

LGI Homes, Inc.
Form 10-Q
August 09, 2016

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

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

OR

o 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 001-36126

LGI
HOMES,
INC.
(Exact
name of
registrant
as
specified
in its
charter)

Delaware 46-3088013
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1450 Lake Robbins Drive, Suite 430, The Woodlands, Texas 77380
(Address of principal executive offices) (Zip code)
(281) 362-8998
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ``

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No ``

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

Edgar Filing: LGI Homes, Inc. - Form 10-Q

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

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

As of August 5, 2016, there were 21,023,248 shares of the registrant's common stock, par value \$.01 per share, outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>LGI Homes, Inc. Consolidated Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of June 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Statement of Equity for the six months ended June 30, 2016</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>27</u>
Item 4. <u>Controls and Procedures</u>	<u>28</u>
<u>PART II - OTHER INFORMATION</u>	
Item 6. <u>Exhibits</u>	<u>29</u>
<u>SIGNATURES</u>	
<u>EXHIBIT INDEX</u>	

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LGI HOMES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 49,666	\$ 37,568
Accounts receivable	15,073	17,325
Real estate inventory	609,925	531,228
Pre-acquisition costs and deposits	12,718	7,001
Property and equipment, net	1,950	2,108
Other assets	6,005	11,238
Goodwill and intangible assets, net	12,111	12,234
Total assets	\$ 707,448	\$ 618,702
LIABILITIES AND EQUITY		
Accounts payable	\$ 21,993	\$ 24,020
Accrued expenses and other liabilities	47,956	40,006
Deferred tax liabilities, net	2,393	2,726
Notes payable	334,174	304,561
Total liabilities	406,516	371,313
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 22,023,248 shares issued and 21,023,248 shares outstanding as of June 30, 2016 and 21,270,389 shares issued and 20,270,389 shares outstanding as of December 31, 2015	220	213
Additional paid-in capital	196,752	175,575
Retained earnings	120,510	88,151
Treasury stock, at cost, 1,000,000 shares	(16,550)	(16,550)
Total equity	300,932	247,389
Total liabilities and equity	\$ 707,448	\$ 618,702

See accompanying notes to the consolidated financial statements.

Table of Contents

LGI HOMES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Home sales revenues	\$222,723	\$ 158,826	\$385,186	\$ 279,516
Cost of sales	163,628	116,253	284,722	205,481
Selling expenses	17,867	13,393	31,958	24,975
General and administrative	10,488	7,943	20,440	16,148
Operating income	30,740	21,237	48,066	32,912
Other income, net	(668)	(9)	(1,171)	(55)
Net income before income taxes	31,408	21,246	49,237	32,967
Income tax provision	10,749	7,269	16,878	11,288
Net income	\$20,659	\$ 13,977	\$32,359	\$ 21,679
Earnings per share:				
Basic	\$1.01	\$0.70	\$1.58	\$1.09
Diluted	\$0.96	\$0.66	\$1.54	\$0.97
Weighted average shares outstanding:				
Basic	20,544,809	19,908,482	20,416,566	19,880,569
Diluted	21,487,013	21,246,875	21,017,188	22,536,841

See accompanying notes to the consolidated financial statements.

Table of Contents

LGI HOMES, INC.
CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)
(In thousands, except share data)

	Common Stock		Additional	Retained	Treasury	Total
	Shares	Amount	Paid-In Capital	Earnings	Stock	Equity
BALANCE—December 31, 2015	21,270,389	\$ 213	\$ 175,575	\$ 88,151	\$(16,550)	\$ 247,389
Net income	—	—	—	32,359	—	32,359
Issuance of shares, net of offering costs	743,554	7	19,490	—	—	19,497
Issuance of restricted stock units in settlement of accrued bonuses	—	—	138	—	—	138
Compensation expense for equity awards	—	—	1,525	—	—	1,525
Stock issued under employee incentive plans	9,305	—	24	—	—	24
BALANCE—June 30, 2016	22,023,248	\$ 220	\$ 196,752	\$ 120,510	\$(16,550)	\$ 300,932

See accompanying notes to the consolidated financial statements.

Table of Contents

LGI HOMES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$32,359	\$21,679
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	649	422
Excess tax (benefits) deficiencies from stock based compensation	(24)	) 25
Compensation expense for equity awards	1,525	671
Deferred income taxes	(333)	) (704)
Changes in assets and liabilities:		
Accounts receivable	2,252	(7,409)
Real estate inventory	(76,622)	) (33,729)
Pre-acquisition costs and deposits	(5,717)	) 1,942
Other assets	5,030	155
Accounts payable	(2,037)	) 8,857
Accrued expenses and other liabilities	8,453	6,249
Net cash used in operating activities	(34,465)	) (1,842)
Cash flows from investing activities:		
Purchases of property and equipment	(358)	) (417)
Net cash used in investing activities	(358)	) (417)
Cash flows from financing activities:		
Proceeds from notes payable	67,000	177,802
Payments on notes payable	(37,000)	) (154,706)
Loan issuance costs	(2,361)	) (1,827)
Proceeds from sale of stock, net of commissions	19,804	—
Payment for offering costs	(105)) —
Payment for earnout obligation	(441)	) (608)
Excess tax (benefits) deficiencies from equity awards	24	(25)
Net cash provided by financing activities	46,921	20,636
Net increase in cash and cash equivalents	12,098	18,377
Cash and cash equivalents, beginning of period	37,568	31,370
Cash and cash equivalents, end of period	\$49,666	\$49,747

See accompanying notes to the consolidated financial statements.

Table of Contents

LGI HOMES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and Description of the Business

LGI Homes, Inc., a Delaware corporation (the “Company”, “us,” “we,” or “our,”), is engaged in the development of communities and the design, construction, marketing and sale of new homes. At June 30, 2016, we had operations in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, North Carolina, South Carolina, Washington and Tennessee.

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited financial statements as of and for the three and six months ended June 30, 2016 and 2015, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements. The significant accounting estimates include real estate inventory and cost of sales, impairment of real estate inventory and property and equipment, goodwill, warranty reserves, our earnout liability, our liability under our self-funded health benefit plan, the fair value of the convertible debt, loss contingencies and income taxes.

Recently Adopted Accounting Standards

The Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”) requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Effective January 1, 2016, we retrospectively adopted ASU 2015-03, and have reclassified \$3.6 million of debt issuance costs from other assets to debt on our consolidated balance sheet at December 31, 2015.

Effective January 1, 2016, we adopted ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis” (“ASU 2015-02”), which amends the consolidation requirements in ASC 810, primarily related to limited partnerships and variable interest entities (“VIEs”). The adoption of ASU 2015-02 did not have an effect on our consolidated financial statements and disclosures.

Recently Issued Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which requires management to evaluate, at each reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. This ASU applies to all entities and is effective for periods ending after December 15, 2016. The adoption of ASU 2014-15 is not expected to have any effect on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, “Revenue Recognition-Construction-Type and Production-Type Contracts.” ASU 2014-09’s

Table of Contents

core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective beginning January 1, 2018 and, at that time, we may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption of this ASU is not permitted. We are currently evaluating the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," ("ASU 2016-02"), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets in Topic 842 "Leases," will be effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting," ("ASU 2016-09"), which includes multiple amendments intended to simplify aspects of share-based payment accounting. ASU 2016-09 will be effective for annual reporting periods beginning after December 15, 2016, and early adoption is permitted. Amendments to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures will be applied using a modified retrospective transition method through a cumulative-effect adjustment to equity as of the beginning of the period of adoption. Amendments to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement will be applied retrospectively, and amendments requiring the recognition of excess tax benefits and tax deficiencies in the income statement are to be applied prospectively. We are currently evaluating the impact that the adoption of ASU 2016-09 will have on our consolidated financial statements and disclosures.

