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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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

For the transition period from_______ to _______

Commission file number: 1-36870

TopBuild Corp.

(Exact name of Registrant as Specified in its Charter)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at July 31, 2018
Common stock, par value $0.01 per share	35,640,345

TOPBUILD CORP.
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GLOSSARY

We use acronyms, abbreviations, and other defined terms throughout this quarterly report on Form 10-Q, which are defined in the glossary below:

Term	Definition
2015 LTIP	2015 TopBuild Long-Term Incentive Plan, as amended from time to time
2016 Repurchase Program	$50 million share repurchase program authorized by the Board on March 1, 2016
2017 ASR Agreement	$100 million accelerated share repurchase agreement with Bank of America, N.A.
2017 Repurchase Program	$200 million share repurchase program authorized by the Board on February 24, 2017
ADO	ADO Products, LLC
Amended Credit Agreement	Senior secured credit agreement and related security and pledge agreement dated May 5, 2017, as amended March 28, 2018, with the "Lenders"
Annual Report	Annual report filed with the SEC on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ASC	Accounting Standards Codification
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
Board	Board of Directors
BofA	Bank of America, N.A.
Canyon	Canyon Insulation, Inc.
Capital	Capital Insulation, Inc.
EBITDA	Earnings before income taxes, depreciation, and amortization
EcoFoam	Bella Insulutions Inc., DBA EcoFoam/Insulutions
ETR	Effective tax rate
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCCR	Fixed charge coverage ratio is defined in the “Amended Credit Agreement” as the ratio of EBITDA less capital expenditures, and income taxes paid to the sum of cash interest paid, debt principal payments and restricted payments made excluding stock repurchases
GAAP	Generally accepted accounting principles in the United States of America
Guarantors	Certain wholly-owned domestic subsidiaries of TopBuild Corp.
Lenders	Bank of America, N.A., together with the other lenders party to the "Amended Credit Agreement"
LIBOR	London interbank offered rate
Midwest	Midwest Fireproofing, LLC
MR Insulfoam	MR Insulfoam, LLC
Net Leverage Ratio	As defined in the “Amended Credit Agreement,” the ratio of outstanding indebtedness, less up to $75 million of unrestricted cash, to EBITDA
NYSE	New York Stock Exchange
Old Credit Agreement	Senior secured credit agreement, as amended, and related collateral and guarantee documentation dated June 9, 2015, with PNC Bank, N.A. as administrative agent, and the other lenders and agents party thereto
Options	Stock option awards
Owens Corning	Owens Corning Sales, LLC
Quarterly Report	Quarterly report filed with the SEC on Form 10-Q pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Revolving Facility	Senior secured revolving credit facilities available under the credit agreements. With respect to the Old Credit Agreement, a $125 million facility with applicable sublimits for letters of credit and swingline loans. With respect to the Amended Credit Agreement, a $250 million facility with applicable sublimits for letters of credit and swingline loans.
RSA	Restricted stock award
Santa Rosa	Santa Rosa Insulation and Fireproofing, LLC
SEC	United States Securities and Exchange Commission
Secured Leverage Ratio	As defined in the “Amended Credit Agreement,” the ratio of outstanding indebtedness, including letters of credit, to EBITDA
Senior Notes	TopBuild's 5.625% senior unsecured notes due on May 1, 2026
Superior	Superior Insulation Products, LLC
TopBuild	TopBuild Corp. and its wholly-owned consolidated domestic subsidiaries. Also, the "Company," "we," "us," and "our"
TTM	Trailing twelve months
USI	United Subcontractors, Inc.

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TOPBUILD CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share data)

	As of June 30, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,737	$ 56,521
Receivables, net of an allowance for doubtful accounts of $3,303 and $3,673 at June 30, 2018, and December 31, 2017, respectively	396,220	308,508
Inventories, net	158,495	131,342
Prepaid expenses and other current assets	23,929	15,221
Total current assets	644,381	511,592
Property and equipment, net	159,265	107,121
Goodwill	1,362,861	1,077,186
Other intangible assets, net	210,345	33,243
Deferred tax assets, net	17,634	18,129
Other assets	6,130	2,278
Total assets	$ 2,400,616	$ 1,749,549
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 283,708	$ 263,814
Current portion of long-term debt - term loan	17,500	12,500
Current portion of long-term debt - equipment notes	2,800	—
Accrued liabilities	108,951	75,087
Total current liabilities	412,959	351,401
Long-term debt - term loan	315,926	229,387
Long-term debt - equipment notes	11,734	—
Long-term debt - Senior Notes	393,666	—
Deferred tax liabilities, net	168,590	132,840
Long-term portion of insurance reserves	43,925	36,160
Other liabilities	2,891	3,242
Total liabilities	1,349,691	753,030
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding at June 30, 2018, and December 31, 2017	—	—
Common stock, $0.01 par value: 250,000,000 shares authorized; 38,699,111 issued and 35,645,992 outstanding at June 30, 2018, and 38,626,378 shares issued and 35,586,916 outstanding at December 31, 2017	387	386
Treasury stock, 3,053,119 shares at June 30, 2018, and 3,039,462 shares at December 31, 2017, at cost	(161,582)	(141,582)
Additional paid-in capital	851,465	830,600
Retained earnings	360,655	307,115
Total equity	1,050,925	996,519
Total liabilities and equity	$ 2,400,616	$ 1,749,549

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands except share and per common share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net sales	$ 605,969	$ 474,458	$ 1,097,412	$ 915,821
Cost of sales	460,928	357,849	841,353	697,584
Gross profit	145,041	116,609	256,059	218,237
Selling, general, and administrative expense (exclusive of significant legal settlement, shown separately below)	101,360	75,813	178,486	150,904
Significant legal settlement	—	—	—	30,000
Operating profit	43,681	40,796	77,573	37,333
Other income (expense), net:				
Interest expense	(7,322)	(1,918)	(9,645)	(3,288)
Loss on extinguishment of debt	—	(1,086)	—	(1,086)
Other, net	82	105	115	212
Other expense, net	(7,240)	(2,899)	(9,530)	(4,162)
Income before income taxes	36,441	37,897	68,043	33,171
Income tax expense	(9,288)	(14,437)	(14,503)	(11,422)
Net income	$ 27,153	$ 23,460	$ 53,540	$ 21,749
Income per common share:				
Basic	$ 0.77	$ 0.64	$ 1.53	$ 0.59
Diluted	$ 0.76	$ 0.63	$ 1.49	$ 0.58
Weighted average shares outstanding:				
Basic	35,102,429	36,488,222	35,081,292	36,803,979
Diluted	35,837,102	37,191,299	35,828,290	37,404,193

See notes to our unaudited condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2018	2017
Net Cash Provided by (Used in) Operating Activities:		
Net income	$ 53,540	$ 21,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,185	6,835
Share-based compensation	5,397	5,101
Loss on extinguishment of debt	—	1,086
Loss on sale or abandonment of property and equipment	487	285
Amortization of debt issuance costs	422	186
Change in fair value of contingent consideration	123	—
Provision for bad debt expense	1,672	1,750
Loss from inventory obsolescence	928	826
Deferred income taxes, net	375	—
Change in certain assets and liabilities		
Receivables, net	(22,382)	(25,123)
Inventories, net	(11,517)	5,908
Prepaid expenses and other current assets	(5,363)	7
Accounts payable	220	(3,124)
Accrued liabilities	2,901	9,787
Other, net	(595)	398
Net cash provided by operating activities	41,393	25,671
Cash Flows Provided by (Used in) Investing Activities:		
Purchases of property and equipment	(27,521)	(8,571)
Acquisition of businesses, net of cash acquired of $15,756 in 2018	(499,050)	(83,932)
Proceeds from sale of property and equipment	427	126
Other, net	23	147
Net cash used in investing activities	(526,121)	(92,230)
Cash Flows Provided by (Used in) Financing Activities:		
Proceeds from issuance of Senior Notes	400,000	—
Proceeds from issuance of term loan	100,000	250,000
Repayments of term loan	(7,500)	(180,000)
Proceeds from equipment notes	15,066	—
Repayments of equipment notes	(533)	—
Proceeds from revolving credit facility	90,000	—
Repayment of revolving credit facility	(90,000)	—
Payment of debt issuance costs	(7,717)	(2,150)
Taxes withheld and paid on employees' equity awards	(4,531)	(2,147)
Repurchase of shares of common stock	—	(39,286)
Payment of contingent consideration	(841)	—
Net cash provided by financing activities	493,944	26,417
Cash and Cash Equivalents		
Increase (decrease) for the period	9,216	(40,142)
Beginning of year	56,521	134,375
End of period	$ 65,737	$ 94,233
Supplemental disclosure of noncash investing activities:		
Accruals for property and equipment	$ 864	$ 655

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
(In thousands except share data)

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Equity
Balance at December 31, 2016	$ 385	$ (22,296)	$ 845,476	$ 148,982	$ 972,547
Net income	—	—	—	21,749	21,749
Share-based compensation	—	—	5,101	—	5,101
Issuance of 143,800 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 858,393 shares of common stock pursuant to Share Repurchase Program	—	(39,286)	—	—	(39,286)
59,940 shares of common stock withheld to pay taxes on employees' equity awards	—	—	(2,147)	—	(2,147)
Balance at June 30, 2017	$ 386	$ (61,582)	$ 848,429	$ 170,731	$ 957,964
Balance at December 31, 2017	$ 386	$ (141,582)	$ 830,600	$ 307,115	$ 996,519
Net income	—	—	—	53,540	53,540
Share-based compensation	—	—	5,397	—	5,397
Issuance of 89,530 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 13,657 shares of common stock pursuant to the settlement of the ASR Program	—	(20,000)	20,000	—	—
83,982 shares of common stock withheld to pay taxes on employees' equity awards	—	—	(4,531)	—	(4,531)
Balance at June 30, 2018	$ 387	$ (161,582)	$ 851,465	$ 360,655	$ 1,050,925

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

TopBuild is a Delaware corporation incorporated on June 30, 2015, and is listed on the NYSE under the ticker symbol "BLD." We report our business in two segments: Installation and Distribution. Our Installation segment primarily installs insulation and other building products. Our Distribution segment primarily sells and distributes insulation and other building products. Our segments are based on our operating units, for which financial information is regularly evaluated by our corporate operating executives.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, necessary to state fairly our financial position as of June 30, 2018, our results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The Condensed Consolidated Balance Sheet at December 31, 2017, was derived from our audited financial statements, but does not include all disclosures required by GAAP.

