of those you had while employed or retained as a consultant by the Company or any of its subsidiaries, or (3) an investment by you in such other entity represents more than 1% of such other entity's capital stock, partnership or other ownership interests.

Should you breach any of the restrictions contained in the preceding paragraph, by accepting this Grant you agree, independent of any equitable or legal remedies that the Company may have and without limiting the Company's right to any other equitable or legal remedies, to pay to the Company in cash immediately upon the demand of the Company (1) the amount of

income realized for income tax purposes from this Grant, net of all federal, state and other taxes payable on the amount of such income, but only to the extent such income is realized from restrictions lapsing on shares on or after your termination of employment or, if applicable, any consulting relationship with the Company or its subsidiary or within the two year period prior to the date of such termination, plus (2) all costs and expenses of the Company in any effort to enforce its rights under this or the preceding paragraph. The Company shall have the right to set off or withhold any amount owed to you by the Company or any of its subsidiaries or affiliates for any amount owed to the Company by you hereunder.

You agree to the application of the Company's Dispute Resolution Policy.

Section 3 of the Plan provides, in part, that the Committee shall have the authority to interpret the Plan and Grant agreements, and decide all questions and settle all controversies and disputes relating thereto. It further provides that the determinations, interpretations and decisions of the Committee are within its sole discretion and are final, conclusive and binding on all persons. In addition, you and the Company agree that if for any reason a claim is asserted against the Company or any of its subsidiaries or affiliated companies or any officer, employee or agent of the foregoing (other than a claim involving non-competition restrictions or the Company's, a subsidiary's or an affiliated company's trade secrets, confidential information or intellectual property rights) which (1) are within the scope of the Company's Dispute Resolution Policy (the terms of which are incorporated herein, as it shall be amended from time to time); (2) subverts the provisions of Section 3 of the Plan; or (3) involves any of the provisions of the Agreement or the Plan or the provisions of any other restricted stock awards or option or other agreements relating to Company Common Stock or the claims of yourself or any persons to the benefits thereof, in order to provide a more speedy and economical resolution, the Dispute Resolution Policy shall be the sole and exclusive remedy to resolve all disputes, claims or controversies which are set forth above, except as otherwise agreed in writing by you and the Company or a subsidiary of the Company. It is our mutual intention that any arbitration award entered under the Dispute Resolution Policy will be final and binding and that a judgment on the award may be entered in any court of competent jurisdiction. Notwithstanding the provisions of the Dispute Resolution Policy, however, the parties specifically agree that any mediation or arbitration required by this paragraph shall take place at the offices of the American Arbitration Association located in the Daytona Beach, Florida area or such other location in the Daytona Beach, Florida area as the parties might agree. The provisions of this paragraph: (a) shall survive the termination or expiration of this Agreement (b) shall be binding upon the Company's and your respective successors, heirs, personal representatives, designated beneficiaries and any other person asserting a claim based upon the Agreement, (c) shall supersede the provisions of any prior agreement between you and the Company or its subsidiaries or affiliated companies with respect to any of the Company's option, restricted stock or other stock-based incentive plans to the extent the provisions of such other agreement requires arbitration between you and your employer, and (d) may not be modified without the consent of the Company. Subject to the exception set forth above, you and the Company acknowledge that neither of us nor any other person asserting a claim described above has the right to resort to any federal, state or local court or administrative agency concerning any such claim and the decision of the arbitrator shall be a complete defense to any action or proceeding instituted in any tribunal or agency with respect to any dispute.

The Grant does not imply any employment or consulting commitment by the Company.

You agree that the Grant and acceptance of the Grant does not imply any commitment by the Company, a subsidiary or affiliated company to your continued employment or consulting relationship, and that your employment status is that of an employee-at-will and in particular that the Company, its subsidiary or affiliated company has a continuing right with or without cause (unless otherwise specifically agreed to in writing executed by you and the Company) to terminate your employment or other relationship at any time. You agree that your acceptance represents your agreement not to terminate voluntarily your current employment (or consulting arrangement, if applicable) for at least one year from the date of this Grant unless you have already agreed in writing to a longer period.

You agree to comply with applicable tax requirements and to provide information as requested.

You agree to comply with the requirements of applicable federal and other laws with respect to withholding or providing for the payment of required taxes. You also agree to promptly provide such information with respect to shares acquired pursuant to the Grant, as may be requested by the Company or any of its subsidiaries or affiliated companies.

This Agreement shall be governed by and interpreted in accordance with Florida law.

The headings set forth herein are for information purposes only and are not a substantive part of these Terms and Conditions.

These Terms and Conditions are effective for grants made on and after June 30, 2015.

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)) 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) 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
 - (c) 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: March 3, 2016

/s/ Gerald Volas

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

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)) 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) 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
 - (c) 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: March 3, 2016

/s/ John S. Peterson

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

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, 2015 (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: March 3, 2016

/s/ Gerald Volas

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

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, 2015 (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: March 3, 2016

/s/ John S. Peterson

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