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, 2021

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

For the transition period from_______ to _______

Commission file number: 001-36870

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	BLD	New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☐ Non-accelerated filer ☐ 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

The registrant had outstanding 32,934,879 shares of Common Stock, par value $0.01 per share as of July 27, 2021.

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 Long-Term Incentive Program authorizes the Board to grant stock options, stock appreciation rights, restricted shares, restricted share units, performance awards, and dividend equivalents
2019 ASR Agreement	$50 million accelerated share repurchase agreement with Bank of America, N.A.
2019 Repurchase Program	$200 million share repurchase program authorized by the Board on February 22, 2019
2021 Repurchase Program	$200 million share repurchase program authorized by the Board on July 26, 2021
ABS	American Building Systems, Inc.
Amended Credit Agreement	Senior secured credit agreement and related security and pledge agreement dated March 8, 2021
Annual Report	Annual report filed with the SEC on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Board	Board of Directors of TopBuild
BofA	Bank of America, N.A.
Cooper	Cooper Glass Company, LLC
Creative	Creative Conservation Co.
Current Report	Current report filed with the SEC on Form 8-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
EBITDA	Earnings before interest, taxes, depreciation, and amortization
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	Generally accepted accounting principles in the United States of America
Garland	Garland Insulating, Ltd.
Hunter	J.P. Hunter Enterprises, Inc.
IBR	Incremental borrowing rate, as defined in ASC 842
Lenders	Bank of America, N.A., together with the other lenders party to the "Amended Credit Agreement"
LCR	L.C.R. Contractors, LLC
LIBOR	London interbank offered rate
Net Leverage Ratio	As defined in the “Amended Credit Agreement,” the ratio of outstanding indebtedness, less up to $100 million of unrestricted cash, to EBITDA
New Senior Notes	TopBuild's 3.625% senior unsecured notes due on March 15, 2029
NYSE	New York Stock Exchange
Old Senior Notes	TopBuild's 5.625% senior unsecured notes which were due on May 1, 2026 and redeemed in full on March 15, 2021
Original Credit Agreement	Senior secured credit agreement and related security and pledge agreement dated May 5, 2017, as amended and restated on March 20, 2020
Ozark	Ozark Foam Insealators, Inc.
Quarterly Report	Quarterly report filed with the SEC on Form 10-Q pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Revolving Facility	Senior secured revolving credit facilities available under the Amended Credit Agreement, of $450 million with applicable sublimits for letters of credit and swingline loans.
ROU	Right of use (asset), as defined in ASC 842
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
TopBuild	TopBuild Corp. and its wholly-owned consolidated domestic subsidiaries. Also, the "Company," "we," "us," and "our"
Viking	Viking Insulation Co.

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	As of	
	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 261,739	$ 330,007
Receivables, net of an allowance for credit losses of $8,337 at June 30, 2021, and $6,926 at December 31, 2020	491,625	427,340
Inventories, net	178,576	161,369
Prepaid expenses and other current assets	20,523	17,689
Total current assets	952,463	936,405
Right of use assets	100,558	83,490
Property and equipment, net	199,982	180,053
Goodwill	1,494,200	1,410,685
Other intangible assets, net	237,573	190,605
Deferred tax assets, net	2,729	2,728
Other assets	11,213	11,317
Total assets	$ 2,998,718	$ 2,815,283
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 356,570	$ 331,710
Current portion of long-term debt	23,476	23,326
Accrued liabilities	126,517	107,949
Short-term lease liabilities	36,673	33,492
Total current liabilities	543,236	496,477
Long-term debt	680,999	683,396
Deferred tax liabilities, net	168,091	168,568
Long-term portion of insurance reserves	49,456	50,657
Long-term lease liabilities	68,457	53,749
Other liabilities	13,663	13,642
Total liabilities	1,523,902	1,466,489
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding	—	—
Common stock, $0.01 par value: 250,000,000 shares authorized; 39,118,710 shares issued and 32,984,691 outstanding at June 30, 2021, and 39,029,913 shares issued and 33,018,925 outstanding at December 31, 2020	390	389
Treasury stock, 6,134,019 shares at June 30, 2021, and 6,010,988 shares at December 31, 2020, at cost	(410,707)	(386,669)
Additional paid-in capital	858,251	858,414
Retained earnings	1,026,882	876,660
Total equity	1,474,816	1,348,794
Total liabilities and equity	$ 2,998,718	$ 2,815,283

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,	
	2021	**2020**	**2021**	**2020**
Net sales	$ 834,255	$ 646,099	$ 1,577,053	$ 1,299,327
Cost of sales	591,075	468,045	1,136,114	949,316
Gross profit	243,180	178,054	440,939	350,011
Selling, general, and administrative expense	114,894	97,600	216,767	199,568
Operating profit	128,286	80,454	224,172	150,443
Other income (expense), net:				
Interest expense	(6,105)	(8,277)	(12,707)	(17,018)
Loss on extinguishment of debt	—	—	(13,862)	(233)
Other, net	66	89	144	561
Other expense, net	(6,039)	(8,188)	(26,425)	(16,690)
Income before income taxes	122,247	72,266	197,747	133,753
Income tax expense	(31,867)	(16,770)	(47,525)	(27,485)
Net income	$ 90,380	$ 55,496	$ 150,222	$ 106,268
Net income per common share:				
Basic	$ 2.75	$ 1.69	$ 4.57	$ 3.22
Diluted	$ 2.72	$ 1.67	$ 4.53	$ 3.18
Weighted average shares outstanding:				
Basic	32,865,303	32,867,842	32,846,016	33,018,148
Diluted	33,177,435	33,202,423	33,190,107	33,401,135

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,	
	2021	2020
Cash Flows Provided by (Used in) Operating Activities:		
Net income	$ 150,222	$ 106,268
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,221	33,311
Share-based compensation	5,377	9,038
Loss on extinguishment of debt	13,862	233
Loss on sale or abandonment of property and equipment	833	320
Amortization of debt issuance costs	858	716
Provision for bad debt expense	4,037	3,756
Loss from inventory obsolescence	1,129	1,313
Deferred income taxes, net	(206)	(38)
Change in certain assets and liabilities		
Receivables, net	(36,277)	1,894
Inventories, net	(8,055)	538
Prepaid expenses and other current assets	(2,273)	9,151
Accounts payable	21,782	(16,390)
Accrued liabilities	17,693	28,188
Payment of contingent consideration	—	(413)
Other, net	—	277
Net cash provided by operating activities	202,203	178,162
Cash Flows Provided by (Used in) Investing Activities:		
Purchases of property and equipment	(28,560)	(20,937)
Acquisition of businesses	(195,411)	(20,526)
Proceeds from sale of property and equipment	193	763
Net cash used in investing activities	(223,778)	(40,700)
Cash Flows Provided by (Used in) Financing Activities:		
Proceeds from issuance of long-term debt	411,250	300,000
Repayment of long-term debt	(421,716)	(313,407)
Payment of debt issuance costs	(6,500)	(2,280)
Taxes withheld and paid on employees' equity awards	(11,491)	(13,165)
Exercise of stock options	5,952	—
Repurchase of shares of common stock	(24,038)	(34,152)
Payment of contingent consideration	(150)	(428)
Net cash used in financing activities	(46,693)	(63,432)
Cash and Cash Equivalents		
(Decrease) increase for the period	(68,268)	74,030
Beginning of period	330,007	184,807
End of period	$ 261,739	$ 258,837
Supplemental disclosure of noncash activities:		
Leased assets obtained in exchange for new operating lease liabilities	$ 39,135	$ 19,257
Accruals for property and equipment	460	323