These condensed consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. ACCOUNTING POLICIES

Financial Statement Presentation. Our condensed consolidated financial statements have been developed in conformity with GAAP, which requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. All intercompany transactions between TopBuild entities have been eliminated.

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

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

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table details our award types and accounting policies:

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

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

Recently Adopted Accounting Pronouncements:

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

Revenue Recognition

Revenue is disaggregated between our installation and distribution segments. A reconciliation of disaggregated revenue by segment is included in *Note 6 – Segment Information.*

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

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

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

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

	Included in Line Item on Condensed Consolidated Balance Sheets	As of June 30, 2018	As of December 31, 2017
Contract Assets:			
Receivables, unbilled	Receivables, net	$ 52,895	$ 37,142
Contract Liabilities:			
Deferred revenue	Accrued liabilities	$ 19,081	$ 9,275

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

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

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

Recently Issued Accounting Pronouncements Not Yet Adopted:

In February 2016 the FASB issued ASU 2016-02, "Leases." This standard requires a lessee to recognize most leases on its balance sheet. Companies are required to use a modified retrospective transition method for all existing leases. This standard is effective for annual periods beginning after December 15, 2018, and interim periods therein with early adoption permitted. We plan to adopt this guidance on January 1, 2019, and are currently evaluating the effect of adoption of this standard on our financial position and results of operations.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

3. GOODWILL AND OTHER INTANGIBLES

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

The estimated fair values of the two reporting units substantially exceeded their respective carrying values.

Changes in the carrying amount of goodwill for the six months ended June 30, 2018, by segment, were as follows, in thousands:

	Gross Goodwill at December 31, 2017	Additions	Gross Goodwill at June 30, 2018	Accumulated Impairment Losses	Net Goodwill at June 30, 2018
Goodwill, by segment:					
Installation	$ 1,422,920	$ 255,465	$ 1,678,385	$ (762,021)	$ 916,364
Distribution	416,287	30,210	446,497	—	446,497
Total goodwill	$ 1,839,207	$ 285,675	$ 2,124,882	$ (762,021)	$ 1,362,861

The following table sets forth our other intangible assets, in thousands:

	As of June 30, 2018	As of December 31, 2017
Gross definite-lived intangible assets	$ 219,382	$ 54,872
Accumulated amortization	(9,037)	(21,629)
Net definite-lived intangible assets	$ 210,345	$ 33,243

The following table sets forth a breakout of our intangible assets as of June 30, 2018, in thousands:

	Gross Definite-lived Intangible Assets	Accumulated Amortization	Net Definite-lived Intangible Assets
Trademarks	$ 13,435	$ (575)	$ 12,860
Customer lists	198,428	(6,957)	191,471
Non-compete	7,519	(1,505)	6,014
Total	$ 219,382	$ (9,037)	$ 210,345

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table sets forth our amortization expense, in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization expense	$ 3,992	$ 257	$ 5,294	$ 439

4. LONG-TERM DEBT

On May 5, 2017, we and the Guarantors entered into a credit agreement with the Lenders. All obligations under the credit agreement are guaranteed by the Guarantors, and all obligations under the credit agreement, including the guarantees of those obligations, are secured by substantially all of the assets of us and the Guarantors.

On March 28, 2018, we executed an amendment to our credit agreement. The primary change of the amendment was to facilitate the acquisition of USI. Additionally, the amendment (i) extended until August 29, 2018, the period during which the Company could access the $100.0 million delayed draw term loan feature and (ii) provided that the Company may issue up to $500.0 million of Senior Notes in connection with its acquisition of USI. On May 1, 2018, we closed on our acquisition of USI. The acquisition was funded through net proceeds from the issuance on April 25, 2018, of $400.0 million of 5.625% Senior Notes due in 2026 together with the net proceeds from the $100.0 million delayed draw term loan commitment accessed on May 1, 2018, under our Amended Credit Agreement. These funds were also used for the payment of related fees and expenses, as well as for general corporate purposes.

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

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

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

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

The applicable margin rate is determined based on our Secured Leverage Ratio. In the case of base rate borrowings, the applicable margin rate ranges from 0.00 percent to 1.50 percent and in the case of LIBOR rate borrowings, the applicable margin ranges from 1.00 percent to 2.50 percent.

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

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

Senior secured term loan facility (original borrowing) (a)	$	250,000
Additional delayed draw term loan (b)	$	100,000
Additional term loan and/or revolver capacity available under incremental facility (c)	$	200,000
Revolving Facility	$	250,000
Sublimit for issuance of letters of credit under Revolving Facility (d)	$	100,000
Sublimit for swingline loans under Revolving Facility (d)	$	20,000
Interest rate as of June 30, 2018		3.23 %
Scheduled maturity date		5/05/2022

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

Borrowings under the Amended Credit Agreement are prepayable at the Company's option without premium or penalty. The Company is required to make prepayments with the net cash proceeds of certain asset sales and certain extraordinary receipts.

Beginning in the first quarter of 2018, the Company executed various equipment notes for the purpose of financing the purchase of vehicles and equipment. The following table summarizes equipment notes entered into during the respective period, in thousands:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Equipment notes	$ 5,000	$ 15,066

The following table sets forth our remaining principal payments for our outstanding Senior Notes, term loan and equipment notes as of June 30, 2018, in thousands:

	Payments Due by Period						
	2018	2019	2020	2021	2022	Thereafter	Total
Senior Notes	$ —	$ —	$ —	$ —	$ —	$ 400,000	$ 400,000
Term loan	8,750	21,875	26,250	30,625	248,750	—	336,250
Equipment notes	1,386	2,856	2,972	3,093	3,219	1,008	14,534
Total	$ 10,136	$ 24,731	$ 29,222	$ 33,718	$ 251,969	$ 401,008	$ 750,784

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

	As of	
Principal debt balances:	June 30, 2018	December 31, 2017
Current portion of long-term debt - term loan	$ 17,500	$ 12,500
Current portion of long-term debt - equipment notes	2,800	—
Long-term portion of long-term debt - Senior Notes	400,000	—
Long-term portion of long-term debt - term loan	318,750	231,250
Long-term portion of long-term debt - equipment notes	11,734	—
Unamortized debt issuance costs	(9,158)	(1,863)
Total net debt	$ 741,626	$ 241,887

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

	As of	
	June 30, 2018	December 31, 2017
Revolving Facility	$ 250,000	$ 250,000
Less: standby letters of credit	(59,288)	(47,055)
Capacity under Revolving Facility	$ 190,712	$ 202,945

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

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

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

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

We were in compliance with these key financial covenants for the Amended Credit Agreement as of June 30, 2018.

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5. 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 payable are considered to be representative of their respective fair values due to the short-term nature of these instruments. We measure our contingent consideration liabilities related to business combinations at fair value. For more information see *Note 12 – Business Combinations.*

Fair Value on Non-Recurring Basis

Fair value measurements were applied to our long-term debt portfolio. We believe the carrying value of our term loan approximates the fair market value primarily due to the fact that the non-performance risk of servicing our debt obligations, as reflected in our business and credit risk profile, has not materially changed since we assumed our debt obligations under the Amended Credit Agreement. In addition, due to the floating-rate nature of our term loan, the market value is not subject to variability solely due to changes in the general level of interest rates as is the case with a fixed-rate debt obligation. Based on active market trades of our Senior Notes close to June 30, 2018 (level 1 fair value measurement), we estimate that the fair value of the Senior Notes is approximately $385.0 million compared to a carrying value of $400.0 million at June 30, 2018.

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

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6. SEGMENT INFORMATION

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

	Three Months Ended June 30,			
	2018	2017	2018	2017
	Net Sales		Operating Profit (b)	
Our operations by segment were (a):				
Installation	$ 429,423	$ 320,984	$ 49,635	$ 35,086
Distribution	205,621	175,062	20,009	17,022
Intercompany eliminations	(29,075)	(21,588)	(5,277)	(3,680)
Total	$ 605,969	$ 474,458	64,367	48,428
General corporate expense, net (d)			(20,686)	(7,632)
Operating profit, as reported			43,681	40,796
Other expense, net			(7,240)	(2,899)
Income before income taxes			$ 36,441	$ 37,897

	Six Months Ended June 30,			
	2018	2017	2018	2017
	Net Sales		Operating Profit (b)	
Our operations by segment were (a):				
Installation (exclusive of significant legal settlement, shown separately below)	$ 758,817	$ 611,870	$ 78,965	$ 56,123
Significant legal settlement (Installation segment) (c)	—	—	—	(30,000)
Distribution	393,387	345,306	37,912	32,506
Intercompany eliminations	(54,792)	(41,355)	(9,725)	(6,980)
Total	$ 1,097,412	$ 915,821	107,152	51,649
General corporate expense, net (d)			(29,579)	(14,316)
Operating profit, as reported			77,573	37,333
Other expense, net			(9,530)	(4,162)
Income before income taxes			$ 68,043	$ 33,171

(a) All of our operations are located in the U.S.
(b) Segment operating profit for the three and six months ended June 30, 2018 and 2017, includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(c) Significant legal settlement expense of $30 million incurred during the six months ended June 30, 2017, related to the settlement agreement with Owens Corning. For more information see *Note 7 – Other Commitments and Contingencies*.
(d) General corporate expense, net included expenses not specifically attributable to our segments for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs.

7. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. During the first quarter of 2017, we recognized a $30.0 million expense for a legal settlement with Owens Corning in connection with a breach of contract action related to our termination of an insulation supply contract. Under the terms of the settlement, we paid Owens Corning $30.0 million. The settlement resulted in the dismissal of the lawsuit filed in May 2016 in Toledo, Ohio. The settlement is reflected in the significant legal settlement line item within our Condensed Consolidated Statements of Operations for the six months ended June 30, 2017. The settlement is also reflected in our installation segment's operating results for the six months ended June 30, 2017.

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

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

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

8. INCOME TAXES

Our effective tax rates were 25.5 percent and 21.3 percent for the three and six months ended June 30, 2018, respectively. The effective tax rates for the three and six months ended June 30, 2017, were 38.1 percent and 34.4 percent, respectively. The 2018 rates are lower due to the lower Federal tax rate enacted by the Tax Cuts and Jobs Act and the impact of discrete benefits related to share-based compensation, partially offset by State tax adjustments from rate changes related to the USI acquisition and other minor legal entity restructuring.

A tax benefit of $2.6 million related to share-based compensation was recognized in our Condensed Consolidated Statements of Operations as a discrete item in income tax expense for the six months ended June 30, 2018.

At June 30, 2018, the net deferred tax liability of $151.0 million consisted of net long-term deferred tax assets of $17.6 million and net long-term deferred tax liabilities of $168.6 million. The increase of the net deferred tax liability was primarily related to the acquisition of USI, related tax elections, and other minor legal entity restructuring.

9. INCOME PER SHAR E

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income - basic and diluted	$ 27,153	$ 23,460	$ 53,540	$ 21,749
Weighted average number of common shares outstanding - basic	35,102,429	36,488,222	35,081,292	36,803,979
Dilutive effect of common stock equivalents:				
RSAs with service-based conditions	165,951	227,185	174,537	214,242
RSAs with market-based conditions	253,382	189,835	241,552	160,693
RSAs with performance-based conditions	—	—	—	—
Stock options	315,340	286,057	330,909	225,279
Weighted average number of common shares outstanding - diluted	35,837,102	37,191,299	35,828,290	37,404,193
Basic net income per common share	$ 0.77	$ 0.64	$ 1.53	$ 0.59
Diluted net income per common share	$ 0.76	$ 0.63	$ 1.49	$ 0.58

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Anti-dilutive common stock equivalents:				
RSAs with service-based conditions	349	985	312	916
RSAs with market-based conditions	—	—	—	—
RSAs with performance-based conditions	—	—	—	—
Stock options	76,349	96,211	55,777	86,442
Total anti-dilutive common stock equivalents	76,698	97,196	56,089	87,358

10. SHARE-BASED COMPENSATION

Our eligible employees currently participate in the 2015 LTIP. The 2015 LTIP authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents. All grants are made by issuing new shares and no more than 4.0 million shares of common stock may be issued under the 2015 LTIP. As of June 30, 2018, we had 2.6 million shares available under the 2015 LTIP.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based compensation expense	$ 2,995	$ 3,017	$ 5,397	$ 5,101
Income tax (expense) benefit realized from award vestings	$ (19)	$ 338	$ 2,595	$ 1,166

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The following table presents a summary of our share-based compensation activity for the six months ended June 30, 2018, in thousands, except per share amounts:

	RSAs		Options			
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance December 31, 2017	591.2	$ 30.92	683.5	$ 11.13	$ 28.97	$ 31,969.7
Granted	89.5	$ 85.48	77.3	$ 27.44	$ 74.50	
Converted/Exercised	(107.1)	$ 23.44	(120.1)	$ 10.97	$ 28.52	$ 5,528.0
Forfeited	(29.8)	$ 39.59	(14.9)	$ 16.98	$ 45.46	
Balance June 30, 2018	543.8	$ 40.90	625.8	$ 13.04	$ 34.28	$ 27,570.4
Exercisable June 30, 2018 (a)			181.8	$ 10.67	$ 27.61	$ 9,223.8

(a) The weighted average remaining contractual term for vested options is 7.2 years.

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

	As of June 30, 2018	
	Unrecognized Compensation Expense on Unvested Awards	Weighted Average Remaining Vesting Period
Unrecognized compensation expense related to unvested awards:		
RSAs	$ 13,035	1.2 years
Options	4,563	1.2 years
Total unrecognized compensation expense related to unvested awards	$ 17,598	

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

		Payout Ranges and Related Expense			
RSAs with Performance-Based Conditions	Grant Date Fair Value	0%	25%	100%	200%
February 22, 2016	$ 1,896	$ —	$ 474	$ 1,896	$ 3,792
February 21, 2017	$ 1,946	$ —	$ 487	$ 1,946	$ 3,892
February 19, 2018	$ 2,333	$ —	$ 583	$ 2,333	$ 4,666

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

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

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The fair values of stock options granted under the 2015 LTIP were calculated using the Black-Scholes Options Pricing Model. The following table presents the assumptions used to estimate the fair values of options granted in 2018 and 2017:

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

11. SHARE REPURCHASE PROGRAM

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

On February 24, 2017, our Board authorized the 2017 Repurchase Program, pursuant to which we may purchase up to $200.0 million of our common stock. Share repurchases under the 2017 Repurchase Program may be executed through various means including, without limitation, open market purchases, privately negotiated transactions, accelerated share repurchase transactions, or otherwise. The 2017 Repurchase Program does not obligate the Company to purchase any shares and expires February 24, 2019. The 2017 Repurchase Program may be terminated, increased, or decreased by our Board at its discretion at any time.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Number of shares repurchased	—	461,358	13,657	858,393
Share repurchase cost (in thousands)	$ —	$ 21,907	$ (a)	$ 39,286
Average price per share	$ —	$ 47.48	$ (a)	$ 45.77

(a) On May 5, 2017, under the 2017 Repurchase Program, we entered into the 2017 ASR Agreement. When the agreement became effective on July 5, 2017, we paid BofA $100.0 million in exchange for an initial delivery of 1.5 million shares of our common stock, representing an estimated 80 percent of the total number of shares we expected to receive under the 2017 ASR Agreement. During the six months ended June 30, 2018, we received an additional 13,657 shares of our common stock from BofA, representing the final settlement of the 2017 ASR Agreement. We purchased a total of 1,521,100 shares of our common stock under the 2017 ASR Agreement at an average price per share of $65.74.

12. BUSINESS COMBINATIONS

As part of our strategy to supplement our organic growth and expand our access to additional markets and products, we completed three acquisitions during the six months ended June 30, 2018, and six acquisitions during the six months ended June 30, 2017. Each acquisition was accounted for as a business combination under ASC 805, “Business Combinations.” Acquisition related costs for the three and six months ended June 30, 2018, were $9.8 million and $13.3 million, respectively. Acquisition related costs for the three and six months ended June 30, 2017, were $0.1 million and $0.4 million, respectively. Acquisition costs are included in selling, general, and administrative expense in our Condensed Consolidated Statements of Operations.

Acquisitions

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

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

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

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

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

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

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

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

On May 1, 2018, we acquired USI, a leading distributor and installer of insulation in both residential and commercial construction markets. Our payment of $487.0 million, which includes the purchase price of $475.0 million and adjustments for cash and working capital, was funded through net proceeds from the issuance on April 25, 2018, of $400.0 million of Senior Notes together with the net proceeds from a $100.0 million delayed draw term loan commitment under our Amended Credit Agreement. For additional information see *Note 4 – Long-Term Debt*.

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

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
2018 Acquisitions	**Net Sales**	**Net (Loss) Income**	**Net Sales**	**Net Income**
ADO	$ 6,008	$ (75)	$ 11,303	$ 23
Santa Rosa	1,718	217	2,888	340
USI	68,696	1,617	68,696	1,617
	$ 76,422	$ 1,759	$ 82,887	$ 1,980

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
2017 Acquisitions	**Net Sales**	**Net Income**	**Net Sales**	**Net Income**
Midwest	$ 4,940	$ 231	$ 8,208	$ 140
EcoFoam	6,848	134	9,237	225
Superior	2,866	337	2,866	337
Canyon	1,733	221	1,733	221
All others	2,745	355	2,941	377
	$ 19,132	$ 1,278	$ 24,985	$ 1,300

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Pro Forma Results

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

	Pro Forma for the Three Months Ended June 30,		Pro Forma for the Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$ 639,754	$ 592,200	$ 1,233,442	$ 1,152,747
Net income	$ 29,287	$ 27,853	$ 62,103	$ 33,967

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

	Pro Forma for the Three Months Ended June 30,		Pro Forma for the Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of intangible assets	$ 1,250	$ 4,088	$ 5,039	$ 8,175
Income tax expense (using normalized 27% ETR for 2018 and 38% ETR for 2017)	$ 789	$ 2,692	$ 3,167	$ 7,489

Purchase Price Allocations

The estimated fair values of the assets acquired and liabilities assumed for the 2018 acquisitions, as well as the fair value of consideration transferred, approximated the following as of June 30, 2018, in thousands:

	2018 Acquisitions Completed During the Six Months Ended June 30, 2018			
	ADO	Santa Rosa	USI	Total
Estimated fair values:				
Cash	$ 939	$ —	$ 14,817	$ 15,756
Accounts receivable	3,271	1,433	62,302	67,006
Inventories	2,326	104	14,135	16,565
Prepaid and other assets	194	7	3,929	4,130
Property and equipment	951	522	34,215	35,688
Intangible assets	14,090	1,850	165,900	181,840
Goodwill	2,746	2,764	280,188	285,698
Accounts payable	(908)	(1,099)	(17,927)	(19,934)
Accrued liabilities	(609)	—	(34,686)	(35,295)
Deferred tax liability	—	—	(35,871)	(35,871)
Net assets acquired	$ 23,000	$ 5,581	$ 487,002	$ 515,583