2. REAL ESTATE INVENTORY

Our real estate inventory consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Land, land under development, and finished lots	\$381,169	\$320,320
Sales offices	10,487	8,083
Homes in progress	138,747	109,451
Completed homes	79,522	93,374
Total real estate inventory	\$609,925	\$531,228

Inventory is stated at cost unless the carrying amount is determined not to be recoverable, in which case the affected inventory is written down to fair value.

Land, development and other project costs, including interest and property taxes incurred during development and home construction and net of expected reimbursements of development costs, are capitalized to real estate inventory. Land development and other common costs that benefit the entire community, including field construction supervision and related direct overhead, are allocated to individual lots or homes, as appropriate. The costs of lots are transferred to homes in progress when home construction begins. Home construction costs and related carrying charges are allocated to the cost of individual homes using the specific identification method. Costs that are not specifically identifiable to a home are allocated on a pro rata basis using either the lot size or relative sales value. Inventory costs for completed homes are expensed to cost of sales as homes are sold. Changes to estimated total development costs subsequent to initial home closings in a community are generally allocated to the remaining unsold lots and homes in the community on a pro rata basis.

The life cycle of a community generally ranges from two to five years, commencing with the acquisition of land, continuing through the land development phase, and concluding with the construction and sale of homes. A constructed home is used as the community sales office during the life of the community and then sold. Actual individual community lives will vary based on the size of the community, the sales absorption rate, and whether the property was purchased as raw land or finished lots.

Interest and financing costs incurred under our debt obligations, as more fully discussed in Note 4, are capitalized to qualifying real estate projects under development and homes in progress.

Table of Contents

3. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued and other current liabilities consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Inventory related obligations	\$ 17,489	\$ 17,389
Retentions and development payable	4,691	3,748
Accrued compensation, bonuses and benefits	5,287	5,573
Earnout liability	897	1,425
Taxes payable	10,882	6,205
Warranty reserve	1,375	1,325
Accrued interest	1,470	1,249
Other	5,865	3,092
Total accrued expenses and other liabilities	\$ 47,956	\$ 40,006

Inventory Related Obligations

We own lots in certain communities in Florida, Arizona, and Texas that have Community Development Districts (“CDD”) or similar utility and infrastructure development special assessment programs that allocate a fixed amount of debt service associated with development activities to each lot. This obligation for infrastructure development is attached to the land, is typically payable over a 30 year period, and is ultimately assumed by the homebuyer when home sales are closed. Such obligations represent a non-cash cost of the lots.

Earnout liability

The purchase price for the acquisition of certain assets and liabilities from Oakmont Home Builders, Inc. (“Oakmont”) and certain land positions of EST Properties, LLC, an affiliate of Oakmont (the “Oakmont Acquisition”) during October 2014 included contingent consideration to be paid based on homes closed through December 2017 attributable to Oakmont assets. The earnout liability is subject to adjustment based on revisions to the forecasted absorption rate and the actual number of homes closed during the earnout period.

Estimated Warranty Reserve

We typically provide homebuyers with a one-year warranty on the house and a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems.

Changes to our warranty accrual are as follows (in thousands):

	Three Months Ended June 30, 2016 2015		Six Months Ended June 30, 2016 2015	
Warranty reserves, beginning of period	\$ 1,325	\$ 900	\$ 1,325	\$ 900
Warranty provision	947	654	1,456	1,042
Warranty expenditures	(897)	(554)	(1,406)	(942)
Warranty reserves, end of period	\$ 1,375	\$ 1,000	\$ 1,375	\$ 1,000

Table of Contents

4. NOTES PAYABLE

Revolving Credit Agreement

In May 2015, we entered into a Credit Agreement (the “Credit Agreement”) with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The Credit Agreement provided for a revolving credit facility up to \$300.0 million. On May 27, 2016, we entered into an Amended and Restated Credit Agreement (the “A&R Credit Agreement”) with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The A&R Credit Agreement has substantially similar terms and provisions as the Credit Agreement but provides for a \$360.0 million revolving credit facility, which can be increased by request of the Company up to \$400.0 million, subject to the terms and conditions of the A&R Credit Agreement.

The A&R Credit Agreement matures on May 27, 2019. Prior to each annual anniversary of the A&R Credit Agreement, we may request a one-year extension of the maturity date. The A&R Credit Agreement is guaranteed by each of our subsidiaries having gross assets equal to or greater than \$0.5 million. Prior to the occurrence of a trigger event under the A&R Credit Agreement, the revolving credit facility is unsecured except that the facility is secured by a first priority lien in certain land held for development, lots under development and/or finished lots with an aggregate land value of at least \$35.0 million. As of June 30, 2016, the borrowing base under the A&R Credit Agreement was \$360.0 million, of which \$260.0 million was outstanding, \$7.6 million represents letter of credit assurances, and \$92.4 million was available to borrow.

Interest is paid monthly on borrowings under the A&R Credit Agreement at LIBOR plus 3.50%. The A&R Credit Agreement applicable margin for LIBOR loans ranges from 3.00% to 3.50% based on our leverage ratio. At June 30, 2016, LIBOR was 0.45%.

The A&R Credit Agreement contains various financial covenants, including a tangible net worth ratio, a leverage ratio, a minimum liquidity amount, and an EBITDA to interest expense ratio. The A&R Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At June 30, 2016, we were in compliance with all of the covenants contained in the A&R Credit Agreement.

Convertible Notes

We issued \$85.0 million aggregate principal amount of our 4.25% Convertible Notes due 2019 (the “Convertible Notes”) in November 2014. The Convertible Notes mature on November 15, 2019. Interest on the Convertible Notes is payable semiannually in May and November at a rate of 4.25%. Prior to May 15, 2019, the Convertible Notes are convertible only upon satisfaction of any of the specified conversion events. On or after May 15, 2019, note holders can convert their Convertible Notes at any time at their option.

When issued, the conversion of the Convertible Notes could only be settled in shares of our common stock. Our stockholders approved the flexible settlement provisions of the Convertible Notes on April 30, 2015, which allows us to settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. The initial conversion rate of the Convertible Notes is 46.4792 shares of our common stock for each \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events.

When the Convertible Notes were issued, the fair value of \$76.5 million was recorded to notes payable. \$5.5 million of the remaining proceeds was recorded to additional paid in capital to reflect the equity component and the remaining \$3.0 million was recorded as a deferred tax liability. The carrying amount of the Convertible Notes is being accreted to face value over the term to maturity.

Notes payable consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Notes payable under credit facility (\$360.0 million revolving credit facility at June 30, 2016) maturing on May 27, 2019; interest paid monthly at LIBOR plus 3.50%; net of approximately \$3.0 million of debt issuance cost at June 30, 2016 and \$1.5 million at December 31, 2015;	\$257,026	\$228,470
collateralized by certain land, land under development, and finished lots (carrying value of \$57.7 million at June 30, 2016)		

Edgar Filing: LGI Homes, Inc. - Form 10-Q

4.25% Convertible Notes due November 15, 2019; interest paid semi-annually at 4.25%; net of debt issuance costs of approximately \$1.8 million and \$2.1 million at June 30, 2016 and December 31, 2015, respectively; and approximately \$6.0 million and \$6.8 million in unamortized discount at June 30, 2016 and December 31, 2015, respectively	77,148	76,091
Total notes payable	\$334,174	\$304,561

Table of Contents

Capitalized Interest

Interest activity, including debt issuance costs and accretion of discount, for notes payable for the periods presented is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest incurred	\$4,604	\$3,519	\$8,952	\$6,879
Less: Amounts capitalized	(4,604)	(3,519)	(8,952)	(6,879)
Interest expense	\$—	\$—	\$—	\$—
Cash paid for interest	\$4,431	\$3,260	\$6,693	\$4,638

Included in interest incurred was amortization of debt issuance costs for notes payable and amortization of Convertible Notes discount of \$1.0 million and \$1.1 million for the three months ended June 30, 2016 and 2015, respectively, and \$2.0 million for each of the six month periods ended June 30, 2016 and 2015, respectively.