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, 2019	$ 388	$ (330,018)	$ 849,657	$ 632,862	$ 1,152,889
Cumulative-effect of accounting change	—	—	—	(3,225)	(3,225)
Net income	—	—	—	50,771	50,771
Share-based compensation	—	—	3,908	—	3,908
Issuance of 63,780 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 73,455 shares pursuant to the settlement of the 2019 ASR Agreement	—	(7,500)	7,500	—	—
Repurchase of 188,100 shares	—	(14,127)	—	—	(14,127)
97,144 shares withheld to pay taxes on employees' equity awards	—	—	(10,399)	—	(10,399)
Balance at March 31, 2020	$ 389	$ (351,645)	$ 850,665	$ 680,408	$ 1,179,817
Net income	—	—	—	55,496	55,496
Share-based compensation	—	—	5,130	—	5,130
Repurchase of 262,889 shares	—	(20,025)	—	—	(20,025)
38,372 shares withheld to pay taxes on employees' equity awards	—	—	(2,766)	—	(2,766)
Balance at June 30, 2020	$ 389	$ (371,670)	$ 853,029	$ 735,904	$ 1,217,652

	Common Stock ($0.01 par value)	Treasury Stock at cost	Additional Paid-in Capital	Retained Earnings	Equity
Balance at December 31, 2020	$ 389	$ (386,669)	$ 858,414	$ 876,660	$ 1,348,794
Net income	—	—	—	59,842	59,842
Share-based compensation	—	—	3,111	—	3,111
Issuance of 30,284 restricted share awards under long-term equity incentive plan	1	—	(1)	—	—
Repurchase of 49,284 shares	—	(9,856)	—	—	(9,856)
43,290 shares withheld to pay taxes on employees' equity awards	—	—	(11,480)	—	(11,480)
51,915 shares issued upon exercise of stock options	—	—	5,952	—	5,952
Balance at March 31, 2021	$ 390	$ (396,525)	$ 855,996	$ 936,502	$ 1,396,363
Net income	—	—	—	90,380	90,380
Share-based compensation	—	—	2,266	—	2,266
Repurchase of 73,747 shares	—	(14,182)	—	—	(14,182)
50 shares withheld to pay taxes on employees' equity awards	—	—	(11)	—	(11)
Balance at June 30, 2021	$ 390	$ (410,707)	$ 858,251	$ 1,026,882	$ 1,474,816

See notes to our unaudited condensed consolidated financial statements.

TOPBUILD CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

TopBuild was formed 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 chief operating decision maker.

We believe 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, 2021, our results of operations for the three and six months ended June 30, 2021 and 2020, and cash flows for the six months ended June 30, 2021 and 2020. The condensed consolidated balance sheet at December 31, 2020, 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 for the year ended December 31, 2020, as filed with the SEC on February 23, 2021.

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 periods. Actual results could differ materially from these estimates. All significant intercompany transactions between TopBuild entities have been eliminated.

Recently Adopted Accounting Pronouncements

Income Taxes

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740), *Simplifying the Accounting for Income Taxes*." This standard simplifies the accounting for income taxes by removing certain exceptions to the general principles included in current guidance, as well as improving consistent application of and simplifying GAAP for other areas by clarifying and amending existing guidance. We adopted this standard on January 1, 2021, using the modified retrospective method related to franchise taxes. There was no cumulative-effect adjustment recorded as of the beginning of 2021.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*," which replaces the current incurred loss methodology with an expected loss methodology, referred to as the current expected credit loss (CECL) methodology. We adopted Topic 326 on January 1, 2020, using the modified retrospective method, which resulted in a $3.2 million cumulative-effect adjustment recorded through retained earnings at the beginning of 2020.

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

The following table summarizes additional ASUs which were adopted, but did not have a material impact on our accounting policies or our consolidated financial statements and related disclosures:

ASU	Description	Period Adopted	Method
ASU 2021-01	Reference Rate Reform	01/01/21	Prospective
ASU 2017-04	Simplifying the Test for Goodwill Impairment	01/01/20	Prospective
ASU 2018-13	Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	01/01/20	Prospective

3. REVENUE RECOGNITION

Revenue is disaggregated between our Installation and Distribution segments and furtherbased on market and product, as we believe this best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following tables present our revenues disaggregated by market (in thousands):

	Three Months Ended June 30,							
	2021				2020			
	Installation	Distribution	Elims	Total	Installation	Distribution	Elims	Total
Residential	$ 486,266	$ 203,063	$ (36,719)	$ 652,610	$ 370,969	$ 163,615	$ (29,050)	$ 505,534
Commercial	119,359	70,301	(8,015)	181,645	95,600	52,721	(7,756)	140,565
Net sales	$ 605,625	$ 273,364	$ (44,734)	$ 834,255	$ 466,569	$ 216,336	$ (36,806)	$ 646,099

	Six Months Ended June 30,							
	2021				2020			
	Installation	Distribution	Elims	Total	Installation	Distribution	Elims	Total
Residential	$ 904,343	$ 395,108	$ (70,057)	$ 1,229,394	$ 744,250	$ 326,071	$ (58,055)	$ 1,012,266
Commercial	234,035	129,857	(16,233)	347,659	198,192	104,487	(15,618)	287,061
Net sales	$ 1,138,378	$ 524,965	$ (86,290)	$ 1,577,053	$ 942,442	$ 430,558	$ (73,673)	$ 1,299,327

The following tables present our revenues disaggregated by product (in thousands):

	Three Months Ended June 30,							
	2021				2020			
	Installation	Distribution	Elims	Total	Installation	Distribution	Elims	Total
Insulation and accessories	$ 478,076	$ 220,257	$ (37,193)	$ 661,140	$ 360,999	$ 175,559	$ (29,548)	$ 507,010
Glass and windows	47,167	—	—	47,167	39,371	—	—	39,371
Gutters	22,416	36,851	(6,264)	53,003	21,577	25,979	(5,687)	41,869
All other	57,966	16,256	(1,277)	72,945	44,622	14,798	(1,571)	57,849
Net sales	$ 605,625	$ 273,364	$ (44,734)	$ 834,255	$ 466,569	$ 216,336	$ (36,806)	$ 646,099

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

	Six Months Ended June 30,							
	2021				2020			
	Installation	Distribution	Elims	Total	Installation	Distribution	Elims	Total
Insulation and accessories	$ 895,673	$ 431,751	$ (71,720)	$ 1,255,704	$ 730,995	$ 355,808	$ (59,607)	$ 1,027,196
Glass and windows	90,214	—	—	90,214	80,690	—	—	80,690
Gutters	41,774	62,689	(11,569)	92,894	40,506	45,970	(11,074)	75,402
All other	110,717	30,525	(3,001)	138,241	90,251	28,780	(2,992)	116,039
Net sales	$ 1,138,378	$ 524,965	$ (86,290)	$ 1,577,053	$ 942,442	$ 430,558	$ (73,673)	$ 1,299,327

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

	Included in Line Item on Condensed Balance Sheets	As of June 30, 2021	As of December 31, 2020
Contract Assets:			
Receivables, unbilled	Receivables, net	$ 65,464	$ 48,839
Contract Liabilities:			
Deferred revenue	Accrued liabilities	$ 10,080	$ 6,542

The increase in contract assets as of June 30, 2021 is primarily driven by an increase in organic sales as well as sales from our acquisitions during the quarter.

The aggregate amount remaining on uncompleted performance obligations was $287.9 million as of June 30, 2021. We expect to satisfy the performance obligations and recognize revenue on substantially all of these uncompleted contracts over the next 18 months.