	2018 Acquisitions Completed During the Six Months Ended June 30, 2018			
	ADO	Santa Rosa	USI	Total
Fair value of consideration transferred:				
Cash	$ 22,172	$ 5,581	$ 487,002	$ 514,755
Deferred consideration	—	—	—	—
Contingent consideration	828	—	—	828
Total consideration transferred	$ 23,000	$ 5,581	$ 487,002	$ 515,583

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The estimated fair values of the assets acquired and liabilities assumed for the 2017 acquisitions, as well as the fair value of consideration transferred, approximated the following as of June 30, 2018, in thousands:

	2017 Acquisitions Completed During the Six Months Ended June 30, 2017					
	Midwest	EcoFoam	Superior	Canyon	All others	Total
Estimated fair values:						
Accounts receivable	$ 6,576	$ 3,819	$ 2,012	$ 8,222	$ 678	$ 21,307
Inventories	75	1,119	321	575	141	2,231
Prepaid and other assets	—	27	1	29	6	63
Property and equipment	655	1,544	361	460	357	3,377
Intangible assets	2,740	6,700	5,280	15,220	3,640	33,580
Goodwill	3,538	10,796	3,662	10,072	4,037	32,105
Accounts payable	(1,359)	(1,378)	(681)	(163)	(26)	(3,607)
Accrued liabilities	—	(302)	(4)	—	—	(306)
Net assets acquired	$ 12,225	$ 22,325	$ 10,952	$ 34,415	$ 8,833	$ 88,750

	2017 Acquisitions Completed During the Six Months Ended June 30, 2017					
	Midwest	EcoFoam	Superior	Canyon	All others	Total
Fair value of consideration transferred:						
Cash	$ 12,225	$ 20,822	$ 10,952	$ 31,915	$ 8,833	$ 84,747
Deferred consideration	—	—	—	2,500	—	2,500
Contingent consideration	—	1,503	—	—	—	1,503
Total consideration transferred	$ 12,225	$ 22,325	$ 10,952	$ 34,415	$ 8,833	$ 88,750

Estimates of acquired intangible assets related to the acquisitions are as follows, as of June 30, 2018, dollars in thousands:

	Estimated Fair Value	Weighted Average Estimated Useful Life (Years)
2018 Acquisitions:		
Customer relationships	$ 169,320	12
Trademarks and trade names	11,260	9
Non-competition agreements	1,260	5
Total intangible assets for 2018 acquisitions	$ 181,840	11
2017 Acquisitions:		
Customer relationships	$ 26,170	10
Trademarks and trade names	1,780	10
Non-competition agreements	5,630	5
Total intangible assets for 2017 acquisitions	$ 33,580	9

As third party or internal valuations are finalized, certain tax aspects of the foregoing transaction are completed, and customer post-closing reviews are concluded, adjustments may be made to the fair value of assets acquired, and in some cases total purchase price, through the end of each measurement period, generally one year following the applicable acquisition date. Various insignificant adjustments to the fair value of assets acquired, and in some cases total purchase price, have been made to certain business combinations since the respective dates of acquisition.

Goodwill to be recognized in connection with these acquisitions is attributable to the synergies expected to be realized and improvements in the businesses after the acquisitions. Of the $285.7 million of goodwill recorded from the 2018 acquisitions, $33.5 million is expected to be deductible for income tax purposes.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Contingent Consideration

The acquisition of EcoFoam includes a contingent consideration arrangement that requires additional consideration to be paid by TopBuild to the sellers of EcoFoam based on EcoFoam's attainment of annual revenue targets over a three-year period. In the second quarter of 2018 we made the first contingent payment of $0.8 million. The total amount of undiscounted contingent consideration which TopBuild may be required to pay under the arrangement is $2.5 million. The fair value of $2.1 million contingent consideration recognized on the acquisition date, of which $1.5 million remains as of June 30, 2018, was estimated by applying the income approach using discounted cash flows. That measure is based on significant Level 3 inputs not observable in the market. The significant assumption includes a discount rate of 9.5 percent.

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

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

The following table presents the fair value of contingent consideration, in thousands:

	EcoFoam	ADO
Date of Acquisition	February 27, 2017	February 10, 2018
Fair value of contingent consideration recognized at acquisition date	$ 2,110	$ 828
Contingent consideration at December 31, 2017	$ 2,259	$ —
Additions	—	828
Change in fair value of contingent consideration during the six months ended June 30, 2018	85	38
Payment of contingent consideration during the six months ended June 30, 2018	(841)	—
Liability balance for contingent consideration at June 30, 2018	$ 1,503	$ 866

13. CLOSURE COSTS

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

In connection with the acquisition of USI, management performed an evaluation of the resources necessary to effectively operate the acquired business. During the three months ended June 30, 2018, management committed to a plan to close the existing USI corporate office in St. Paul, Minnesota, and consolidate certain administrative functions to our Daytona Beach, Florida, Branch Support Center. As a result, the Company expects to incur approximately $5.8 million of closure costs in connection with this activity. Closure costs pertaining to the USI acquisition are primarily included in general corporate expenses for segment reporting purposes.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table details our total estimated closure costs by cost type, all of which were incurred during the three months ended June 30, 2018, pertaining to the above closure and transition related to the USI acquisition, in thousands:

Segment / Cost Type	Closure Costs Liability at December 31, 2017	Closure Costs Incurred for the Six Months Ended June 30, 2018	Cash Payments for the Six Months Ended June 30, 2018	Closure Costs Liability at June 30, 2018
Corporate:				
Severance	$ —	$ 3,239	$ (1,048)	$ 2,191
Lease abandonment	—	400	—	400
Other costs	—	9	(9)	—
Total Corporate:	$ —	$ 3,648	$ (1,057)	$ 2,591

We expect to pay the remaining closure costs within one year.

14. ACCRUED LIABILITIES

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

	As of	
	June 30, 2018	December 31, 2017
Accrued liabilities:		
Salaries, wages, and commissions	$ 34,723	$ 25,470
Insurance liabilities	25,295	19,770
Other	48,933	29,847
Total accrued liabilities	$ 108,951	$ 75,087

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

TopBuild, headquartered in Daytona Beach, Florida, is the leading purchaser, installer, and distributor of insulation products to the U.S. construction industry, based on revenue. We trade on the NYSE under the ticker symbol "BLD."

We operate in two segments: Installation (TruTeam) and Distribution (Service Partners). Our Installation segment installs insulation and other building products nationwide through our TruTeam contractor services business, which, as of June 30, 2018, had over 205 branches located in 41 states. We install various insulation applications, including fiberglass batts and rolls, blown-in loose fill fiberglass, blown-in loose fill cellulose, and polyurethane spray foam. Additionally, we install other building products including rain gutters, garage doors, fireplaces, shower enclosures, closet shelving, glass and windows. We handle every stage of the installation process, including procurement of material from leading manufacturers, project scheduling and logistics, multi-phase professional installation, and installation quality assurance.

Our Distribution segment sells and distributes insulation and other building products, including rain gutters, fireplaces, closet shelving, and roofing materials through our Service Partners business, which, as of June 30, 2018, had over 75 branches located in 32 states. Our Service Partners customer base consists of thousands of insulation contractors of all sizes, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors, and modular home builders.

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

For additional details pertaining to our operating results by segment see *Note 6 – Segment Information* in the notes to the unaudited condensed consolidated financial statements, which is incorporated herein by reference.

SECOND QUARTER 2018 VERSUS SECOND QUARTER 2017

The following discussion and analysis contains forward-looking statements and should be read in conjunction with the unaudited condensed consolidated financial statements, the notes thereto, and the section entitled "Forward-Looking Statements" included in this Quarterly Report.

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

	Three Months Ended June 30,	
	2018	2017
Net sales	**$ 605,969**	**$ 474,458**
Cost of sales	460,928	357,849
Cost of sales ratio	*76.1 %*	*75.4 %*
Gross profit	**145,041**	**116,609**
Gross profit margin	*23.9 %*	*24.6 %*
Selling, general, and administrative expense	101,360	75,813
Selling, general, and administrative expense to sales ratio	*16.7 %*	*16.0 %*
Operating profit	**43,681**	**40,796**
Operating profit margin	*7.2 %*	*8.6 %*
Other expense, net	(7,240)	(2,899)
Income tax expense	(9,288)	(14,437)
Net income	**$ 27,153**	**$ 23,460**
Net margin	*4.5 %*	*4.9 %*

Sales and Operations

Net sales increased 27.7 percent for the three months ended June 30, 2018, from the comparable period of 2017. The increase was principally driven by our two acquisitions completed during the three months ended June 30, 2017, three acquisitions completed in 2018, increased organic sales volume, and increased selling prices. Our sales benefited from the overall continued improvement in the housing market, as well as our continued focus on organically growing our residential and commercial activity.

Our gross profit margins were 23.9 percent and 24.6 percent for the three months ended June 30, 2018 and 2017, respectively. Gross profit margin was negatively impacted by higher material costs and higher insurance costs, partially offset by volume leverage and improved selling prices.

Selling, general, and administrative expense, as a percent of sales, was 16.7 percent and 16.0 percent for the three months ended June 30, 2018 and 2017, respectively. Increased selling, general, and administrative expense as a percent of sales was primarily a result of higher acquisition related costs, higher amortization expense, and closure costs related to the USI acquisition, partially offset by lower legal expense and lower bad debt expense.