5. INCOME TAXES

We file U.S. federal and state income tax returns. As of June 30, 2016, we have no unrecognized tax benefits. We are not presently under exam for income tax by any taxing jurisdiction and we are no longer subject to exam for years before 2013 (2012 for Texas).

Our annual effective tax rate of 34.3% is lower than the statutory rate primarily as a result of a decrease in the rate for the federal Domestic Production Activity Deduction offset by an increase in rate for state income taxes, net of the federal benefit.

Income taxes paid were \$7.7 million and \$4.4 million for the three months ended June 30, 2016 and 2015, respectively. Income taxes paid were \$12.9 million and \$8.4 million for the six months ended June 30, 2016 and 2015, respectively.

6. EQUITY

Shelf Registration Statement and ATM Offering Program

We have an effective shelf registration statement on Form S-3 (the “Registration Statement”) to offer and sell from time to time various securities with a maximum offering price of \$300.0 million. Under the Registration Statement, we had an at the market common stock offering program (the “ATM Program”) to sell shares of our common stock having an aggregate offering price of up to \$30.0 million. During the three months ended June 30, 2016, we completed the ATM Program and issued and sold 593,554 shares of our common stock under the ATM Program and received net proceeds of approximately \$16.3 million. During the six months ended June 30, 2016, we issued and sold 743,554 shares of our common stock under the ATM Program and received net proceeds of approximately \$19.8 million. During the life of the ATM Program, we issued and sold a total of 1,089,314 shares of our common stock under the ATM Program and received net proceeds of approximately \$29.4 million.

Table of Contents

7. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator (in thousands):				
Numerator for basic earnings per share	\$20,659	\$ 13,977	\$32,359	\$ 21,679
Effect of dilutive securities:				
Interest expense associated with Convertible Notes, net of taxes	—	39	—	190
Numerator for diluted earnings per share	\$20,659	\$ 14,016	\$32,359	\$ 21,869
Denominator:				
Basic weighted average shares outstanding	20,544,809	19,908,482	20,416,569	19,880,569
Effect of dilutive securities:				
Convertible Notes - treasury stock method	882,569	—	556,654	—
Convertible Notes - if-converted method	—	1,302,439	—	2,619,270
Restricted stock units	59,635	35,954	43,968	37,002
Diluted weighted average shares outstanding	21,487,013	21,246,875	21,017,182	22,536,841
Basic earnings per share	\$1.01	\$ 0.70	\$1.58	\$ 1.09
Diluted earnings per share	\$0.96	\$ 0.66	\$1.54	\$ 0.97
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	2,375	5,805	7,282	10,637

In accordance with ASC 260-10, Earnings Per Share, we calculated the dilutive effect of the Convertible Notes using the “if-converted” method through April 30, 2015. The interest expense related to the Convertible Notes through April 30, 2015 was included in cost of sales. On April 30, 2015, our stockholders approved the flexible settlement provisions of the Convertible Notes which allows us to settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. Therefore, during the three and six months ended June 30, 2016, the treasury stock method is used to calculate the dilutive effect of the Convertible Notes, since we have the intent and ability to settle the principal amount of the outstanding Convertible Notes in cash. Under the treasury stock method, the Convertible Notes have a dilutive impact on diluted earnings per share to the extent that the average market price of our common stock for a reporting period exceeds the conversion price of \$21.52 per share. During the three and six months ended June 30, 2016, the average market price of our common stock exceeded the conversion price of \$21.52 per share, therefore the calculation of diluted earnings per share for the three and six months ended June 30, 2016 includes the effect of approximately 0.9 million and 0.6 million common shares related to the conversion spread of the Convertible Notes, respectively.

Table of Contents

8. STOCK-BASED COMPENSATION

Non-performance Based Restricted Stock Units

The following table summarizes the activity of our restricted stock units (“RSUs”):

	Six Months Ended June 30,			
	2016		2015	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning balance	107,814	\$ 16.48	102,786	\$ 15.43
Granted	49,145	\$ 22.18	65,436	\$ 15.10
Vested	(9,305)	\$ 14.78	(59,438)	\$ 17.20
Forfeited	(1,731)	\$ 16.24	(1,952)	\$ 14.51
Ending balance	145,923	\$ 18.51	106,832	\$ 14.26

During the six months ended June 30, 2016, we issued 21,905 RSUs to senior management for the time based portion of our 2016 long-term incentive compensation program, 22,059 RSUs for 2015 bonuses to managers under our Annual Bonus Plan and 5,181 RSUs to other employees. Generally, the RSUs granted cliff vest on the third anniversary of the grant date and will be settled in shares of our common stock.

We recognized \$0.2 million and \$0.1 million of stock-based compensation expense related to outstanding RSUs grants for the three months ended June 30, 2016 and 2015, respectively. We recognized \$0.4 million and \$0.3 million of stock-based compensation expense related to outstanding RSUs grants for the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, we had unrecognized compensation cost of \$1.8 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.3 years.

Performance Based Restricted Stock Units

The Compensation Committee of our Board of Directors has granted awards of Performance-Based RSUs (“PSUs”) under the LGI Homes, Inc. Equity Incentive Plan to certain members of senior management for each of the three-year performance cycles: 2014 - 2016, 2015 - 2017 and 2016 - 2018. The PSUs provide for shares of our common stock to be issued based on the attainment of certain performance metrics over the applicable three-year period. The number of shares of our common stock that may be issued to the recipients for the PSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The PSUs vest upon the determination date for the actual results at the end of the three-year period and require that the recipients continue to be employed by us through the determination date. The PSUs will be settled in shares of our common stock.

The following table summarizes the activity of our PSUs:

Period Granted	Target PSUs Outstanding December 31, 2015	Target PSUs Granted	Target PSUs Vested	Target PSUs Forfeited	Target PSUs Outstanding at June 30, 2016	Weighted Average Grant Date Fair Value
2014	62,906	—	—	(2,926)	59,980	\$ 17.09
2015	127,111	—	—	(6,140)	120,971	\$ 13.34
2016	—	87,605	—	—	87,605	\$ 21.79
Total	190,017	87,605	—	(9,066)	268,556	

At June 30, 2016, management estimates that the recipients will receive approximately 190%, 200% and 100% of the 2014, 2015 and 2016 target number of PSUs, respectively, at the end of the applicable three-year performance cycle based on projected performance compared to the target performance metrics. We recognized \$0.5 million and \$0.2 million of total stock-based compensation expense related to outstanding PSU grants for the three months ended June 30, 2016 and 2015, respectively. We recognized \$1.1 million and \$0.4 million of total stock-based compensation expense related to outstanding PSU grants for the six

Table of Contents

months ended June 30, 2016 and 2015, respectively. At June 30, 2016, we had unrecognized compensation cost of \$3.9 million related to PSUs, which is expected to be recognized over a weighted average period of 1.5 years.

Employees' Stock Purchase Plan

During the second quarter of 2016, we adopted an Employees' Stock Purchase Plan (the "ESPP") that permits employees to purchase shares of our common stock by means of periodic payroll deductions at a discount of 15% from the closing price on the purchase date, which is the last business day of each calendar quarter. The first quarterly purchase period ends September 30, 2016. The maximum aggregate number of shares of our common stock which may be issued pursuant to the ESPP is 500,000 shares.

9. FAIR VALUE DISCLOSURES

ASC Topic 820, Fair Value Measurements ("ASC 820"), defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" within an entity's principal market, if any. The principal market is the market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity, regardless of whether it is the market in which the entity will ultimately transact for a particular asset or liability or if a different market is potentially more advantageous. Accordingly, this exit price concept may result in a fair value that differs from the transaction price or market price of the asset or liability.

ASC 820 provides a framework for measuring fair value under GAAP, expands disclosures about fair value measurements, and establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the fair value hierarchy are summarized as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is determined using significant observable inputs, generally either quoted prices in active markets for

similar assets or liabilities, or quoted prices in markets that are not active.