Certain customer contracts contain provisions whereby customers are entitled to withhold an agreed upon percentage of the total contract value until the customer's project is satisfactorily complete. This amount held back is referred to as retainage and is a common practice in the construction industry. Retainage receivables are classified as a component of accounts receivable.

4. GOODWILL AND OTHER INTANGIBLES

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

In the fourth quarter of 2020, we performed an annual assessment on our goodwill resulting in no impairment.

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

Changes in the carrying amount of goodwill for the six months ended June 30, 2021 by segment, were as follows, in thousands:

	Gross Goodwill December 31, 2020	Additions	Gross Goodwill June 30, 2021	Accumulated Impairment Losses	Net Goodwill June 30, 2021
Goodwill, by segment:					
Installation	$ 1,726,356	$ 82,825	$ 1,809,181	$ (762,021)	$ 1,047,160
Distribution	446,350	690	447,040	—	447,040
Total goodwill	$ 2,172,706	$ 83,515	$ 2,256,221	$ (762,021)	$ 1,494,200

See *Note 13 – Business Combinations* for goodwill recognized on acquisitions that occurred during the quarter.

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

	As of	
	June 30, 2021	December 31, 2020
Gross definite-lived intangible assets	$ 313,061	$ 252,751
Accumulated amortization	(75,488)	(62,146)
Net definite-lived intangible assets	237,573	190,605

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Amortization expense	$ 7,199	$ 5,358	$ 13,342	$ 10,630

5. LONG-TERM DEBT

The following table reconciles the principal balances of our outstanding debt to our condensed consolidated balance sheets, in thousands:

	As of	
	June 30, 2021	December 31, 2020
Senior Notes - 3.625% due March 2029	$ 400,000	$ —
Senior Notes - 5.625% due May 2026	—	400,000
Term loan	296,250	288,750
Equipment notes	21,289	25,451
Unamortized debt issuance costs	(13,064)	(7,479)
Total debt, net of unamortized debt issuance costs	704,475	706,722
Less: current portion of long-term debt	23,476	23,326
Total long-term debt	$ 680,999	$ 683,396

The following table sets forth our remaining principal payments for our outstanding debt balances as of June 30, 2021, in thousands:

	Payments Due by Period						
	2021	2022	2023	2024	2025	Thereafter	Total
Senior Notes	$ —	$ —	$ —	$ —	$ —	$ 400,000	$ 400,000
Term loan	7,500	15,000	20,625	22,500	28,125	202,500	296,250
Equipment notes	4,204	8,640	6,325	2,120	—	—	21,289
Total	$ 11,704	$ 23,640	$ 26,950	$ 24,620	$ 28,125	$ 602,500	$ 717,539

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

Amendment to Original Credit Agreement and Senior Secured Term Loan Facility

On March 8, 2021, the Company entered into an Amendment to our Original Credit Agreement (as so amended, the Amended Credit Agreement). The Amended Credit Agreement provides for a term loan facility in an aggregate principal amount of $ 300.0 million, all of which was drawn on March 8, 2021 and a Revolving Facility with an aggregate borrowing capacity of $450.0 million, including a $100.0 million letter of credit sublimit and up to a $35.0 million swingline sublimit.
The maturity date for the loans under the Amended Credit Agreement was extended from March 2025 to March 2026, the floor for base rate loans has been reduced from 1.5% to 1.0%, and the floor for Eurodollar rate loans has been reduced from0.5% to 0.0%. Additional provisions have also been made for the eventual replacement of LIBOR with another alternate benchmark rate.

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

Senior secured term loan facility	$	300,000
Additional term loan and/or revolver capacity available under incremental facility (a)	$	300,000
Revolving Facility	$	450,000
Sublimit for issuance of letters of credit under Revolving Facility (b)	$	100,000
Sublimit for swingline loans under Revolving Facility (b)	$	35,000
Interest rate as of June 30, 2021		1.09 %
Scheduled maturity date		3/20/2026

(a) 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).
(b) Use of the sublimits for the issuance of letters of credit and swingline loans reduces the availability under the Revolving Facility.

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

- A base rate determined by reference to the highest of either (i) the federal funds rate plus0.50 percent, (ii) BofA's "prime rate," and (iii) the LIBOR rate for U.S. dollar deposits with a term of one month, plus 1.00 percent; or
- A LIBOR rate (or a comparable successor rate) determined by reference to the costs of funds for deposits in U.S. dollars for the interest period relevant to such borrowings, subject to a floor of 0%.

The Amended Credit Agreement contemplates future amendment by the Company and the agent to provide for the replacement of LIBOR with another alternate benchmark rate, giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such alternative benchmarks, including any related mathematical or other applicable adjustments.

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 1.00 percent and in the case of LIBOR rate borrowings, the applicable margin ranges froml.00 percent to 2.50 percent. Borrowings under the Amended Credit Agreement are prepayable at the Company's option without premium or penalty. The Company is required to make prepayments with the net cash proceeds of certain asset sales and certain extraordinary receipts.

Revolving Facility

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

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The following table summarizes our availability under the Revolving Facility, in thousands:

	As of	
	June 30, 2021	December 31, 2020
Revolving Facility	$ 450,000	$ 450,000
Less: standby letters of credit	(71,211)	(60,382)
Availability under Revolving Facility	$ 378,789	$ 389,618

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

Senior Notes

On March 15, 2021, the Company completed a private offering of $400.0 million aggregate principal amount of 3.625% New Senior Notes due 2029. The Company used the proceeds from the issuance of the New Senior Notes, together with cash on hand, to redeem 100% of its $400.0 million aggregate principal amount of 5.625% Old Senior Notes due 2026. The New Senior Notes are our senior unsecured obligations and bear interest at 3.625% per year, payable semiannually in arrears on March 15 and September 15 of each year, which begins on September 15, 2021. The New Senior Notes mature on March 15, 2029, unless redeemed early or repurchased. 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.

The Company may redeem the Notes, in whole or in part, at any time on or after March 15, 2024 at the redemption prices specified in the Notes. The Company may also redeem all or part of the Notes at any time prior to March 15, 2024 at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus the Applicable Premium (as defined in the Indenture), as of, and accrued and unpaid interest to, the redemption date. Additionally, the Company may redeem up to 40% of the aggregate principal amount of the Notes prior to March 15, 2024 with the net cash proceeds of certain sales of its capital stock at 103.625% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the date of redemption only if, after the redemption, at least 60% of the aggregate principal amount of the Notes originally issued remains outstanding.

Equipment Notes

As of December 31, 2020, the company has issued $41.6 million of equipment notes for the purpose of financing the purchase of vehicles and equipment. No equipment notes were issued during the six months ended June 30, 2021. The Company's equipment notes each have a five year term maturing from 2023 to 2024 and bear interest at fixed rates between 2.8% and 4.4%.