Operating margins were 7.2 percent and 8.6 percent for the three months ended June 30, 2018 and 2017, respectively. The decrease in operating margins was due to higher material costs, higher insurance expense, higher amortization expense, and higher acquisition related costs primarily related to the USI acquisition, partially offset by overall increased sales volume, improved selling prices, lower legal expense and lower bad debt expense.

Closure and Related Costs

We incurred costs of $3.6 million for the three months ended June 30, 2018, related to the acquisition of USI including the closing of the St. Paul, Minnesota corporate office and consolidation of certain administrative functions to our Daytona Beach, Florida, Branch Support Center. We incurred an expense of $0.5 million for the three months ended June 30, 2017, related to the consolidation of certain back-office operations to our Daytona Beach, Florida, Branch Support Center.

Business Segment Results

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

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Percent Change
Sales by business segment:			
Installation	$ 429,423	$ 320,984	33.8 %
Distribution	205,621	175,062	17.5 %
Intercompany eliminations and other adjustments	(29,075)	(21,588)	
Net sales	$ 605,969	$ 474,458	27.7 %
Operating profit by business segment:			
Installation	$ 49,635	$ 35,086	41.5 %
Distribution	20,009	17,022	17.5 %
Intercompany eliminations and other adjustments	(5,277)	(3,680)	
Operating profit before general corporate expense	64,367	48,428	32.9 %
General corporate expense, net	(20,686)	(7,632)	
Operating profit	$ 43,681	$ 40,796	7.1 %
Operating profit margins:			
Installation	11.6 %	10.9 %	
Distribution	9.7 %	9.7 %	
Operating profit margin before general corporate expense	10.6 %	10.2 %	
Operating profit margin	7.2 %	8.6 %	

Installation

Sales

Sales in the Installation segment increased $108.4 million, or 33.8 percent, for the three months ended June 30, 2018, as compared to the same period in 2017. Sales increased 22.2 percent from acquired branches and 3.3 percent due to increased selling prices. Sales also increased due to increased sales volume related to a higher level of activity in new home construction and an increase in sales volume of commercial installation.

Operating margins

Operating margins in the Installation segment were 11.6 percent and 10.9 percent for the three months ended June 30, 2018 and 2017, respectively. The increase in operating margins was due to increased sales volume, a 3.3 percent increase in selling prices, lower legal expense, and bad debt expense, partially offset by higher material costs, higher amortization expense, and higher insurance costs.

Distribution

Sales

Sales in the Distribution segment increased $30.6 million, or 17.5 percent, for the three months ended June 30, 2018, as compared to the same period in 2017. Sales increased 7.7 percent due to increased selling prices and 6.8 percent from acquired branches. Sales also increased due to increased sales volume related to a higher level of activity in new home construction.

Operating margins

Operating margins in the Distribution segment were 9.7 percent for the three months ended June 30, 2018 and 2017. Operating margins were positively impacted by higher selling prices, increased sales volume related to a higher level of activity in new home construction, offset by higher material cost, higher amortization costs, and higher insurance costs.

OTHER ITEMS

Other expense, net

Other expense, net, which primarily consisted of interest expense, was $7.2 million and $2.9 million for the three months ended June 30, 2018 and 2017, respectively. The increase in other expense, net for the three months ended June 30, 2018, primarily related to the issuance of the $400.0 million Senior Notes as well as accessing the $100.0 million delayed draw term loan to fund our acquisition of USI, and the issuance of $15.1 million of equipment notes.

Income tax expense

Income tax expense was $9.3 million, an ETR of 25.5 percent, for the three months ended June 30, 2018, compared to $14.4 million, an ETR of 38.1 percent, for the comparable period in 2017. The lower 2018 rate was due to the lower Federal tax rate enacted by the Tax Cuts and Jobs Act and the impact of discrete benefits related to share-based compensation, partially offset by State tax adjustments from rate changes related to the USI acquisition and other minor legal entity restructuring.

FIRST SIX MONTHS 2018 VERSUS FIRST SIX MONTHS 2017

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

	Six Months Ended June 30,	
	2018	**2017**
Net sales	**$ 1,097,412**	**$ 915,821**
Cost of sales	841,353	697,584
Cost of sales ratio	*76.7 %*	*76.2 %*
Gross profit	**256,059**	**218,237**
Gross profit margin	*23.3 %*	*23.8 %*
Selling, general, and administrative expense (exclusive of significant legal settlement, shown separately below)	178,486	150,904
Selling, general, and administrative expense (exclusive of significant legal settlement, shown separately below) to sales ratio	*16.3 %*	*16.5 %*
Significant legal settlement	—	30,000
Significant legal settlement to sales ratio	*— %*	*3.3 %*
Operating profit	**77,573**	**37,333**
Operating profit margin	*7.1 %*	*4.1 %*
Other expense, net	(9,530)	(4,162)
Income tax expense	(14,503)	(11,422)
Net income	**$ 53,540**	**$ 21,749**
Net margin	*4.9 %*	*2.4 %*

Sales and Operations

Net sales increased 19.8 percent for the six months ended June 30, 2018, from the comparable period of 2017. The increase was principally driven by our six acquisitions completed during 2017, three acquisitions completed in 2018, increased organic sales volume, and increased selling prices. Our sales benefited from the overall continued improvement in the housing market, as well as our continued focus on organically growing our residential and commercial activity.

Our gross profit margins were 23.3 percent and 23.8 percent for the six months ended June 30, 2018 and 2017, respectively.Gross profit margin was negatively impacted by higher material costs and higher insurance costs, partially offset by volume leverage and improved selling prices.

Selling, general, and administrative expense, exclusive of the significant legal settlement discussed below, as a percent ofsales, was 16.3 percent and 16.5 percent for the six months ended June 30, 2018 and 2017, respectively. Decreased selling, general, and administrative expense as a percent of sales was a result of lower legal expense, lower bad debt expense, and lower employee moving expense, partially offset by higher amortization expense, higher acquisition related costs, and closure costs related to the USI acquisition. We incurred a $30 million legal settlement during the six months ended June 30, 2017, related to the settlement of a breach of contract action related to our termination of an insulation supply agreement with Owens Corning.

Operating margins were 7.1 percent and 4.1 percent for the six months endedJune 30, 2018 and 2017, respectively. The increase in operating margins related to the $30 million legal settlement with Owens Corning incurred in the prior year, as well as overall increased sales volume, higher selling prices, and lower bad debt expense, partially offset by higher material costs, higher amortization expense, and higher acquisition related costs primarily related to the USI acquisition.

Closure and Related Costs

We incurred closure costs of $3.6 million for the six months ended June 30, 2018, related to the acquisition of USI including the closing of the St. Paul, Minnesota corporate office and consolidation of certain administrative functions to our Daytona Beach, Florida, Branch Support Center. We incurred expense of $1.7 million during the six months ended June 30, 2017, related to the consolidation of certain back-office operations to our Daytona Beach, Florida, Branch Support Center.

Business Segment Results

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Percent Change
Sales by business segment:			
Installation	$ 758,817	$ 611,870	24.0 %
Distribution	393,387	345,306	13.9 %
Intercompany eliminations and other adjustments	(54,792)	(41,355)	
Net sales	$ 1,097,412	$ 915,821	19.8 %
Operating profit by business segment:			
Installation (exclusive of significant legal settlement, shown separately below)	$ 78,965	$ 56,123	40.7 %
Significant legal settlement (Installation segment)	—	(30,000)	
Distribution	37,912	32,506	16.6 %
Intercompany eliminations and other adjustments	(9,725)	(6,980)	
Operating profit before general corporate expense	107,152	51,649	107.5 %
General corporate expense, net	(29,579)	(14,316)	
Operating profit	$ 77,573	$ 37,333	107.8 %
Operating profit margins:			
Installation (exclusive of significant legal settlement)	10.4 %	9.2 %	
Installation (inclusive of significant legal settlement)	10.4 %	4.3 %	
Distribution	9.6 %	9.4 %	
Operating profit margin before general corporate expense	9.8 %	5.6 %	
Operating profit margin	7.1 %	4.1 %	

Installation

Sales

Sales in the Installation segment increased $146.9 million, or 24.0 percent, for the six months ended June 30, 2018, compared to the same period in 2017. Sales increased 14.1 percent from acquired branches and 2.8 percent due to increased selling prices. Sales also increased due to increased sales volume related to a higher level of activity in new home construction and an increased sales volume of commercial installation.

Operating margins

Operating margins in the Installation segment were 10.4 percent and 4.3 percent for the six months ended June 30, 2018 and 2017, respectively. The increase in operating margins was a result of the $30 million legal settlement with Owens Corning and higher selling prices, as well as lower legal fee expense and lower insurance costs. The decrease was partially offset by higher material costs and higher amortization expense.

Distribution

Sales

Sales in the Distribution segment increased $48.1 million, or 13.9 percent, for the six months ended June 30, 2018, compared to the same period in 2017. Sales increased 6.6 percent due to increased selling prices and 5.0 percent from acquired branches. Sales also increased due to increased sales volume related to a higher level of activity in new home construction.

Operating margins

Operating margins in the Distribution segment were 9.6 percent and 9.4 percent for the six months ended June 30, 2018 and 2017, respectively. Operating margins were positively impacted by higher selling prices and increased sales volume related to a higher level of activity in new home construction, partially offset by higher material costs and higher amortization costs.

OTHER ITEMS

Other expense, net

Other expense, net, which primarily consisted of interest expense, was $9.5 million and $4.2 million for the six months ended June 30, 2018 and 2017, respectively. The increase in other expense, net for the six months ended June 30, 2018, primarily related to the issuance of the $400.0 million Senior Notes as well as accessing the $100.0 million delayed draw term loan to fund our acquisition of USI, and the issuance of $15.1 million of equipment notes.