Level 3 - Fair value is determined using one or more significant inputs that are unobservable in active markets at the measurement date, such as a pricing model, discounted cash flow, or similar technique.

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets. The fair value of financial instruments, including cash and cash equivalents and accounts receivable and accounts payable, approximate their carrying amounts due to the short term nature of these instruments. As of June 30, 2016, the revolving credit facility's carrying value approximates market value since it has a floating interest rate, which increases or decreases with market interest rates and our leverage ratio.

The Convertible Notes, as discussed in Note 4, were initially recorded at estimated fair value determined using Level 2 measurements. The fair value of the Oakmont Acquisition earnout, discussed in Note 3, is determined using Level 3 measurements based on the forecasted number of home closings adjusted to reflect probability weighted absorption scenarios and a 10% discount rate. Significant assumptions impacting our estimates of the fair value of the earnout include absorption rates, the timing of the completion of development activities and the discount rate.

The following table below shows the level and measurement of liabilities at June 30, 2016 and December 31, 2015 (in thousands):

		June 30, 2016		December 31, 2015	
Fair Value Hierarchy		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Convertible Notes	Level 2	\$77,148	\$ 78,029	\$76,091	\$ 74,449
Earnout liability	Level 3	\$897	\$ 897	\$1,425	\$ 1,425

Table of Contents

10. RELATED PARTY TRANSACTIONS

Magnolia Reserve

We have an option contract to purchase 106 finished lots in Montgomery County, Texas, from an affiliate of a family member of our chief executive officer for a total base purchase price of approximately \$8.0 million. The lots will be purchased in takedowns of at least 21 lots during each 6 month period, subject to 5% annual price escalation and certain price protection terms. The first closing of 21 lots occurred during the second quarter of 2016 for \$1.6 million and was not subject to the 5% annual price escalation. As of June 30, 2016, we have 85 finished lots remaining under the option contract to be purchased in takedowns for a total base purchase price of approximately \$6.4 million. We have a \$100,000 non-refundable deposit at June 30, 2016 related to this option contract.

Consulting Fees

We had a three year consulting agreement with a family member of our chief executive officer for \$100,000 per year payable on a monthly basis, which was set to expire in November 2016. The agreement was terminated in June 2016 by mutual agreement of the parties. Consulting fees were \$58,333 and \$25,000 for the three months ended June 30, 2016 and 2015, respectively and \$83,333 and \$50,000 for the six month periods ended June 30, 2016 and 2015, respectively.

11. COMMITMENTS AND CONTINGENCIES

Contingencies

In the ordinary course of doing business, we become subject to claims or proceedings from time to time relating to our business activities including, but not limited to, the purchase, development, and sale of real estate. Management believes that these claims include usual obligations incurred by real estate developers and home builders in the normal course of business. In the opinion of management, these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

We have provided unsecured environmental indemnities to certain lenders. In each case, we have performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate us to reimburse the guaranteed parties for damages related to environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, we may have recourse against previous owners. Management is not aware of any environmental claims or occurrences and has recorded no reserves for environmental matters at June 30, 2016 and December 31, 2015.

Land Deposits

We have land purchase option contracts, generally through cash deposits, for the right to purchase land or lots at a future point in time with predetermined terms. Amounts paid for land options and deposits on land purchase contracts are capitalized and classified as deposits to purchase. Upon acquisition of the land, these deposits are applied to the acquisition price of the land and recorded as a cost component of the land in real estate inventory. To the extent that any deposits are nonrefundable and the associated land acquisition process is terminated or no longer determined probable, the deposit and related pre-acquisition costs are charged to general and administrative expense. Management reviews the likelihood of the acquisition of contracted lots in conjunction with its periodic real estate impairment analysis.

Under ASC Topic 810, Consolidation ("ASC 810"), a nonrefundable deposit paid to an entity is deemed to be a variable interest that will absorb some or all of the entity's expected losses if they occur. Non-refundable land purchase and lot option deposits generally represent our maximum exposure if we elect not to purchase the optioned property. In most instances, we will also expend funds for due diligence, development and construction activities with respect to optioned land prior to close. Such costs are classified as preacquisition costs, which we would have to absorb should the option not be exercised. Therefore, whenever we enter into a land option or purchase contract with an entity and make a nonrefundable deposit, we may have a variable interest in a VIE. In accordance with ASC 810, we perform ongoing reassessments of whether we are the primary beneficiary of a VIE and would consolidate the VIE if we are deemed to be the primary beneficiary. As of June 30, 2016 and December 31, 2015, we determined we were not the

primary beneficiary for any VIEs associated with non-refundable land deposit and option contracts.

Table of Contents

The table below presents a summary of our lots under option or contract (in thousands, except for lot count):

	June 30, 2016	December 31, 2015
Land deposits and option payments	\$11,676	\$6,406
Commitments under the land purchase option and deposit contracts if the purchases are consummated	\$247,662	\$155,548
Lots under land options and land purchase contracts	9,972	6,318

Bonding, Letters of Credit and Financial Guarantees

We are committed to perform certain development and construction activities and provide certain guarantees in the normal course of business. We have outstanding letters of credit, performance and surety bonds and financial guarantees totaling \$26.4 million and \$20.8 million at June 30, 2016 and December 31, 2015, respectively, related to our obligations for site improvements at various projects of which \$7.6 million and \$3.4 million, respectively, were issued under our revolving credit facility. Management does not believe that draws upon the letters of credit, bonds or financial guarantees if any, will have a material effect on our consolidated financial position, results of operations, or cash flows.

12. SEGMENT INFORMATION

We operate one principal homebuilding business which is organized and reports by division. We have five operating segments at June 30, 2016: our Texas, Southwest, Southeast, Florida and Northwest divisions. Our Texas division is our largest division and it comprised approximately 51% and 58% of total home sales revenues for the six months ended June 30, 2016, and 2015, respectively.

In accordance with ASC Topic 280, Segment Reporting (“ASC Topic 280”), operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker (“CODM”) in deciding how to allocate resources and in assessing performance. The CODM primarily evaluates performance based on the number of homes sold, gross margin and net income.

The operating segments qualify for aggregation as one reporting segment. In determining the reportable segment, we concluded that all operating segments have similar economic and other characteristics, including similar home floor plans, average selling prices, gross margin, production construction processes, suppliers, subcontractors, regulatory environments, customer type, and underlying demand and supply. Each operating segment follows the same accounting policies and is managed by our management team. We have no inter-segment sales, as all sales are to external customers.

Table of Contents

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

For purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operation, references to "we," "our," "us" or similar terms refer to LGI Homes, Inc. and its subsidiaries.

Business Overview

We are one of the nation's fastest growing public homebuilders in terms of percentage increase of home closings. We are engaged in the design, construction, marketing and sale of new homes in markets in Texas, Arizona, Florida, Georgia, New Mexico, South Carolina, North Carolina, Colorado, Washington and Tennessee. The markets where we have active communities at June 30, 2016, include Houston, San Antonio, Dallas/Fort Worth, Austin, Phoenix, Tucson, Tampa, Orlando, Fort Myers, Atlanta, Albuquerque, Charlotte, Denver, Jacksonville, Seattle and Colorado Springs.

Our management team has been in the residential land development business since the mid-1990s. Since commencing home building operations in 2003, we have constructed and closed over 14,000 homes. During the six months ended June 30, 2016, we had 1,972 home closings, compared to 1,524 home closings during the six months ended June 30, 2015.

We sell homes under the LGI Homes and Terrata Homes brands. Our 56 active communities at June 30, 2016 include three Terrata Homes communities.

Recent Developments

On May 27, 2016, we entered into an Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The A&R Credit Agreement has substantially similar terms and provisions to the Credit Agreement and provides for a \$360.0 million revolving credit facility, which can be increased by request of the Company up to \$400.0 million.

On May 5, 2016, our stockholders approved the LGI Homes, Inc. 2016 Employee Stock Purchase Plan and authorized 500,000 shares of our common stock issuable pursuant to the terms of the ESPP.