Covenant Compliance

The indenture governing our New Senior Notes contains restrictive covenants that, among other things, generally limit the ability of the Company and certain of its subsidiaries (subject to certain exceptions) to (i) create liens, (ii) pay dividends, acquire shares of capital stock and make payments on subordinated debt, (iii) place limitations on distributions from certain subsidiaries, (iv) issue or sell the capital stock of certain subsidiaries, (v) sell assets, (vi) enter into transactions with affiliates and (vii) effect mergers. The indenture provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of covenants or other agreements in the indenture; defaults in failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the indenture, the trustee or the holders of at least 30% in aggregate principal amount of the New Senior Notes then outstanding may declare the principal of, premium, if any, and accrued interest on all the New Senior Notes immediately due and payable. The New Senior Notes and related guarantees have not been registered under the Securities Act of 1933, and we are not required to register either the New 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 that we maintain a Net Leverage Ratio and minimum Interest Coverage Ratio throughout the term of the agreement. The following table outlines the key financial covenants effective for the period covered by this Quarterly Report:

	As of June 30, 2021
Maximum Net Leverage Ratio	3.50:1.00
Minimum Interest Coverage Ratio	3.00:1.00
Compliance as of period end	In Compliance

6. FAIR VALUE MEASUREMENTS

Fair Value on Recurring Basis

The carrying values of cash and cash equivalents, receivables, net, and accounts payable are considered to be representative of their respective fair values due to the short-term nature of these instruments. We measure our contingent consideration liabilities related to business combinations at fair value. For more information see *Note 13 – 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 market trades of our New Senior Notes close to June 30, 2021 (Level 1 fair value measurement), we estimate that the fair value of the New Senior Notes is approximately $397.5 million compared to a gross carrying value of $400 million at June 30, 2021.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. SEGMENT INFORMATION

The following tables set forth our net sales and operating results by segment, in thousands:

	Three Months Ended June 30,			
	2021	2020	2021	2020
	Net Sales		Operating Profit (b)	
Our operations by segment were (a):				
Installation	$ 605,625	$ 466,569	$ 99,066	$ 69,643
Distribution	273,364	216,336	42,856	24,155
Intercompany eliminations	(44,734)	(36,806)	(6,932)	(5,961)
Total	$ 834,255	$ 646,099	134,990	87,837
General corporate expense, net (c)			(6,704)	(7,383)
Operating profit, as reported			128,286	80,454
Other expense, net			(6,039)	(8,188)
Income before income taxes			$ 122,247	$ 72,266

	Six Months Ended June 30,			
	2021	2020	2021	2020
	Net Sales		Operating Profit (b)	
Our operations by segment were (a):				
Installation	$ 1,138,378	$ 942,442	$ 172,702	$ 129,994
Distribution	524,965	430,558	78,241	48,825
Intercompany eliminations	(86,290)	(73,673)	(13,460)	(11,795)
Total	$ 1,577,053	$ 1,299,327	237,483	167,024
General corporate expense, net (c)			(13,311)	(16,581)
Operating profit, as reported			224,172	150,443
Other expense, net			(26,425)	(16,690)
Income before income taxes			$ 197,747	$ 133,753

(a) All of our operations are located in the U.S.
(b) Segment operating profit includes an allocation of general corporate expenses attributable to the operating segments which is based on direct benefit or usage (such as salaries of corporate employees who directly support the segment).
(c) General corporate expense, net includes expenses not specifically attributable to our segments for functions such as corporate human resources, finance, and legal, including salaries, benefits, and other related costs.

8. LEASES

We have operating leases for our installation branch locations, distribution centers, our Branch Support Center in Daytona Beach, Florida, vehicles and certain equipment. In addition, we lease certain operating facilities from related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. These related party leases are immaterial to our consolidated statements of operations. As of June 30, 2021, we did not have any finance leases.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of lease expense were as follows and are primarily included in cost of sales on the accompanying unaudited condensed consolidated statements of operations, in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating lease cost (a)	$ 12,636	$ 12,096	$ 24,446	$ 24,367
Short-term lease cost	3,844	2,813	7,198	5,877
Sublease income	(215)	(49)	(421)	(111)
Net lease cost	$ 16,265	$ 14,860	$ 31,223	$ 30,133

(a) Includes variable cost components of $1,808 and $1,330 in the three months ended June 30, 2021 and 2020, respectively, and $3,505 and $2,774 of variable cost components in the six months ended June 30, 2021 and 2020, respectively.

Future minimum lease payments under non-cancellable operating leases as of June 30, 2021 were as follows, in thousands:

Payments due by Period	
2021	$ 21,141
2022	34,701
2023	23,826
2024	16,212
2025	11,147
2026 & Thereafter	7,791
Total future minimum lease payments	114,818
Less: imputed interest	(9,688)
Lease liability at June 30, 2021	$ 105,130

As of June 30, 2021, the weighted average remaining lease term was3.7 years and the related lease liability was calculated using a weighted average discount rate of 3.4%.

The amount below is included in the cash flows provided by (used in) operating activities section on the accompanying unaudited condensed consolidated statements of cash flows, in thousands:

	Six Months Ended June 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	$ (21,072)	$ (21,544)

9. INCOME TAXES

Our effective tax rates were 26.1 percent and 24.0 percent for the three and six months ended June 30, 2021, respectively. The effective tax rates for the three and six months ended June 30, 2020, were 23.2 percent and 20.5 percent, respectively. The higher 2021 tax rate for the three months ended June 30, 2021 compared to the three months ended June 30, 2020 was due to permanent items including share-based compensation and state tax adjustments.

A tax benefit of $0.2 million and $3.3 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 three and six months ended June 30, 2021, respectively.

10. INCOME PER SHARE

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

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

Basic and diluted net income per share were computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (in thousands) - basic and diluted	$ 90,380	$ 55,496	$ 150,222	$ 106,268
Weighted average number of common shares outstanding - basic	32,865,303	32,867,842	32,846,016	33,018,148
Dilutive effect of common stock equivalents:				
RSAs with service-based conditions	15,456	47,618	25,538	59,419
RSAs with market-based conditions	118,102	146,496	132,600	138,760
RSAs with performance-based conditions	59,167	17,314	54,094	33,546
Stock options	119,407	123,153	131,859	151,262
Weighted average number of common shares outstanding - diluted	33,177,435	33,202,423	33,190,107	33,401,135
Basic net income per common share	$ 2.75	$ 1.69	$ 4.57	$ 3.22
Diluted net income per common share	$ 2.72	$ 1.67	$ 4.53	$ 3.18

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,	
	2021	2020	2021	2020
Anti-dilutive common stock equivalents:				
RSAs with service-based conditions	1,815	7,281	2,323	6,276
RSAs with market-based conditions	11,128	—	8,320	4,171
RSAs with performance-based conditions	—	—	—	—
Stock options	24,066	61,370	17,916	46,718
Total anti-dilutive common stock equivalents	37,009	68,651	28,559	57,165

11. SHARE-BASED COMPENSATION

Effective July 1, 2015, our eligible employees commenced participation 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, 2021, we had 2.0 million shares remaining available for issuance under the 2015 LTIP.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Share-based compensation expense is included in selling, general, and administrative expense. The income tax effect associated with share-based compensation awards is included in income tax expense. The following table presents share-based compensation amounts recognized in our condensed consolidated statements of operations, in thousands:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Share-based compensation expense	$ 2,266	$ 5,130	$ 5,377	$ 9,038
Income tax benefit realized	$ 228	$ 1,396	$ 3,320	$ 6,896

The following table presents a summary of our share-based compensation activity for the six months ended June 30, 2021, in thousands, except per share amounts:

	RSAs		Stock Options			
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Balance December 31, 2020	324.8	$ 87.79	239.7	$ 24.33	$ 68.86	$ 27,612.1
Granted	60.1	$ 246.26	24.1	$ 89.59	$ 214.58	
Converted/Exercised	(143.1)	$ 81.34	(51.9)	$ 21.97	$ 61.30	$ 7,039.9
Forfeited/Expired	(9.0)	$ 89.62	—	$ —	$ —	
Balance June 30, 2021	232.8	$ 113.04	211.9	$ 32.33	$ 87.28	$ 23,809.9
Exercisable June 30, 2021 (a)			115.7	$ 20.97	$ 57.86	$ 16,187.5

(a) The weighted average remaining contractual term for vested stock options is approximately 6.3 years.