Income tax expense

Income tax expense was $14.5 million, an ETR of 21.3 percent, for the six months ended June 30, 2018, compared to $11.4 million, an ETR of 34.4 percent, for the comparable period in 2017. The lower 2018 rate was due to the lower Federal tax rate enacted by the Tax Cuts and Jobs Act and the impact of discrete benefits related to share-based compensation, partially offset by State tax adjustments from rate changes related to the USI acquisition and other minor legal entity restructuring.

Cash Flows and Liquidity

Significant sources (uses) of cash and cash equivalents for the six months ended June 30, 2018 and 2017, are summarized as follows, in thousands:

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Changes in cash and cash equivalents:		
Net cash provided by operating activities	$ 41,393	$ 25,671
Purchases of property and equipment	(27,521)	(8,571)
Acquisition of businesses, net of cash acquired of $15,756 in 2018	(499,050)	(83,932)
Proceeds from sale of property and equipment	427	126
Other investing, net	23	147
Proceeds from issuance of Senior Notes	400,000	—
Proceeds from issuance of term loan	100,000	250,000
Repayments of term loan	(7,500)	(180,000)
Proceeds from equipment notes	15,066	—
Repayments of equipment notes	(533)	—
Proceeds from revolving credit facility	90,000	—
Repayment of revolving credit facility	(90,000)	—
Payment of debt issuance costs	(7,717)	(2,150)
Taxes withheld and paid on employees' equity awards	(4,531)	(2,147)
Repurchase of shares of common stock	—	(39,286)
Payment of contingent consideration	(841)	—
Cash and cash equivalents increase (decrease)	$ 9,216	$ (40,142)
Receivables, net	$ 396,220	$ 297,325
Inventories, net	158,495	111,640
Accounts payable	(283,708)	(243,000)
Receivables, net plus inventories, net less accounts payable	$ 271,007	$ 165,965
Increase in receivables, net plus inventories, net less accounts payable from prior year	$ 105,042	$ 22,763
Receivables, net plus inventories, net less accounts payable as a percentage of TTM net sales (a)	11.1 %	8.8 %

(a) Net sales for the TTM have been adjusted for the pro forma effect of acquired branches.

Net cash flows provided by operating activities increased $15.7 million for the six months ended June 30, 2018, as compared to the prior year period. The increase was primarily due to a $31.8 million increase in net income. Generators of cash were partially offset by an increase in the change in receivables and inventory related to the growth in the business as well as a strategic buildup of inventory.

The increase in receivables, net plus inventories, net less accounts payable as a percentage of TTM net sales as of June 30, 2018, was primarily due to the acquisition of USI. USI's accounts payable terms are notably less favorable than TopBuild's terms, which we are working to align. The increase also relates to the buildup of inventory related to strategic inventory purchases.

Net cash used in investing activities was $525.3 million for the six months ended June 30, 2018, primarily comprised of $498.2 million of net cash for the acquisition of USI and ADO and substantially all of the assets of Santa Rosa, and $27.5 million for purchases of property and equipment partially related to our decision to begin purchasing rather than leasing vehicles, partially offset by $0.4 million of proceeds from the sale of property and equipment. Net cash used in investing activities was $92.2 million for the six months ended June 30, 2017, primarily comprised of $83.9 million for the acquisitions of substantially all of the assets of Midwest, EcoFoam, MR Insulfoam, Capital, Superior, and Canyon and $8.6 million for purchases of property and equipment, partially offset by $0.1 million of proceeds from the sale of property and equipment.

Net cash provided by financing activities was $493.9 million for the six months ended June 30, 2018. We received $400.0 million for the issuance of Senior Notes and $100.0 million from our delayed draw related to our acquisition of USI. We received $15.1 million of proceeds from equipment financing notes related to our decision to begin purchasing rather than leasing vehicles. We used $7.5 million for payments on our term loan, $7.7 million for payment of debt issuance costs related to our Amended Credit Agreement and our Senior Notes, $4.5 million for purchases of common stock for tax withholding obligations related to the vesting and exercise of share-based incentive awards during the six months ended June 30, 2018, and $0.5 million for payments on our equipment financing notes. We also made a payment of $0.8 million of contingent consideration for EcoFoam. We drew $90.0 million on our revolving credit facility and made repayments of $90.0 million during the six months ended June 30, 2018. Net cash provided by financing activities was $26.4 million for the six months ended June 30, 2017, primarily comprised of $250.0 million of proceeds from the issuance of long-term debt related to our Amended Credit Agreement. We used $175.0 million of the proceeds to pay off all amounts outstanding under our Old Credit Agreement, $39.3 million for common stock repurchases related to our share repurchase programs, $5.0 million of repayments of our previous long-term debt, $2.2 million for payment of debt issuance costs, and $2.1 million for purchases of common stock for tax withholding obligations related to the vesting of share-based incentive awards during the six months ended June 30, 2017.

We have access to liquidity through our cash from operations and available borrowing capacity under our Amended Credit Agreement, which provides for borrowing and/or standby letter of credit issuances of up to $250.0 million under the Revolving Facility. We believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to support our ongoing operations and to fund our debt service requirements, capital expenditures, and working capital for at least the next twelve months. Cash flows are seasonally stronger in the third and fourth quarters as a result of historically increased new construction activity during those periods.

The following table summarizes our liquidity, in thousands:

	As of	
	June 30, 2018	**December 31, 2017**
Cash and cash equivalents	$ 65,737	$ 56,521
Revolving Facility	250,000	250,000
Less: standby letters of credit	(59,288)	(47,055)
Capacity under Revolving Facility	190,712	202,945
Additional term loan capacity under delayed draw feature	—	100,000
Total liquidity	$ 256,449	$ 359,466

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

The following table summarizes our outstanding bonds, in thousands:

	As of	
	June 30, 2018	**December 31, 2017**
Outstanding bonds:		
Performance bonds	$ 57,512	$ 44,765
Licensing, insurance, and other bonds	19,965	17,013
Total bonds	$ 77,477	$ 61,778

OUTLOOK

In general, the residential and commercial new construction industries are continuing to recover. We believe that household formations and the available housing supply point towards continued growth in new home construction. Increasing rental demand across multiple markets has led to an increase in multi-family housing construction, and the demand for commercial space is also increasing. However, residential construction activity remains below historical averages. We believe a number of factors, including credit availability, student debt, labor availability, and attitudes towards home ownership will continue to cause volatility in the housing market.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations from those previously disclosed in our Annual Report on Form 10-K except for the issuance of our $400.0 million Senior Notes, the accessing of $100.0 million delayed draw on our term loan during the second quarter of 2018 in connection with the acquisition of USI, as well as our issuance of equipment notes. See further information as disclosed in *Note 4 – Long-Term Debt* to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES

We prepare our condensed consolidated financial statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting policies have not changed materially from those previously reported in our Annual Report on Form 10-K for year ended December 31, 2017, as filed with the SEC on February 27, 2018.

APPLICATION OF NEW ACCOUNTING STANDARDS

Information regarding application of new accounting standards is incorporated by reference from *Note 2 – Accounting Policies* to our unaudited condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that reflect our views about future periods, including our future plans and performance, constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "will," "would," "anticipate," "expect," "believe," "designed," "plan," or "intend," the negative of these terms, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against unduly relying on any of these forward-looking statements. Our future performance may be affected by our reliance on residential new construction, residential repair/remodel, and commercial construction; our reliance on third-party suppliers and manufacturers; our ability to attract, develop, and retain talented personnel and our sales and labor force; our ability to maintain consistent practices across our locations; and our ability to maintain our competitive position. We discuss the material risks we face under the caption entitled "Risk Factors" in our Annual Report for the year ended December 31, 2017, as filed with the SEC on February 27, 2018, as well as under the caption entitled "Risk Factors" in this Quarterly Report. Our forward-looking statements in this filing speak only as of the date of this filing. 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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

Interest payable on both the term loan facility and revolving facility under the Amended Credit Agreement is based on a variable interest rate. As a result, we are exposed to market risks related to fluctuations in interest rates on this outstanding indebtedness. As of June 30, 2018, we had $336.3 million outstanding under our term loan facility, and the applicable interest rate as of such date was 3.23 percent. Based on our outstanding borrowings under the Amended Credit Agreement as of June 30, 2018, a 100 basis point increase in the interest rate would result in a $3.3 million increase in our annualized interest expense. There was no outstanding balance under the revolving facility as of June 30, 2018.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

We acquired USI on May 1, 2018. As permitted by the SEC Staff interpretive guidance for newly acquired businesses, management excluded USI from its evaluation of internal control over financial reporting for the period covered by this quarterly report on Form 10-Q. We do not anticipate that the integration of USI will result in any material changes to our internal control over financial reporting, and we plan to incorporate USI into our evaluation within one year from the date of acquisition. As the post-closing integration progresses, we will continue to review, and as appropriate to integrate, USI's internal controls and processes. See *Part I. Financial Information – Note 12 – Business Combinations* for the significance of USI to our consolidated financial statements.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) in the most recent fiscal quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information set forth in *Part I. Financial Information – Note 7 – Other Commitments and Contingencies* under the caption "Litigation" is incorporated by reference herein.

Item 1A. RISK FACTORS

Except as set forth below, there have been no material changes to our risk factors as previously disclosed in our 2017 Annual Report as filed with the SEC on February 27, 2018.

Risks Related to the USI Acquisition and Any Other Acquired Businesses in the Future

We may not be able to successfully integrate USI and other businesses that we may acquire in the future.