In June 2016, we completed our ATM Offering Program with a total of approximately 1.1 million shares of our common stock issued and sold under the program and approximately \$29.4 million net proceeds received relating to such sales.

Key Results

Key financial results as of and for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, were as follows:

• Home sales revenues increased 40.2% to \$222.7 million from \$158.8 million.

• Homes closed increased 32.2% to 1,128 homes from 853 homes.

• Average sales price of our homes increased 6.0% to \$197,450 from \$186,197.

• Gross margin as a percentage of home sales revenues decreased to 26.5% from 26.8%.

• Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 27.8% from 28.2%.

• Net income before income taxes increased 47.8% to \$31.4 million from \$21.2 million.

• Active communities increased to 56 from 45.

Total owned and controlled lots increased to 28,040 lots at June 30, 2016 from 25,540 lots at March 31, 2016. For a reconciliation of certain non-GAAP measures to the most directly comparable GAAP measure, please see "—Non-GAAP Measures."

Key financial results as of and for the six months ended June 30, 2016, as compared to the six months ended June 30, 2015, were as follows:

• Home sales revenues increased 37.8% to \$385.2 million from \$279.5 million.

• Homes closed increased 29.4% to 1,972 homes from 1,524 homes.

• Average sales price of our homes increased 6.5% to \$195,328 from \$183,409.

• Gross margin as a percentage of home sales revenues decreased to 26.1% from 26.5%.

• Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 27.3% from 28.1%.

• Net income before income taxes increased 49.4% to \$49.2 million from \$33.0 million.

Total owned and controlled lots increased to 28,040 lots at June 30, 2016 from 23,915 lots at December 31, 2015. For a reconciliation of certain non-GAAP measures to the most directly comparable GAAP measure, please see “—Non-GAAP Measures.”

Table of Contents

Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2016	2015	2016	2015
	(dollars in thousands, except per share data and average home sales price)			
Statement of Income Data:				
Home sales revenues	\$222,723	\$158,826	\$385,186	\$279,516
Expenses:				
Cost of sales	163,628	116,253	284,722	205,481
Selling expenses	17,867	13,393	31,958	24,975
General and administrative	10,488	7,943	20,440	16,148
Operating income	30,740	21,237	48,066	32,912
Other income, net	(668)	(9)	(1,171)	(55)
Net income before income taxes	31,408	21,246	49,237	32,967
Income tax provision	10,749	7,269	16,878	11,288
Net income	\$20,659	\$13,977	\$32,359	\$21,679
Basic earnings per share	\$1.01	\$0.70	\$1.58	\$1.09
Diluted earnings per share	\$0.96	\$0.66	\$1.54	\$0.97
Other Financial and Operating Data:				
Active communities at end of period	56	45	56	45
Home closings	1,128	853	1,972	1,524
Average sales price of homes closed	\$197,450	\$186,197	\$195,328	\$183,409
Gross margin ⁽¹⁾	\$59,095	\$42,573	\$100,464	\$74,035
Gross margin % ⁽²⁾	26.5 %	26.8 %	26.1 %	26.5 %
Adjusted gross margin ⁽³⁾	\$61,975	\$44,823	\$105,296	\$78,408
Adjusted gross margin % ⁽²⁾⁽³⁾	27.8 %	28.2 %	27.3 %	28.1 %

(1) Gross margin is home sales revenues less cost of sales.

(2) Calculated as a percentage of home sales revenues.

Adjusted gross margin is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted gross margin as gross margin less capitalized interest and adjustments resulting from the application of purchase accounting included in the cost of sales. Our management believes this information is useful because it isolates the impact that capitalized interest and purchase accounting adjustments have on gross margin. However, because adjusted gross margin information excludes capitalized interest and purchase accounting adjustment, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance. Please see “—Non-GAAP Measures—Adjusted Gross Margin” for a reconciliation of adjusted gross margin to gross margin, which is the GAAP financial measure that our management believes to be most directly comparable.

Table of Contents

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Homes Sales. Our home sales revenues and closings by division for the three months ended June 30, 2016 and 2015 were as follows (dollars in thousands):

	Three Months Ended June 30,			
	2016		2015	
	Revenues	Closings	Revenues	Closings
Texas	\$115,121	585	\$91,712	488
Southwest	42,960	192	28,767	143
Southeast	31,147	181	19,644	121
Florida	30,446	159	18,703	101
Northwest	3,049	11	—	—
Total home sales	\$222,723	1,128	\$158,826	853

Home sales revenues for the three months ended June 30, 2016 were \$222.7 million, an increase of \$63.9 million, or 40.2%, from \$158.8 million for the three months ended June 30, 2015. The increase in home sales revenues is primarily due to a 32.2% increase in homes closed and an increase in the average selling price per home during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The increase in home closings was largely due to the increase in the number of active communities in the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. The average selling price per home closed during the three months ended June 30, 2016 was \$197,450, an increase of \$11,253, or 6.0%, from the average selling price per home of \$186,197 for the three months ended June 30, 2015. The increase in average selling price per home is primarily due to changes in product mix, price points in new markets, and a favorable pricing environment.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the three months ended June 30, 2016 to \$163.6 million, an increase of \$47.4 million, or 40.8%, from \$116.3 million for the three months ended June 30, 2015. This increase is primarily due to a 32.2% increase in homes closed during the second quarter of 2016 as compared to the second quarter of 2015, and to a lesser degree, product mix. Gross margin for the three months ended June 30, 2016 was \$59.1 million, an increase of \$16.5 million, or 38.8%, from \$42.6 million for the three months ended June 30, 2015. Gross margin as a percentage of home sales revenues was 26.5% for the three months ended June 30, 2016 and 26.8% for the three months ended June 30, 2015. This decrease in gross margin as a percentage of home sales revenues is primarily due to a shift in geographic mix and a combination of increased construction costs and lot costs partially offset by higher average home sales price for the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.

Selling Expenses. Selling expenses for the three months ended June 30, 2016 were \$17.9 million, an increase of \$4.5 million, or 33.4%, from \$13.4 million for the three months ended June 30, 2015. Sales commissions increased to \$9.3 million for the three months ended June 30, 2016 from \$6.5 million for the three months ended June 30, 2015, primarily due to a 40.2% increase in home sales revenue during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015. Selling expenses as a percentage of home sales revenues were 8.0% and 8.4% for the three months ended June 30, 2016 and 2015, respectively, and reflect operating leverage realized related to advertising costs.

General and Administrative. General and administrative expenses for the three months ended June 30, 2016 were \$10.5 million, an increase of \$2.5 million, or 32.0%, from \$7.9 million for the three months ended June 30, 2015. The increase in general and administrative expenses is primarily due to the higher number of home closings and active communities during the second quarter of 2016 as compared to the second quarter of 2015. General and administrative expenses as a percentage of home sales revenues were 4.7% and 5.0% for the three months ended June 30, 2016 and 2015, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects leverage realized from the increase in home sales revenues during the second quarter of 2016 as compared to the second quarter of 2015.

Operating Income and Net Income. Operating income for the three months ended June 30, 2016 was \$30.7 million, an increase of \$9.5 million, or 44.7%, from \$21.2 million for the three months ended June 30, 2015. Net income for the

three months ended June 30, 2016, was \$20.7 million, an increase of \$6.7 million, or 47.8%, from \$14.0 million for the three months ended June 30, 2015. The increases are primarily attributed to a 32.2% increase in homes closed, the increase in average home sales price during the second quarter of 2016 as compared to the second quarter of 2015, and operating leverage realized related to selling, general, and administrative expenses, net of increased expenses associated with new communities.