Unrecognized share-based compensation expense related to unvested awards is shown in the following table, dollars in thousands:

	As of June 30, 2021	
	Unrecognized Compensation Expense on Unvested Awards	Weighted Average Remaining Vesting Period
RSAs	$ 12,153	1.3
Stock options	2,479	1.2
Total unrecognized compensation expense related to unvested awards	$ 14,632	

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 18, 2019	$ 2,138	$ —	$ 535	$ 2,138	$ 4,276
February 17, 2020	$ 2,665	$ —	$ 666	$ 2,665	$ 5,330
February 16, 2021	$ 2,564	$ —	$ 641	$ 2,564	$ 5,128

During the first quarter of 2021, RSAs with performance-based conditions that were granted on February 19, 2018 vested based on cumulative three-year achievement of 200%. Total compensation expense recognized over the three-year performance period, net of forfeitures, was $3.7 million.

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 2021 and 2020:

	2021	2020
Measurement period (years)	2.87	2.88
Risk free interest rate	0.22 %	1.40 %
Dividend yield	0.00 %	0.00 %
Estimated fair value of market-based RSAs at grant date	$ 298.66	$ 158.24

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 stock options granted in 2021 and 2020:

	2021	2020
Risk free interest rate	0.76 %	1.53 %
Expected volatility, using historical return volatility and implied volatility	43.29 %	31.50 %
Expected life (in years)	6.0	6.0
Dividend yield	0.00 %	0.00 %
Estimated fair value of stock options at grant date	$ 89.59	$ 39.49

12. SHARE REPURCHASE PROGRAM

On February 22, 2019, our Board authorized the 2019 Repurchase Program, pursuant to which the Company may purchase up to $200.0 million of our common stock. Share repurchases may be executed through various means including open market purchases, privately negotiated transactions, accelerated share repurchase transactions, or other available means. The 2019 Share Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the 2019 Share Repurchase Program may be terminated, increased, or decreased by the Board at its discretion at any time. As of June 30, 2021, the Company has approximately $15.9 million remaining under the 2019 Repurchase Program.

Effective November 4, 2019, under the 2019 Repurchase program, we entered into the 2019 ASR Agreement. We paid BofA $50.0 million in exchange for an initial delivery of 392,501 shares of our common stock on November 5, 2019, representing an estimated 85% of the total number of shares we expected to receive under the 2019 ASR Agreement, at the time we entered into the agreement. During the quarter ended March 31, 2020, we received an additional 73,455 shares of our common stock from BofA representing the final settlement of the 2019 ASR agreement. We purchased a total of 465,956 shares of our common stock under the 2019 ASR Agreement at an average price per share of $107.31.

The following table sets forth our share repurchases under the 2019 Repurchase Program during the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Number of shares repurchased	73,747	262,889	123,031	524,444 (a)
Share repurchase cost (in thousands)	$ 14,182	$ 20,025	$ 24,038	$ 34,152

(a) The six months ended June 30, 2020 includes 73,455 shares we received as final settlement of our 2019 ASR Agreement.

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13. BUSINESS COMBINATIONS

We continue to acquire businesses as part of our ongoing strategy to grow our company and expand our market share. Each acquisition has been accounted for as a business combination under ASC 805, "Business Combinations." There were no acquisition related costs for the three months ended June 30, 2021 and 2020, respectively. Acquisition related costs for the six months ended June 30, 2021 and 2020 were $0.7 million and $0.2 million, respectively. Acquisition related costs are included in selling, general, and administrative expense in our condensed consolidated statements of operations.

The tables below provide a summary of businesses acquired in 2021 including, for significant acquisitions, the net sales and net income (loss) incurred for the three and six months ended June 30, 2021:

						Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
2021 Acquisitions	**Date**	**Cash Paid**	**Contingent Consideration**	**Total Purchase Price**	**Goodwill Acquired**	**Net Sales**	**Net Income (Loss)**	**Net Sales**	**Net Income (Loss)**
LCR	1/20/2021	$ 53,667	$ —	$ 53,667	$ 19,453	$ 12,250	$ (94)	20,556	(616)
ABS	4/5/2021	126,158	—	126,158	58,628	36,723	1,668	36,723	1,668
All others	Various	15,757	—	15,757	6,457	4,035	441	4,602	466
Total		$ 195,582	$ —	$ 195,582	$ 84,538	$ 53,008	$ 2,015	$ 61,881	$ 1,518

Pro Forma Results

The following unaudited pro forma information has been prepared as if the 2021 acquisitions described above had taken place on January 1, 2020, and as if the 2020 acquisitions had taken place on January 1, 2019. 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, 2020, and January 1, 2019, as applicable. Further, the unaudited pro forma information does not purport to be indicative of future financial operating results. Our unaudited pro forma results are presented below, in thousands:

	Unaudited Pro Forma for the Three Months Ended June 30,		Unaudited Pro Forma for the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net sales	$ 836,459	$ 712,492	$ 1,623,456	$ 1,436,349
Net income	$ 90,468	$ 58,012	$ 151,869	$ 111,797

The following table details the additional expense included in the unaudited pro forma operating income as if the 2021 acquisitions described above had taken place on January 1, 2020, and as if the 2020 acquisitions had taken place on January 1, 2019Our unaudited pro forma results are presented below, in thousands:

	Unaudited Pro Forma for the Three Months Ended June 30,		Unaudited Pro Forma for the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Depreciation & amortization	$ 17	$ 3,112	$ 1,927	$ 6,360
Income tax expense (using 26% effective tax rate)	$ 34	$ 956	$ 653	$ 2,087

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase Price Allocations

The estimated fair values of the assets acquired and liabilities assumed for the 2021 acquisitions approximated the following as of June 30, 2021, in thousands:

	2021 Acquisitions			
	LCR	**ABS**	**All Others**	**Total**
Estimated fair values:				
Cash	$ —	$ 24	$ —	$ 24
Accounts receivable	16,041	14,167	1,765	31,973
Inventories	806	8,458	1,018	10,282
Prepaid and other assets	83	477	—	560
Property and equipment	3,730	7,013	1,713	12,456
ROU assets	518	8,843	1,086	10,447
Intangible assets	16,040	38,670	5,200	59,910
Goodwill	19,453	58,628	6,457	84,538
Accounts payable	(2,105)	—	(464)	(2,569)
Lease liabilities	(518)	(8,843)	(1,086)	(10,447)
All other liabilities	(381)	(1,279)	68	(1,592)
Net assets acquired	$ 53,667	$ 126,158	$ 15,757	$ 195,582

Estimates of acquired intangible assets related to the 2021 acquisitions are as follows, as of June 30, 2021, dollars in thousands:

	Estimated Fair Value	**Weighted Average Estimated Useful Life (Years)**
2021 Acquisitions		
Customer relationships	$ 54,520	12
Trademarks and trade names	5,390	10
Total intangible assets acquired	$ 59,910	12

The table below provides a summary as of June 30, 2021 for businesses acquired during the six months ended June 30, 2020:

2020 Acquisitions	**Date**	**Cash Paid**	**Contingent Consideration**	**Total Purchase Price**	**Goodwill Acquired**
Cooper	2/20/2020	$ 10,500	$ 1,000	$ 11,500	$ 5,700
Hunter	2/24/2020	9,100	—	9,100	5,300
Total		$ 19,600	$ 1,000	$ 20,600	$ 11,000

As third-party or internal valuations are finalized, certain tax aspects of the foregoing transactions are completed, and customer post-closing reviews are concluded, adjustments may be made to the fair value of assets acquired, and in some cases total purchase price, through the end of each measurement period, generally one year following the applicable acquisition date. 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. Primarily all of the $84.5 million and $11.0 million of goodwill recorded from acquisitions for the six months ended June 30, 2021 and 2020, respectively, is expected to be deductible for income tax purposes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingent Consideration

The acquisition of Viking included a contingent consideration arrangement that requires additional consideration to be paid by TopBuild based on the achievement of annual gross revenue targets over a three-year period. The range of undiscounted amounts TopBuild may be required to pay under the contingent consideration agreement is between zero and $1.5 million. The fair value of the contingent consideration recognized on the acquisition date of $1.2 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 10.0%. Changes in the fair value measurement each period reflect the passage of time as well as the impact of adjustments, if any, to the likelihood of achieving the specified targets. We made a contingent payment of $0.5 million in the year ended December 31, 2020.