Our ability to successfully implement our business plan and achieve targeted financial results is dependent on our ability to successfully integrate USI and other businesses that we may acquire in the future. The process of integrating USI, and any other acquired businesses, involves risks. These risks include, but are not limited to:

- demands on management related to the increase in the size of our business;
- diversion of management's attention from the management of daily operations;
- difficulties in the assimilation of different corporate cultures and business practices;
- difficulties in conforming the acquired company's accounting policies to ours;
- retaining employees who may be vital to the integration of departments, information technology systems, including accounting systems, technologies, books and records, and procedures, and maintaining uniform standards, such as internal accounting controls, procedures, and policies; and
- costs and expenses associated with any undisclosed or potential liabilities.

Failure to successfully integrate USI, and any other acquired businesses, may result in reduced levels of revenue, earnings, or operating efficiency than might have been achieved if we had not acquired such businesses.

In addition, our acquisition of USI resulted, and any future acquisitions could result, in the incurrence of additional debt and related interest expense, contingent liabilities, and amortization expenses related to intangible assets, which could have a material adverse effect on our financial condition, operating results, and cash flow.

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

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

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

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

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

USI or any other acquired businesses may have liabilities that are not known to us.

USI or any other acquired businesses may have liabilities that we failed, or were unable, to discover in the course of performing our due diligence investigations of USI or any other acquired businesses. We cannot assure you that the indemnification available to us under the acquisition agreement in respect of the USI acquisition or any other acquired businesses or the representation and warranty insurance procured by us in connection with such agreement will be sufficient in amount, scope, or duration to fully offset the possible liabilities associated with USI's business or any other acquired businesses or property that we will assume upon consummation of the USI acquisition or any other acquired businesses. We may learn additional information about USI or any other acquired businesses that materially adversely affects us, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition, and results of operation.

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

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no repurchases of our common stock during the three months ended June 30, 2018, leaving approximately $65.0 million available for future repurchases as of June 30, 2018 under the 2017 Share Repurchase program. For more information see *Note 11 – Share Repurchase Program.* All repurchases are normally made using cash resources. Excluded from this disclosure are shares repurchased to settle statutory employee tax withholding related to the vesting of stock awards and exercise of options.

Period	Total Number of Shares Purchased	Average Price Paid per Common Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2018 - April 30, 2018	—	$ —	—	$ 65,000
May 1, 2018 - May 31, 2018	—	$ —	—	$ 65,000
June 1, 2018 - June 30, 2018	—	$ —	—	$ 65,000
Total	—	$ —	—	

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

The Exhibits listed on the accompanying Index to Exhibits are filed or furnished (as noted on such Index) as part of this Form 10-Q and incorporated herein by reference.

INDEX TO EXHIBITS

		Incorporated by Reference			Filed
Exhibit No.	**Exhibit Title**	**Form**	**Exhibit**	**Filing Date**	**Herewith**
3.1	Amended and Restated Bylaws of TopBuild Corp., as amended	8-K	3.2	5/1/2018	
3.2	Composite Certificate of Incorporation of TopBuild Corp.				X
4.1	Indenture, dated April 25, 2018, by and between TopBuild Escrow Corp. and U.S. Bank National Association, as Trustee	8-K	4.1	4/26/2018	
4.2	Supplemental Indenture, dated May 1, 2018, by and among the Company, the Guarantors and U.S. Bank National Association, as Trustee	8-K	4.1	5/2/2018	
10.1	Escrow Agreement, dated April 25, 2018, by and among TopBuild Corp., TopBuild Escrow Corp. and U.S. Bank National Association	8-K	10.1	4/26/2018	
10.2	Separation Agreement, dated June 15, 2018, by and between TopBuild Corp. and Paul Joachimczyk	8-K	10.1	6/21/2018	
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				
32.2‡	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

‡Furnished herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOPBUILD CORP.

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

August 7, 2018

THIS COMPOSITE CERTIFICATE OF INCORPORATION OF TOPBUILD CORP. (THE "CORPORATION") REFLECTS THE PROVISIONS OF THE CORPORATION'S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION, AS AMENDED AND RESTATED ON JUNE 30, 2015, AND ALL AMENDMENTS THERETO FILED WITH THE DELAWARE SECRETARY OF STATE THEREAFTER ON OR PRIOR TO APRIL 30, 2018, BUT IS NOT AN AMENDMENT OR RESTATEMENT THEREOF.

COMPOSITE
CERTIFICATE OF INCORPORATION
OF

TopBuild Corp.

Article 1
NAME

The name of the corporation is TopBuild Corp.

Article 2
REGISTERED OFFICE AND AGENT

The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

Article 3
PURPOSE AND POWERS

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended ("**Delaware Law**").

Article 4
CAPITAL STOCK

Section 4.01. *Authorized Shares*

(a) *Classes of Stock*. The total number of shares of stock that the Corporation shall have authority to issue is 250,000,000 shares, of Common Stock, par value $0.01 per share (the "**Common Stock**"), and 10,000,000 shares of Preferred Stock, par value $0.01 per share (the '**Preferred Stock**").

(b) *Preferred Stock.* The Board of Directors is hereby empowered, without any action or vote by the Corporation's stockholders (except as may otherwise be provided by the terms of any class or series of Preferred Stock then outstanding), to authorize by resolution or resolutions from time to time the issuance of one or more classes or series of Preferred Stock and to fix the designations, powers, preferences and relative, participating, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, with respect to each such class or series of Preferred Stock and the number of shares constituting each such class or series, and to increase or decrease the number of shares of any such class or series to the extent permitted by Delaware Law.

Section 4.02. *Voting Rights*. Each holder of Common Stock, as such, shall be entitled to one vote for each share of Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote; provided, however, that, except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any certificate of designations relating to any class or series of Preferred Stock) that relates solely to the terms of one or more outstanding classes or series of Preferred Stock if the holders of such affected class or series are entitled, either separately or together with the holders of one or more other such classes or series, to vote thereon pursuant to this Certificate of Incorporation (including any certificate of designations relating to any class or series of Preferred Stock) or pursuant to Delaware Law.

Section 4.03. *Pre-emptive Rights.* No holder of any class of stock issued by this Corporation shall be entitled to pre-emptive rights.

Article 5
BYLAWS

The Board of Directors shall have the power to adopt, amend or repeal the bylaws of the Corporation (the "**Bylaws**").

The stockholders may adopt, amend or repeal the Bylaws only with the affirmative vote of the holders of not less than 66⅔% of the voting power of all outstanding securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

Article 6
BOARD OF DIRECTORS

Section 6.01. *Power of the Board of Directors*. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors.

Section 6.02. *Number of Directors*. The number of directors which shall constitute the Board of Directors shall, as of the date this Certificate of Incorporation becomes effective, be seven and, thereafter, shall be not less than five nor more than twelve, the exact number to be determined from time to time by resolution adopted by the affirmative vote of a majority of the Board of Directors.

Section 6.03. *Election of Directors*. Commencing with the Corporation's 2019 annual meeting of stockholders, and continuing at each succeeding annual meeting of the Corporation, all directors of the Corporation shall be elected for a term of office term ending on the date of the annual meeting of stockholders next following the annual meeting at which such director was elected; provided that each director shall hold office until such director's successor shall have been duly elected and qualified or until such director's earlier death, resignation or removal. In no event will a decrease in the number of directors shorten the term of any incumbent director. There shall be no cumulative voting in the election of directors. Election of directors need not be by written ballot unless the Bylaws so provide.

Section 6.04. *Vacancies*. Vacancies on the Board of Directors resulting from death, resignation, removal or otherwise and newly created directorships resulting from any increase in the number of directors shall, except as otherwise required by law, be filled solely by a majority of the directors then in office (although less than a quorum) or by the sole remaining director, and each director so elected shall hold office for a term that shall coincide with the term of the Class to which such director shall have been elected.

Section 6.05. [Reserved]

Section 6.06. *Preferred Stock Directors*. Notwithstanding anything else contained herein, whenever the holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, the election, term of office, filling of vacancies, removal and other features of such directorships shall be governed by the terms of such class or series of Preferred Stock adopted by resolution or resolutions adopted by the Board of Directors pursuant to Article 4(A) hereto, and such directors so elected shall not be subject to the provisions of this Article 6 unless otherwise provided therein.

Article 7
MEETINGS OF STOCKHOLDERS

Section 7.01. *Annual Meetings*. An annual meeting of stockholders for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting shall be held at such place, on such date, and at such time as the Board of Directors shall determine.

Section 7.02. *Special Meetings*. Special meetings of the stockholders may be called by the Chairman of the Board of Directors, the Chief Executive Officer or the President and shall be called by the Chairman of the Board of Directors, Chief Executive Officer, President or the Secretary, on the written request of three directors. Notwithstanding the foregoing, whenever holders of one or more classes or series of Preferred Stock shall have the right, voting separately as a class or series, to elect directors, such holders may call, pursuant to the terms of such class or series of Preferred Stock adopted by resolution or resolutions of the Board of Directors pursuant to Article 4(A) hereto, special meetings of holders of such Preferred Stock.

Section 7.03. *No Action by Written Consent*. Subject to the rights of the holders of any class or series of Preferred Stock then outstanding, as may be set forth in the resolution or resolutions adopted by the Board of Directors pursuant to Article4(A) hereto for such class or series of Preferred Stock, any action required or permitted to be taken at any annual or special meeting of stockholders may be taken only upon the vote of stockholders at an annual or special meeting duly noticed and called in accordance with Delaware Law, as amended from time to time, and this Article 7 and may not be taken by written consent of stockholders without a meeting.