Table of Contents

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Homes Sales. Our home sales revenues and closings by division for the six months ended June 30, 2016 and 2015 were as follows (dollars in thousands):

	Six Months Ended June 30,		2015	
	Revenues	Closings	Revenues	Closings
Texas	\$195,564	995	\$162,485	870
Southwest	76,883	358	43,673	222
Southeast	59,061	341	42,143	264
Florida	50,629	267	31,215	168
Northwest	3,049	11	—	—
Total home sales	\$385,186	1,972	\$279,516	1,524

Home sales revenues for the six months ended June 30, 2016 were \$385.2 million, an increase of \$105.7 million, or 37.8%, from \$279.5 million for the six months ended June 30, 2015. The increase in home sales revenues is primarily due to a 29.4% increase in homes closed and an increase in the average selling price per home during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The increase in home closings was largely due to the increase in the number of active communities in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. The average selling price per home closed during the six months ended June 30, 2016 was \$195,328, an increase of \$11,919, or 6.5%, from the average selling price per home of \$183,409 for the six months ended June 30, 2015. The increase in average selling price per home is primarily due to changes in product mix, price points in new markets, and a favorable pricing environment.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the six months ended June 30, 2016 to \$284.7 million, an increase of \$79.2 million, or 38.6%, from \$205.5 million for the six months ended June 30, 2015. This increase is primarily due to a 29.4% increase in homes closed during the first half of 2016 as compared to the first half of 2015, and to a lesser degree, product mix. Gross margin for the six months ended June 30, 2016 was \$100.5 million, an increase of \$26.4 million, or 35.7%, from \$74.0 million for the six months ended June 30, 2015. Gross margin as a percentage of home sales revenues was 26.1% for the six months ended June 30, 2016 and 26.5% for the six months ended June 30, 2015. This decrease in gross margin as a percentage of home sales revenues is primarily due to a shift in geographic mix and a combination of increased construction costs and lot costs partially offset by higher average home sales price for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015.

Selling Expenses. Selling expenses for the six months ended June 30, 2016 were \$32.0 million, an increase of \$7.0 million, or 28.0%, from \$25.0 million for the six months ended June 30, 2015. Sales commissions increased to \$15.7 million for the six months ended June 30, 2016 from \$11.2 million for the six months ended June 30, 2015, primarily due to a 37.8% increase in home sales revenue during the six months ended June 30, 2016 as compared to the six months ended June 30, 2015. Selling expenses as a percentage of home sales revenues were 8.3% and 8.9% for the six months ended June 30, 2016 and 2015, respectively, and reflect operating leverage realized related to advertising costs.

General and Administrative. General and administrative expenses for the six months ended June 30, 2016 were \$20.4 million, an increase of \$4.3 million, or 26.6%, from \$16.1 million for the six months ended June 30, 2015. The increase in

general and administrative expenses is primarily due to the higher number of home closings and active communities during the first half of 2016 as compared to the first half of 2015. General and administrative expenses as a percentage of home sales revenues were 5.3% and 5.8% for the six months ended June 30, 2016 and 2015, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects leverage realized from the increase in home sales revenues during the first half of 2016 as compared to the first half of 2015.

Operating Income and Net Income. Operating income for the six months ended June 30, 2016 was \$48.1 million, an increase of \$15.2 million, or 46.0%, from \$32.9 million for the six months ended June 30, 2015. Net income for the

six months ended June 30, 2016, was \$32.4 million, an increase of \$10.7 million, or 49.3%, from \$21.7 million for the six months ended June 30, 2015. The increases are primarily attributed to a 29.4% increase in homes closed, the increase in average home sales price during the first half of 2016 as compared to the first half of 2015, and operating leverage realized related to selling, general, and administrative expenses, net of increased expenses associated with new communities.

Table of Contents

Non-GAAP Measures

In addition to the results reported in accordance with U.S. GAAP, we have provided information in this Quarterly Report on Form 10-Q relating to “Adjusted Gross Margin.”

Adjusted Gross Margin

Adjusted gross margin is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted gross margin as gross margin less capitalized interest and adjustments resulting from the application of purchase accounting included in the cost of sales. Our management believes this information is useful because it isolates the impact that capitalized interest and purchase accounting adjustments have on gross margin. However, because adjusted gross margin information excludes capitalized interest and purchase accounting adjustments, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance.

The following table reconciles adjusted gross margin to gross margin, which is the GAAP financial measure that our management believes to be most directly comparable (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Home sales revenues	\$222,723	\$158,826	\$385,186	\$279,516
Cost of sales	163,628	116,253	284,722	205,481
Gross margin	59,095	42,573	100,464	74,035
Capitalized interest charged to cost of sales	2,669	1,490	4,451	2,552
Purchase accounting adjustments ^(a)	211	760	381	1,821
Adjusted gross margin	61,975	44,823	\$105,296	\$78,408
Gross margin % ^(b)	26.5	% 26.8	% 26.1	% 26.5
Adjusted gross margin % ^(b)	27.8	% 28.2	% 27.3	% 28.1

^(a) Adjustments result from the application of purchase accounting related to prior acquisitions and represent the amount of the fair value step-up adjustments for real estate inventory included in cost of sales.

^(b) Calculated as a percentage of home sales revenues.

Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer to pay a deposit at the time of signing the purchase contract. The amount of the required deposit is minimal (generally \$1,000 or less). The deposits are refundable if the homebuyer is unable to obtain mortgage financing. We permit our homebuyers to cancel the purchase contract and obtain a refund of their deposit in the event mortgage financing cannot be obtained within a certain period of time, as specified in their purchase contract. Typically our homebuyers provide documentation regarding their ability to obtain mortgage financing within 14 days after the purchase contract is signed. If we determine that the homebuyer is not qualified to obtain mortgage financing or is not otherwise financially able to purchase the home, we will terminate the purchase contract. If a purchase contract has not been cancelled or terminated within 14 days after the purchase contract has been signed, then the homebuyer has met the preliminary criteria to obtain mortgage financing. Only purchase contracts that are signed by homebuyers who have met the preliminary criteria to obtain mortgage financing are included in new (gross) orders.

Our “backlog” consists of homes that are under a purchase contract that are signed by homebuyers who have met the preliminary criteria to obtain mortgage financing but have not yet closed. Since our business model is based on building move-in ready homes before a purchase contract is signed, the majority of our homes in backlog are

substantially complete. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less cancellations) generated during the current period minus the number of homes closed during the current period. Our backlog at any given time will be affected by cancellations; the number of our active communities, and the timing of homes closed. Homes in backlog are generally closed within one to two months, although we may experience cancellations of purchase contracts at any time prior to closing. It is important to note that net orders, backlog and cancellation metrics are operational, rather than accounting data, and should be used only as a general gauge to evaluate performance. Backlog may be impacted by customer cancellations

Table of Contents

for various reasons that are beyond our control, and in light of our minimal required deposit, there is little negative impact to the potential homebuyer from the cancellation of the purchase contract.

As of the dates set forth below, our net orders, cancellation rate, and ending backlog homes and value were as follows (dollars in thousands):

Backlog Data	Six Months Ended June 30,			
	2016	2015		
Net orders ⁽¹⁾	2,336	2,155		
Cancellation rate ⁽²⁾	22.2	%	23.0	%
Ending backlog – homes ⁽³⁾	887	783		
Ending backlog – value ⁽³⁾	\$ 187,556	\$ 148,987		

(1) Net orders are new (gross) orders for the purchase of homes during the period, less cancellations of existing purchase contracts during the period.

(2) Cancellation rate for a period is the total number of purchase contracts cancelled during the period divided by the total new (gross) orders for the purchase of homes during the period.

(3) Ending backlog consists of homes at the end of the period that are under a purchase contract that have met our preliminary financing criteria but have not yet closed. Ending backlog is valued at the contract amount.

Land Acquisition Policies and Development

We increased our active communities to 56 as of June 30, 2016 from 52 as of December 31, 2015. We also increased our lot inventory to 28,040 owned or controlled lots as of June 30, 2016 from 23,915 owned or controlled lots as of December 31, 2015.

The table below shows (i) home closings by division for the six months ended June 30, 2016, and (ii) our owned or controlled lots by division as of June 30, 2016.