The acquisition of Cooper includes a contingent consideration arrangement that requires additional consideration to be paid by TopBuild based on the achievement of annual gross revenue targets over a two-year period. The range of undiscounted amounts TopBuild may be required to pay under the contingent consideration agreement is between zero and $1.0 million, which also represents the fair value recognized on the acquisition date. Changes in the fair value measurement each period reflect the passage of time as well as the impact of adjustments, if any, to the likelihood of achieving the specified targets. We made a contingent payment of $0.2 million during the six months ended June 30, 2021 and the remaining liability for contingent consideration has been released with no further payments anticipated.

Payments of contingent consideration are classified as either financing or operating activities on our condensed consolidated statement of cash flows in accordance with ASC 230-10-45. The following table presents the fair value of contingent consideration, in thousands:

	Viking	Cooper
Date of Acquisition	July 15, 2019	February 20, 2020
Fair value of contingent consideration recognized at acquisition date	$ 1,243	$ 1,000
Contingent consideration at December 31, 2020	$ 910	$ 1,000
Change in fair value of contingent consideration during the six months ended June 30, 2021	33	(850)
Payment of contingent consideration during the six months ended June 30, 2021	—	(150)
Liability balance for contingent consideration at June 30, 2021	$ 943	$ —

14. ACCRUED LIABILITIES

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

	As of	
	June 30, 2021	December 31, 2020
Accrued liabilities:		
Salaries, wages, and commissions	$ 47,995	$ 34,584
Insurance liabilities	23,280	22,007
Employee tax-related liabilities	12,646	12,603
Deferred revenue	10,081	6,542
Sales & property taxes	7,127	6,939
Customer rebates	5,695	6,191
Interest payable on long-term debt	4,436	3,924
Other	15,257	15,159
Total accrued liabilities	$ 126,517	$ 107,949

See *Note 3 – Revenue Recognition* for discussion of our deferred revenue balances.

15. OTHER COMMITMENTS AND CONTINGENCIES

Litigation. 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 also maintain indemnification agreements with our directors and officers that may require us to indemnify them against liabilities that arise by reason of their status or service as directors or officers, except as prohibited by applicable law.

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 license and insurance.

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

	As of	
	June 30, 2021	December 31, 2020
Outstanding bonds:		
Performance bonds	$ 114,962	$ 102,534
Licensing, insurance, and other bonds	28,446	27,633
Total bonds	$ 143,408	$ 130,167

16. SUBSEQUENT EVENTS

On July 26, 2021, our Board authorized a share repurchase program (the "2021 Share Repurchase Program"), pursuant to which the Company may purchase up to $200 million of the Company's common stock. Share repurchases may be executed through various means including, without limitation, open market purchases, privately negotiated transactions, or otherwise. The 2021 Share Repurchase Program does not obligate the Company to purchase any shares and has no expiration date. Authorization for the Share Repurchase Program may be terminated, increased, or decreased by the Company's Board of Directors at its discretion at any time.

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

OVERVIEW

TopBuild, headquartered in Daytona Beach, Florida, is a leading installer and distributor of insulation and other building products to the U.S. construction industry. 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, 2021, had approximately 235 branches located across the United 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 glass and windows, rain gutters, afterpaint products, fireproofing, garage doors, and fireplaces. We handle every stage of the installation process, including material procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, and installation quality assurance.

Our Distribution segment sells and distributes insulation and other building products, including gutters, fireplaces, closet shelving, and roofing materials through our Service Partners business, which, as of June 30, 2021, had approximately 75 branches located across the United 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 the availability of supply to our local branches and distribution centers at competitive prices with the overall effect of driving efficiencies through our supply chain. Second, being a leader in both installation and distribution allows us to effectively reach a broader range 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 7 – Segment Information* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report, which is incorporated herein by reference. For additional details regarding our strategy, material trends in our business and seasonality, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report for the year ended December 31, 2020, as filed with the SEC on February 23, 2021, which discussion is hereby incorporated herein by reference.

COVID-19 BUSINESS UPDATE

We continue to monitor the COVID-19 pandemic and its impact on macroeconomic and local economic conditions. While we are currently able to operate in all of our locations, there is no guarantee that the services we provide will continue to be allowed or that other events making the provision of our services challenging or impossible, will not occur. For example, if there are surges in levels of COVID-19 infections in certain states, those states may respond by, among other things, deeming residential and commercial construction as nonessential in connection with a restriction of commercial activity.

We continue to implement procedures and processes as required or recommended by governmental and medical authorities to ensure the safety of our employees, including increasing our cleaning and sanitizing practices at all locations and for all company vehicles, mandating social distancing on job sites and within our branch operations and limiting all but essential travel. However, we are not able to predict whether our customers will continue to operate at their current or typical volumes, and such decreases in their operations would have a negative impact on our business. We are also unable to predict how long the COVID-19 pandemic will last and the impact of the pandemic on demand for our products and services. For additional discussion of the potential impact of the COVID-19 pandemic on our business, see the sections entitled "Outlook" and "Risk Factors" included in this Quarterly Report.

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.

SECOND QUARTER 2021 VERSUS SECOND QUARTER 2020

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,	
	2021	**2020**
Net sales	**$ 834,255**	**$ 646,099**
Cost of sales	591,075	468,045
Cost of sales ratio	*70.9 %*	*72.4 %*
Gross profit	**243,180**	**178,054**
Gross profit margin	*29.1 %*	*27.6 %*
Selling, general, and administrative expense	114,894	97,600
Selling, general, and administrative expense to sales ratio	*13.8 %*	*15.1 %*
Operating profit	**128,286**	**80,454**
Operating profit margin	*15.4 %*	*12.5 %*
Other expense, net	(6,039)	(8,188)
Income tax expense	(31,867)	(16,770)
Net income	**$ 90,380**	**$ 55,496**
Net margin	*10.8 %*	*8.6 %*

Sales and Operations

Net sales increased 29.1 percent for the three months ended June 30, 2021, from the comparable period of 2020. The increase was primarily driven by a 11.8 percent increase in sales volume, a 10.9 percent impact from our acquisitions and a 6.5 percent increase due to higher selling prices.

Gross profit margins were 29.1 percent and 27.6 percent for the three months ended June 30, 2021 and 2020, respectively. Gross profit margin improved primarily due to higher selling prices, lower depreciation expense and lower insurance costs, partially offset by an increase in cost of material.

Selling, general, and administrative expense, as a percent of sales, was 13.8 and 15.1 percent for the three months ended June 30, 2021 and 2020, respectively. The decrease in selling, general, and administrative expense as a percent of sales was primarily the result of higher sales and lower share-based compensation expense and legal fees.