Article 8
BUSINESS COMBINATIONS

Section 8.01. *Authorization.* The affirmative vote of the holders of 95% of all shares of stock of the Corporation entitled to vote in elections of directors, considered for the purposes of this Article 8 as one class, shall be required for the adoption or authorization of a business combination (as hereinafter defined) with any other entity (as hereinafter defined) if, as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon, such other entity is the beneficial owner, directly or indirectly, of 30% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors considered for the purposes of this Article 8 as one class; provided that such 95% voting requirement shall not be applicable if:

(a) The cash, or fair market value of other consideration, to be received per share by common stockholders of the Corporation in such business combination bears the same or a greater percentage relationship to the market price of the Corporation's common stock immediately prior to the announcement of such business combination as the highest per share price (including brokerage commissions and soliciting dealers' fees) which such other entity has theretofore paid for any of the shares of the Corporation's common stock already owned by it bears to the market price of the common stock of the Corporation immediately prior to the commencement of acquisition of the Corporation's common stock by such other entity;

(b) The cash, or fair market value of other consideration, to be received per share by common stockholders of the Corporation in such business combination (i) is not less than the highest per share price (including brokerage commissions and soliciting dealers' fees) paid by such other entity in acquiring any of its holdings of the Corporation's common stock, and (ii) is not less than the earnings per share of common stock of the Corporation for the four full consecutive fiscal quarters immediately preceding the record date for solicitation of votes on such business combination, multiplied by the then price/earnings multiple (if any) of such other entity as customarily computed and reported in the financial community;

(c) After such other entity has acquired a 30% interest and prior to the consummation of such business combination: (i) such other entity shall have taken steps to ensure that the Corporation's Board of Directors included at all times representation by continuing director(s) (as hereinafter defined) proportionate to the stockholdings of the Corporation's public common stockholders not affiliated with such other entity (with a continuing director to occupy any resulting fractional board position); (ii) there shall have been no reduction in the rate of dividends payable on the Corporation's common stock except as necessary to insure that a quarterly dividend payment does not exceed 5% of the net income of the Corporation for the four full consecutive fiscal quarters immediately preceding the declaration date of such dividend, or except as may have been approved by a unanimous vote of the directors; (iii) such other entity shall not have acquired any newly issued shares of stock, directly or indirectly, from the Corporation (except upon conversion of convertible securities acquired by it prior to obtaining a 30% interest or as a result of a pro rata stock dividend or stock split); and (iv) such other entity shall not have acquired any additional shares of the Corporation's outstanding common stock or securities convertible into common stock except as a part of the transaction which results in such other entity acquiring its 30% interest;

(d) Such other entity shall not have (i) received the benefit, directly or indirectly (except proportionately as a stockholder) of any loans, advances, guarantees, pledges or other financial assistance or tax credits of or provided by the Corporation, or (ii) made any major change in the Corporation's business or equity capital structure without the unanimous approval of the directors, in either case prior to the consummation of such business combination; and

(e) A proxy statement responsive to the requirements of the United States securities laws shall be mailed to all common stock- holders of the Corporation for the purpose of soliciting stock- holder approval of such business combination and shall contain on its first page thereof, in a prominent place, any recommendations as to the advisability (or inadvisability) of the business combination which the continuing directors, or any of them, may choose to state and, if deemed advisable by a majority of the continuing directors, an opinion of a reputable investment banking firm as to the fairness (or not) of the terms of such business combination, from the point of view of the remaining public stockholders of the Corporation (such investment banking firm to be selected by a majority of the continuing directors and to be paid a reasonable fee for their services by the Corporation upon receipt of such opinion).

The provisions of this Article 8 shall also apply to a business combination with any other entity which at any time has been the beneficial owner, directly or indirectly, of 30% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors considered for the purposes of this Article 8 as one class, notwithstanding the fact that such other entity has reduced its shareholdings below 30% if, as of the record date for the determination of stockholders entitled to notice of and to vote on to the business combination, such other entity is an "affiliate" of the Corporation (as hereinafter defined).

Section 8.02. *Definitions*. As used in this Article 8, (i) the term "other entity" shall include any corporation, person or other entity and any other entity with which it or its "affiliate" or "associate" (as defined below) has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of stock of the Corporation, or which is its "affiliate" or "associate" as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on March 31, 1981, together with the successors and assigns of such persons in any transaction or series of transactions not involving a public offering of the Corporation's stock within the meaning of the Securities Act of 1933; (ii) an other entity shall be deemed to be the beneficial owner of any shares of stock of the Corporation which the other entity (as defined above) has the right to acquire pursuant to any agreement, arrangement or understanding or upon exercise of conversion rights, warrants or options, or otherwise; (iii) the outstanding shares of any class of stock of the Corporation shall include shares deemed owned through application of clause (ii) above but shall not include any other shares which may be issuable pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise; (iv) the term "business combination" shall include any merger or consolidation of the Corporation with or into any other entity, or the sale or lease of all or any substantial part of the assets of the Corporation to, or any sale or lease to the Corporation or any subsidiary thereof in exchange for securities of the Corporation of any assets (except assets having an aggregate fair market value of less than $5,000,000) of any other entity; (v) the term "continuing director" shall mean a person who was a member of the Board of Directors of the Corporation elected by stockholders prior to the time that such other entity acquired in excess of 10% of the stock of the Corporation entitled to vote in the election of directors, or a person recommended to succeed a continuing director by a majority of continuing directors; and (vi) for the purposes of subparagraphs (1) and (2) of this Article 8 the term "other consideration to be received" shall mean, in addition to other consideration received, if any, capital stock of the Corporation retained by its existing public stockholders in the event of a business combination with such other entity in which the Corporation is the surviving corporation.

Section 8.03. *Continuing Directors.* A majority of the continuing directors shall have the power and duty to determine for the purposes of this Article 8 on the basis of information known to them whether (i) such other entity beneficially owns 30% or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors; (ii) an other entity is an "affiliate" or "associate" (as defined above) of another; (iii) an other entity has an agreement, arrangement or understanding with another; or (iv) the assets being acquired by the Corporation, or any subsidiary thereof, have an aggregate fair market value of less than $5,000,000.

Section 8.04. *Amendment.* No amendment to the Certificate of Incorporation of the Corporation shall amend or repeal any of the provisions of this Article 8, unless the amendment effecting such amendment or repeal shall receive the affirmative vote of the holders of 95% of all shares of stock of the corporation entitled to vote in elections of directors, considered for the purposes of this Article 8 as one class; provided that this paragraph D shall not apply to, and such 95% vote shall not be required for, any amendment or repeal unanimously recommended to the stockholders by the Board of Directors of the Corporation if all of such directors are persons who would be eligible to serve as "continuing directors" within the meaning of paragraph B of this Article 8.

Section 8.05. *Fiduciary Duty.* Nothing contained in this Article 8 shall be construed to relieve any other entity from any fiduciary obligation imposed by law.

Article 9
INDEMNIFICATION

Section 9.01. *Limited Liability*. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law hereafter is amended to authorize the further limitation or elimination of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on liability provided herein, shall be limited to the fullest extent permitted by the Delaware Law.

Section 9.02. *Right to Indemnification.* (a) Each person (and the heirs, executors or administrators of such person) who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by Delaware Law, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith. The Corporation shall indemnify a director, officer or employee in connection with an action, suit or proceeding (other than an action, suit or proceeding to enforce indemnification rights provided for herein or elsewhere) initiated by such director, officer or employee only if such action, suit or proceeding was authorized by the Board of Directors. The right to indemnification conferred in this Article 9 shall also include the right to be paid by the Corporation the expenses incurred in connection with any such proceeding in advance of its final disposition; provided, however, that, if the Delaware Law requires, the payment of such expenses incurred by a director or officer in such person's capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person) in advance of the final disposition of an action, suit or proceeding shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such director or officer is not entitled to be indemnified for such expenses under this Article 9 or otherwise. The right to indemnification conferred in this Article 9 shall be a contract right.

(b) The Corporation may, by action of its Board of Directors, provide indemnification to such agents of the Corporation to such extent and to such effect as the Board of Directors shall determine to be appropriate and authorized by Delaware Law.

Section 9.03. *Insurance*. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under Delaware Law.

Section 9.04. *Nonexclusivity of Rights.* The rights and authority conferred in this Article 9 shall not be exclusive of any other right that any person may otherwise have or hereafter acquire.

Section 9.05. *Preservation of Rights.* Neither the amendment nor repeal of this Article 9, nor the adoption of any provision of this Certificate of Incorporation or the Bylaws, nor, to the fullest extent permitted by Delaware Law, any modification of law, shall adversely affect any right or protection of any person granted pursuant hereto existing at, or arising out of or related to any event, act or omission that occurred prior to, the time of such amendment, repeal, adoption or modification (regardless of when any proceeding (or part thereof) relating to such event, act or omission arises or is first threatened, commenced or completed).

Article 10
MISCELLANEOUS

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

To make, alter or repeal the bylaws of the Corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, to sell, lease or exchange all of the property and assets of the Corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interests of the Corporation.

Article 11
AMENDMENTS

The Corporation reserves the right to amend this Certificate of Incorporation in any manner permitted by the Delaware Law and all rights and powers conferred upon stockholders, directors and officers herein are granted subject to this reservation. Notwithstanding the foregoing or the bylaws, the provisions set forth in Section 4.01(b) of Article 4, Articles 5, 6, 7, and this Article 11 may not be repealed or amended in any respect, and no other provision may be adopted, amended or repealed, in this Certificate of Incorporation or in the bylaws, which would have the effect of modifying or permitting the circumvention of the provisions set forth in any of Section 4.01(b) of Article 4, Articles 5, 6, 7, or this Article 11, unless such action is approved by the affirmative vote of the holders of not less than 66 $^{2}/_{3}$% of the total voting power of all outstanding securities of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

Exhibit 31.1

Certifications

I, Gerald Volas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TopBuild Corp.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2018

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

Exhibit 31.2

Certifications

I, John S. Peterson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TopBuild Corp.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2018

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

Exhibit 32.1

CERTIFICATION OF PERIOD REPORT

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 Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); 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: August 7, 2018

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

Exhibit 32.2

CERTIFICATION OF PERIOD REPORT

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 Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); 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: August 7, 2018

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