Division	Six Months Ended June 30, 2016		As of June 30, 2016	
	Home Closings	Ow ned (1)	Controlled	Total
Texas	995	10,836	3,026	13,862
Southwest	358	1,650	2,076	3,726
Southeast	341	3,367	3,276	6,643
Florida	267	1,654	1,263	2,917
Northwest	11	561	331	892
Total	1,972	18,068	9,972	28,040

(1) Of the 18,068 owned lots as of June 30, 2016, 11,388 were raw/under development lots and 6,680 were finished lots (including homes in progress, sales offices and completed homes).

Homes in Inventory

When entering a new community, we build a sufficient number of move-in ready homes to meet our budgets. We base future home starts on our absorption pace as measured by home closings. As homes are closed, we start more homes to maintain our inventory levels. At June 30, 2016, we had a total of 579 completed homes, including sales offices, and 1,202 homes in progress in inventory.

Raw Materials

When constructing homes, we use various materials and components. We generally contract for our materials and labor at a fixed price for the anticipated construction period of our homes. This allows us to mitigate the risks associated with increases in building materials and labor costs between the time construction begins on a home and the time it is closed. Typically, the raw materials and most of the components used in our business are readily available in the United States. In addition, the majority of our raw materials is supplied to us by our subcontractors, and is included in the price of our contract with such contractors. Most of the raw materials necessary for our subcontractors are standard items carried by major suppliers. Substantially all of our

Table of Contents

construction work is done by third party subcontractors, most of whom are non-unionized. We continue to monitor the supply markets to achieve the best prices available. Typically, the price changes that most significantly influence our operations are price increases in commodities and lumber.

Seasonality

In all of our divisions, we have historically experienced similar variability in our results of operations and in capital requirements from quarter to quarter due to the seasonal nature of the homebuilding industry. We generally close more homes in our second, third and fourth quarters. Thus, our home sales revenue may fluctuate on a quarterly basis and we may have higher capital requirements in our second, third and fourth quarters in order to maintain our inventory levels. Our revenue and capital requirements are generally similar across our second, third and fourth quarters.

As a result of seasonal activity, our quarterly results of operation and financial position at the end of a particular quarter, especially the first quarter, are not necessarily representative of the results we expect at year end. We expect this seasonal pattern to continue in the long term.

Liquidity and Capital Resources

Overview

As of June 30, 2016, we had \$49.7 million of cash and cash equivalents. Cash flows for each of our active communities depend on the status of the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, land development, plats, vertical development, construction of sales offices, general landscaping and other amenities. Because these costs are a component of our inventory and are not recognized in our statement of operations until a home closes, we incur significant cash outflows prior to recognition of home sales revenues. In the later stages of an active community, cash inflows may significantly exceed home sales revenues reported for financial statement purposes, as the costs associated with home and land construction were previously incurred.

Our principal uses of capital are operating expenses, land and lot purchases, lot development, home construction, interest costs on our indebtedness and the payment of various liabilities. In addition, we may purchase land, lots, homes under construction or other assets as part of a business combination.

We generally rely on our ability to finance our operations by generating operating cash flows, borrowing under our revolving credit facility or the issuance and sale of shares of our common stock under our shelf registration statement. As needed, we will consider accessing the debt and equity capital markets as part of our ongoing strategy. We also rely on our ability to obtain performance, payment and completion surety bonds as well as letters of credit to finance our projects.

We believe that we will be able to fund our current and foreseeable liquidity needs for at least the next twelve months with our cash on hand, cash generated from operations, cash expected to be available from our revolving credit facility, including any future modifications, and the net proceeds from the issuance and sale of shares of our common stock or through accessing debt or equity capital, as needed.

Revolving Credit Facility

On May 27, 2016, we entered into an Amended and Restated Credit Agreement (the "A&R Credit Agreement") with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The A&R Credit Agreement provides for a \$360.0 million revolving credit facility with terms substantially similar to our previous \$300.0 million revolving credit facility. The revolving credit facility matures on May 27, 2019. Prior to each annual anniversary of the closing of the A&R Credit Agreement, we may request a one year extension of the maturity date. The A&R Credit Agreement is guaranteed by each of our subsidiaries having gross assets equal to or greater than \$500,000. Prior to the occurrence of a trigger event under the A&R Credit Agreement, the revolving credit facility is unsecured except that the facility is secured by a first priority lien on certain land held for development, lots under development and/or finished lots with an aggregate land value of at least \$35.0 million. As of June 30, 2016, the borrowing base under the A&R Credit Agreement was \$360.0 million, of which \$260.0 million was outstanding, \$7.6 million represents letter of credit assurances, and \$92.4 million was available to borrow.

The A&R Credit Agreement requires us to maintain a tangible net worth of not less than \$202.5 million plus (i) 75% of the net proceeds of any equity issuances and (ii) 50% of the amount of our net income in any fiscal quarter after the date of the A&R Credit Agreement, a leverage ratio of not greater than 67.5%, liquidity of at least \$40.0 million and a ratio of EBITDA to interest expense for the most recent four quarters of at least 2.50 to 1.0. The A&R Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At June 30, 2016, we were in compliance with all of the covenants contained in the A&R Credit Agreement.

Table of Contents

Convertible Notes

In November 2014, we issued \$85.0 million aggregate principal amount of our 4.25% Convertible Notes due 2019 (the “Convertible Notes”). The Convertible Notes mature on November 15, 2019 and bear interest at a rate of 4.25%, payable semiannually in May and November. Prior to May 15, 2019, the Convertible Notes will be convertible only upon satisfaction of any of the specified conversion events. On or after May 15, 2019, note holders can convert their Convertible Notes at any time at their option.

On April 30, 2015, our stockholders approved the flexible settlement provisions of the Convertible Notes, which allows us to settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. The initial conversion rate of the Convertible Notes is 46.4792 shares of our common stock for each \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events.

Letters of Credit, Surety Bonds and Financial Guarantees

We are often required to provide letters of credit and surety bonds to secure our performance under construction contracts, development agreements and other arrangements. The amount of such obligations outstanding at any time varies in accordance with our pending development activities. In the event any such bonds or letters of credit are drawn upon, we would be obligated to reimburse the issuer of such bonds or letters of credit.

Under these letters of credit, surety bonds and financial guarantees, we are committed to perform certain development and construction activities and provide certain guarantees in the normal course of business. Outstanding letters of credit, surety bonds and financial guarantees under these arrangements, totaled \$26.4 million as of June 30, 2016. Although significant development and construction activities have been completed related to the improvements at these sites, the letters of credit and surety bonds are not generally released until all development and construction activities are completed. We do not believe that it is probable that any outstanding letters of credit or surety bonds or financial guarantees as of June 30, 2016 will be drawn upon.

Cash Flows

Six Months Ended June 30, 2016 compared to Six Months Ended June 30, 2015

Net cash used in operating activities during the six months ended June 30, 2016 was \$34.5 million as compared to \$1.8 million during the six months ended June 30, 2015. The \$32.6 million increase in net cash used in operating activities was primarily attributable to a \$42.9 million increase in the net change in real estate inventory year-over-year primarily related our increased community count and additional homes under construction, a \$7.7 million increase in cash paid for pre-acquisition costs and deposits year-over-year, offset by the \$10.7 million increase in net income, the \$9.7 million decrease in accounts receivable and a \$8.7 million increase in accounts payable, accrued expenses and other liabilities during the six months ended June 30, 2016, as a result of our continued growth and, to a lesser extent, the timing of home sales and homebuilding activities.

Net cash used in investing activities was \$0.4 million during each of the six months ended June 30, 2016 and June 30, 2015 and reflects the purchase of property and equipment.