Operating margins were 15.4 percent and 12.5 percent for the three months ended June 30, 2021 and 2020, respectively. The increase in operating margins was due to higher sales volume and selling prices, lower depreciation expense, share-based compensation expense, and legal fees, partially offset by an increase in cost of material.

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, 2021	Three Months Ended June 30, 2020	Percent Change
Net sales by business segment:			
Installation	$ 605,625	$ 466,569	29.8 %
Distribution	273,364	216,336	26.4 %
Intercompany eliminations	(44,734)	(36,806)	
Net sales	$ 834,255	$ 646,099	29.1 %
Operating profit by business segment:			
Installation	$ 99,066	$ 69,643	42.2 %
Distribution	42,856	24,155	77.4 %
Intercompany eliminations	(6,932)	(5,961)	
Operating profit before general corporate expense	134,990	87,837	53.7 %
General corporate expense, net	(6,704)	(7,383)	
Operating profit	$ 128,286	$ 80,454	59.5 %
Operating profit margins:			
Installation	16.4 %	14.9 %	
Distribution	15.7 %	11.2 %	
Operating profit margin before general corporate expense	16.2 %	13.6 %	
Operating profit margin	15.4 %	12.5 %	

Installation

Sales

Sales in our Installation segment increased $139.1 million, or 29.8 percent, for the three months ended June 30, 2021, as compared to the same period in 2020. The increase was due to a 14.4 percent impact from our acquisitions, a 10.4 percent increase in sales volume and a 5.0 percent increase from higher selling prices.

Operating margins

Operating margins in our Installation segment were 16.4 percent and 14.9 percent for the three months ended June 30, 2021 and 2020, respectively. The increase in operating margins was driven by higher sales volume and selling prices, and lower depreciation expense, partially offset by an increase in cost of material.

Distribution

Sales

Sales in our Distribution segment increased 57.0 million, or 26.4 percent, for the three months ended June 30, 2021, as compared to the same period in 2020. This increase was due to a 14.3 percent increase in sales volume, a 10.3 percent increase due to higher selling prices and a 1.8 percent impact from our acquisition.

Operating margins

Operating margins in our Distribution segment were 15.7 percent and 11.2 percent for the three months ended June 30, 2021 and 2020, respectively. The increase in operating margins was driven by higher sales volume and selling prices, and lower depreciation expense, partially offset by an increase in cost of material.

OTHER ITEMS

Other expense, net

Other expense, net, which primarily consisted of interest expense, was $6.0 million and $8.2 million for the three months ended June 30, 2021 and 2020, respectively. The decrease was driven by lower interest rates on our New Senior Notes and borrowings under the Amended Credit Agreement.

Income tax expense

Income tax expense was $31.9 million, an effective tax rate of 26.1 percent, for the three months ended June 30, 2021, compared to $16.8 million, an effective tax rate of 23.2 percent, for the comparable period in 2020. The tax rate for the three months ended June 30, 2021, was higher due to permanent items including share-based compensation and state tax adjustments.

FIRST SIX MONTHS 2021 VERSUS FIRST SIX MONTHS 2020

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,	
	2021	**2020**
Net sales	**$ 1,577,053**	**$ 1,299,327**
Cost of sales	1,136,114	949,316
Cost of sales ratio	*72.0 %*	*73.1 %*
Gross profit	**440,939**	**350,011**
Gross profit margin	*28.0 %*	*26.9 %*
Selling, general, and administrative expense	216,767	199,568
Selling, general, and administrative expense to sales ratio	*13.7 %*	*15.4 %*
Operating profit	**224,172**	**150,443**
Operating profit margin	*14.2 %*	*11.6 %*
Other expense, net	(26,425)	(16,690)
Income tax expense	(47,525)	(27,485)
Net income	**$ 150,222**	**$ 106,268**
Net margin	*9.5 %*	*8.2 %*

Sales and Operations

Net sales increased 21.4 percent for the six months ended June 30, 2021, from the comparable period of 2020. The increase was primarily driven by a 9.7 percent increase in sales volume, a 7.5 percent impact from our acquisitions and a 4.1 percent increase due to higher selling prices.

Gross profit margins were 28.0 percent and 26.9 percent for the six months ended June 30, 2021 and 2020, respectively. Gross profit margin improved primarily due to higher selling prices, lower insurance costs and depreciation expense, partially offset by an increase in cost of material.

Selling, general, and administrative expense, as a percent of sales, was 13.7 and 15.4 percent for the six months ended June 30, 2021 and 2020, respectively. The decrease in selling, general, and administrative expense as a percent of sales was primarily the result of higher sales, lower share-based compensation expense and legal fees, and overall cost reduction initiatives.

Operating margins were 14.2 percent and 11.6 percent for the three months ended June 30, 2021 and 2020, respectively. The increase in operating margins was due to higher sales volume and selling prices, lower insurance costs, depreciation expense, share-based compensation expense and legal fees, and savings from cost reduction initiatives, partially offset by an increase in cost of material.

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, 2021	Six Months Ended June 30, 2020	Percent Change
Net sales by business segment:			
Installation	$ 1,138,378	$ 942,442	20.8 %
Distribution	524,965	430,558	21.9 %
Intercompany eliminations	(86,290)	(73,673)	
Net sales	$ 1,577,053	$ 1,299,327	21.4 %
Operating profit by business segment (a):			
Installation	$ 172,702	$ 129,994	32.9 %
Distribution	78,241	48,825	60.2 %
Intercompany eliminations	(13,460)	(11,795)	
Operating profit before general corporate expense	237,483	167,024	42.2 %
General corporate expense, net (b)	(13,311)	(16,581)	
Operating profit	$ 224,172	$ 150,443	49.0 %
Operating profit margins:			
Installation	15.2 %	13.8 %	
Distribution	14.9 %	11.3 %	
Operating profit margin before general corporate expense	15.1 %	12.9 %	
Operating profit margin	14.2 %	11.6 %	

Installation

Sales

Sales in our Installation segment increased $195.9 million, or 20.8 percent, for the six months ended June 30, 2021, as compared to the same period in 2020. The increase was due to a 10.1 percent impact from our acquisitions, a 7.7 percent increase in sales volume and a 3.0 percent increase from higher selling prices.

Operating margins

Operating margins in our Installation segment were 15.2 percent and 13.8 percent for the six months ended June 30, 2021 and 2020, respectively. The increase in operating margins was driven by higher sales volume and selling prices, lower insurance costs, depreciation expense, and savings from cost reduction initiatives, partially offset by an increase in cost of material.

Distribution

Sales

Sales in our Distribution segment increased $94.4 million, or 21.9 percent, for the six months ended June 30, 2021, as compared to the same period in 2020. This increase was due to a 14.0 percent increase in sales volume, a 7.0 percent increase due to higher selling prices, and a 0.9 percent impact from our acquisition.

Operating margins

Operating margins in our Distribution segment were 14.9 percent and 11.3 percent for the six months ended June 30, 2021 and 2020, respectively. The increase in operating margins was driven by higher sales volume and selling prices, lower insurance expense and depreciation expense, and savings from cost reduction initiatives, partially offset by an increase in cost of material.

OTHER ITEMS

Other expense, net

Other expense, net, which primarily consisted of interest expense, was $26.4 million and $16.7 million for the six months ended June 30, 2021 and 2020, respectively. The increase was driven by costs incurred to redeem our Old Senior Notes during the first half of 2021, partially offset by lower interest rates on our New Senior Notes and borrowings under the Amended Credit Agreement during the second quarter.