Net cash provided by financing activities totaled \$46.9 million during the six months ended June 30, 2016 as compared to \$20.6 million during the six months ended June 30, 2015. The \$26.3 million increase in net cash provided by financing activities in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 consists primarily of the \$6.9 million increase in net borrowings in the six months ended June 30, 2016 as compared to the six months ended June 30, 2015 and the \$19.8 million of net proceeds from the issuance and sale of shares of our common stock under the ATM Program during the six months ended June 30, 2016.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into land option contracts in order to procure land and lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require cash deposits and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, which may include obtaining applicable property and development entitlements or the completion of development activities and the delivery of finished lots. We also utilize option contracts with land sellers as a method of acquiring lots and land in staged takedowns, to help us manage the financial and market risk associated with land holdings, and to

minimize the use of funds from our corporate financing sources. Option contracts generally require a non-refundable deposit for the right to acquire land or lots over a specified period of time at pre-determined prices. We generally have the right at our discretion to terminate our obligations under both purchase contracts and option contracts during the initial feasibility period and receive a refund of our deposit, or we may terminate the contracts after the end of the feasibility period by forfeiting our cash deposit with no further financial obligations to the land seller. In addition, our deposit may also be refundable if the land seller does not satisfy all conditions precedent in the respective contract. As of June 30, 2016, we

Table of Contents

had \$11.7 million of cash deposits pertaining to land option contracts and purchase contracts for 9,972 lots with an aggregate purchase price of \$247.7 million.

Our utilization of land option contracts is dependent on, among other things, the availability of land sellers, willing to enter into option takedown arrangements, the availability of capital to financial intermediaries to finance the development of optioned lots, general housing conditions, and local market dynamics. Option contracts may be more difficult to procure from land sellers in strong housing markets and are more prevalent in certain markets.

Inflation

Our business can be adversely impacted by inflation, primarily from higher land, financing, labor, material and construction costs. In addition, inflation can lead to higher mortgage rates, which can significantly affect the affordability of mortgage financing to home buyers.

Contractual Obligations

There have been no material changes to our contractual obligations appearing in the Contractual Obligations section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future.

We believe that there have been no significant changes to our critical accounting policies during the six months ended June 30, 2016 as compared to those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Cautionary Statement about Forward-Looking Statements

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "may," "objective," "plan," "potential," "predict," "projection," "should," "will" or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may, and often do, vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- adverse economic changes either nationally or in the markets in which we operate, including, among other things, increases in unemployment, volatility of mortgage interest rates and inflation and decreases in housing prices;
- a slowdown in the homebuilding industry;
- volatility and uncertainty in the credit markets and broader financial markets;
- the cyclical and seasonal nature of our business;
- our future operating results and financial condition;
- our business operations;

• changes in our business and investment strategy;
• the success of our operations in recently opened new markets and our ability to expand into additional new markets;
• our ability to successfully extend our business model to building homes with higher price points, developing larger communities, multi-unit products and sales of acreage home sites;

Table of Contents

an inability to develop our projects successfully or within expected timeframes;
 our ability to identify potential acquisition targets and close such acquisitions;
 our ability to successfully integrate any acquisitions with our existing operations;
 availability of land to acquire and our ability to acquire such land on favorable terms or at all;
 availability, terms and deployment of capital;
 decisions of the lender group of our revolving credit facility;
 the occurrence of the specific conversion events that enable early conversion of our 4.25% Convertible Notes due 2019;
 decline in the market value of our land portfolio;
 continued or increased disruption in the terms or availability of mortgage financing or increase in the number of foreclosures in our markets;
 shortages of or increased prices for labor, land or raw materials used in land development and housing construction;
 delays in land development or home construction resulting from natural disasters, adverse weather conditions or other events outside our control;
 uninsured losses in excess of insurance limits;
 the cost and availability of insurance and surety bonds;
 changes in, liabilities under, or the failure or inability to comply with, governmental laws and regulations;
 the timing of receipt of regulatory approvals and the opening of projects;
 the degree and nature of our competition;
 increases in taxes or government fees;
 poor relations with the residents of our projects;
 future litigation, arbitration or other claims;
 availability of qualified personnel and third party contractors and our ability to retain our key personnel;
 our leverage and future debt service obligations;
 the impact on our business of any future government shutdown similar to the one that occurred in October 2013;
 other risks and uncertainties inherent in our business;
 other factors we discuss under the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and
 the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Quarterly Report on Form 10-Q.

Table of Contents

Implications of Being an Emerging Growth Company

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we are an emerging growth company, unlike other public companies, we will not be required to: provide an attestation and report from our auditors on management’s assessment of the effectiveness of our system of internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;

• comply with certain new requirements adopted by the PCAOB;

• comply with certain new audit rules adopted by the PCAOB after April 5, 2012, unless the SEC determines otherwise;

• provide disclosures regarding executive compensation required of larger public companies; and

• obtain stockholder approval of any golden parachute payments not previously approved.

We intend to continue to take advantage of all of these exemptions.

We will cease to be an emerging growth company when any of the following conditions apply:

• we have \$1.0 billion or more in annual revenues;

• at least \$700 million in market value of our common stock are held by non-affiliates;

• we issue more than \$1.0 billion of non-convertible debt over a three-year period; or

• the last day of the fiscal year following the fifth anniversary of our initial public offering has passed.

In addition, an emerging growth company can delay its adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with any new or revised accounting standards on the relevant dates on which non-emerging growth companies must adopt such standards. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are interest rate sensitive. As overall housing demand is adversely affected by increases in interest rates, a significant increase in mortgage interest rates may negatively affect the ability of homebuyers to secure adequate financing. Higher interest rates could adversely affect our revenues, gross margin and net income. We do not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes.

Quantitative and Qualitative Disclosures About Interest Rate Risk

We utilize both fixed-rate debt (\$85.0 million aggregate principal amount of our 4.25% Convertible Notes due 2019 and certain inventory related obligations) and variable-rate debt (our \$360.0 million revolving credit facility), as part of financing our operations. We do not have the obligation to prepay the Convertible Notes or our fixed-rate inventory related obligations prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed-rate debt.

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate indebtedness.

We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the six months ended June 30, 2016. We have not entered into and currently do not hold derivatives for trading or speculative purposes, but we may do so in the future. Many of the statements contained in this section are forward looking and should be read in conjunction with our disclosures under the heading “Cautionary Statement about Forward-Looking Statements” above.

As of June 30, 2016, we had \$260.0 million of variable rate indebtedness outstanding under the A&R Credit Agreement. All of the outstanding borrowings under the A&R Credit Agreement are at variable rates based on LIBOR. The interest rate for our variable rate indebtedness as of June 30, 2016 was LIBOR plus 3.50%. A hypothetical 100 basis point increase in the average interest rate on our variable rate indebtedness would increase our annual interest expense by approximately \$2.6 million.

Based on the current interest rate management policies we have in place with respect to our outstanding indebtedness, we do not believe that the future interest rate risks related to our existing indebtedness will have a material adverse impact on our financial position, results of operations or liquidity.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of June 30, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure information is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Controls

No change in our internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) occurred during the three months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

The exhibits filed or furnished as part of this Quarterly Report on Form 10-Q are listed in the Exhibit Index immediately preceding those exhibits, which Index is incorporated in this Item by reference.

SIGNATURES

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.

LGI Homes, Inc.

Date: August 9, 2016 /s/ Eric Lipar

Eric Lipar

Chief Executive Officer and Chairman of the Board

August 9, 2016 /s/ Charles Merdian

Charles Merdian

Chief Financial Officer and Treasurer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1**	Amended and Restated Credit Agreement, dated as of May 27, 2016, by and among LGI Homes, Inc., each of the financial institutions initially a signatory thereto, and Wells Fargo Bank, National Association, as administrative agent, with Wells Fargo Securities, LLC, as sold Lead Arranger and sole Bookrunner, and Deutsche Bank Securities Inc. and Fifth Third Bank, as Documentation Agents (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (File No. 001-36126) filed with the Securities and Exchange Commission on June 2, 2016).
31.1*	CEO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	XBRL Instance Document.
101.SCH†	XBRL Taxonomy Extension Schema Document.
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** Previously filed.

XBRL information is deemed not filed or a part of a registration statement or Annual Report for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under such sections.