Income tax expense

Income tax expense was $47.5 million, an effective tax rate of 24.0 percent, for the six months ended June 30, 2021 compared to $27.5 million, an effective tax rate of 20.5 percent, for the comparable period in 2020. The tax rate for six months ended June 30, 2021 was higher due to permanent items including share-based compensation.

Cash Flows and Liquidity

Significant sources (uses) of cash and cash equivalents are summarized for the periods indicated, in thousands:

	Six Months Ended June 30,	
	2021	**2020**
Changes in cash and cash equivalents:		
Net cash provided by operating activities	$ 202,203	$ 178,162
Net cash used in investing activities	(223,778)	(40,700)
Net cash used in financing activities	(46,693)	(63,432)
(Decrease) increase for the period	$ (68,268)	$ 74,030

Net cash flows provided by operating activities increased $24.0 million for the six months ended June 30, 2021, as compared to the prior year period. The change was primarily due to an increase in net income, timing of accounts receivable collections and accrued liability payments.

Net cash used in investing activities was $223.8 million for the six months ended June 30, 2021, primarily composed of $195.4 million for acquisitions and $28.6 million for purchases of property and equipment, primarily vehicles. Net cash used in investing activities was $40.7 million for the six months ended June 30, 2020, primarily composed of $20.9 million for purchases of property and equipment, primarily vehicles, partially offset by $0.8 million in proceeds from the sale of property and equipment, and $20.5 million for the acquisition of Cooper and Hunter.

Net cash used in financing activities was $46.7 million for the six months ended June 30, 2021. During the six months ended June 30, 2021, we used $24.0 million for the repurchase of common stock pursuant to the 2019 Repurchase Program, $10.5 million net payments for redemption of our Old Senior Notes, issuance of our New Senior Notes, proceeds from the increase in our term loan from our Amended Credit Agreement, and payments on equipment notes, $6.5 million in debt issuance costs as a result of entering into our Amended Credit Agreement and New Senior Notes, and $5.5 million net activity related to exercise of share-based incentive awards and stock options. Net cash used in financing activities was $63.4 million for the six months ended June 30, 2020. During the six months ended June 30, 2020, we used $34.2 million for the repurchase of common stock pursuant to the 2019 Repurchase Program, $13.2 million on purchases of common stock for tax withholding obligations related to the vesting and exercise of share-based incentive awards, $13.4 million for payments on our term loan under our Original Credit Agreement and on our equipment notes, and $2.3 million in debt issuance costs as a result of entering into a new term loan revolving credit facility.

Our liquidity at June 30, 2021 consisted of $261.7 million of cash and $378.8 million available borrowing capacity under our 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 working capital needs.

The following table summarizes our liquidity, in thousands:

	As of	
	June 30, 2021	December 31, 2020
Cash and cash equivalents (a)	$ 261,739	$ 330,007
Revolving Facility	450,000	450,000
Less: standby letters of credit	(71,211)	(60,382)
Availability under Revolving Facility	378,789	389,618
Total liquidity	$ 640,528	$ 719,625

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

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 license and insurance. Information regarding our outstanding bonds as of June 30, 2021 is incorporated by reference from *Note 15 – Other Commitments and Contingencies* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report.

OUTLOOK

The demand for housing is outpacing supply, however labor and material shortages are limiting the speed at which new homes can be built to meet this increased demand. All trades in our industry continue to experience constrained capacity, specifically in fiberglass and spray foam, resulting in manufacturers increasing costs on products. We expect both TruTeam and Service Partners to drive higher selling prices throughout the year in response to these cost increases. The increased demand for housing, combined with low interest rates and home affordability balance, should result in a continued strong outlook for the residential construction industry.

Similarly, the commercial business is poised to see continued improvement throughout 2021 as delayed projects get back on track, however management will continue to evaluate every aspect of our business, including monitoring ongoing developments related to the COVID-19 pandemic, which may trigger restrictions on operating activities, an economic downturn, or other adverse impact to our business.

OFF-BALANCE SHEET ARRANGEMENTS

We had no material off-balance sheet arrangements during the quarter ended June 30, 2021, other than short-term leases, letters of credit, and performance and license bonds, which have been disclosed in Part 1, Item 1 of this Quarterly report.

CONTRACTUAL OBLIGATIONS

There have been no material changes to our contractual obligations from those previously disclosed in our Annual Report for the year ended December 31, 2020, as filed with the SEC on February 23, 2021, except for the amendment to our Original Credit Agreement on March 8, 2021 and completion of a private offering of our New Senior Notes on March 15, 2021 for which the proceeds were used to redeem 100% of our Old Senior Notes. See further information as disclosed in *Note 5 – Long Term Debt* in our unaudited condensed consolidated financial statements contained in Part 1, Item 1 of this Quarterly Report.

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 from those previously reported in our Annual Report for year ended December 31, 2020, as filed with the SEC on February 23, 2021.

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 contained in Part I, Item 1 of this Quarterly Report.

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 the duration and impact of the COVID-19 pandemic on the United States economy, specifically with respect to residential and commercial construction, our ability to continue operations in markets affected by the COVID-19 pandemic and our ability to collect receivables from our customers, 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, 2020, as filed with the SEC on February 23, 2021, as well as under the caption entitled "Risk Factors" in subsequent reports that we file with the SEC. 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

On March 8, 2021, the Company entered into the Amended Credit Agreement, which renewed, amended and restated the Original Credit Agreement. The Amended Credit Agreement consists of a senior secured term loan facility in the amount of $300.0 million and a Revolving Facility in the amount of $450.0 million. We also have outstanding New Senior Notes with an aggregate principal balance of $400.0 million. The New 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, 2021, we had $296.3 million outstanding under our term loan facility, and the applicable interest rate as of such date was 1.09%. Based on our outstanding borrowings under the Amended Credit Agreement as of June 30, 2021, a 100 basis point increase in the interest rate would result in a $2.9 million increase in our annualized interest expense. There was no outstanding balance under the Revolving Facility as of June 30, 2021.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2021.

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, 2021, 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 under the caption "Litigation" in*Note 15 – Other Commitments and Contingencies* to our unaudited condensed consolidated financial statements contained in Part I, Item 1 of this Quarterly Report, is incorporated by reference herein.

Item 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in our Annual Report for the year ended December 31, 2020, as filed with the SEC on February 23, 2021 which are incorporated by reference herein.

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

The following table provides information regarding the repurchase of our common stock for the three months ended June 30, 2021, in thousands, except share and per share data:

Period	Total Number of Shares Purchased	Average Price Paid per Common Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2021 - April 30, 2021	3,338	$ 209.80	3,338	$ 29,406
May 1, 2021 - May 31, 2021	11,261	$ 201.62	11,261	$ 27,135
June 1, 2021 - June 30, 2021	59,148	$ 189.54	59,148	$ 15,924
Total	73,747	$ 192.30	73,747	

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

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 Quarterly Report and incorporated herein by reference.

INDEX TO EXHIBITS

Exhibit No.	Exhibit Title	Incorporated by Reference Form	Exhibit	Filing Date	Filed Herewith
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	Inline XBRL Instance Document - the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				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 3, 2021

Exhibit 31.1

Certifications

I, Robert Buck, 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 3, 2021

/s/ Robert Buck
Robert Buck
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 3, 2021

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

Exhibit 32.1

CERTIFICATION OF PERIOD REPORT

I, Robert Buck, 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, 2021 (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 3, 2021

/s/ Robert Buck
Robert Buck
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, 2021 (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 3, 2021

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