LGI Homes, Inc.
Form 10-Q
November 12, 2014

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 September 30, 2014.
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 (State or other jurisdiction of incorporation or organization)	46-3088013 (I.R.S. Employer Identification No.)
1450 Lake Robbins Drive, Suite 430, The Woodlands, Texas (Address of principal executive offices) (281) 362-8998 (Registrant's Telephone Number, Including Area Code)	77380 (Zip 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.

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

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

Yes ¨ No ý

As of November 10, 2014, there were 20,763,449 shares of the registrant's common stock, par value $.01 per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LGI HOMES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	$46,161	$54,069
Accounts receivable	9,713	5,402
Real estate inventory	291,988	141,983
Pre-acquisition costs and deposits	12,729	3,703
Deferred taxes, net	467	288
Property and equipment, net	1,373	845
Other assets	4,730	1,992
Goodwill and intangible assets, net	12,543	12,728
Total assets	$379,704	$221,010
LIABILITIES AND EQUITY		
Accounts payable	$15,449	$14,001
Accrued expenses and other liabilities	17,747	7,100
Notes payable	160,188	35,535
Total liabilities	193,384	56,636
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value $0.01, 250,000,000 shares authorized, 20,763,449 issued and outstanding	208	208
Additional paid-in capital	158,325	157,056
Retained earnings	27,787	7,110
Total equity	186,320	164,374
Total liabilities and equity	$379,704	$221,010

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Home sales	$92,516	$37,035	$274,848	$95,033
Management and warranty fees	—	1,007	—	2,309
Total revenues	92,516	38,042	274,848	97,342
Cost of sales	67,256	27,083	201,661	69,225
Selling expenses	9,239	3,589	25,788	9,082
General and administrative	6,115	4,052	16,557	9,078
Income from unconsolidated LGI/GTIS Joint Ventures	—	(1,976)	—	(2,920)
Operating income	9,906	5,294	30,842	12,877
Interest expense, net	—	(41)	—	(47)
Other income, net	628	34	663	56
Net income before income taxes	10,534	5,287	31,505	12,886
Income tax provision	(3,488)	(137)	(10,828)	(273)
Net income	7,046	5,150	20,677	12,613
Loss attributable to non-controlling interests	—	437	—	583
Net income attributable to owners	$7,046	$5,587	$20,677	$13,196
Basic and diluted earnings per share data:				
Basic	$0.34		$1.00	
Diluted	$0.34		$0.99	
Weighted average number of shares of common stock:				
Basic	20,763,449		20,763,449	
Diluted	20,881,827		20,871,757	

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Equity
	Shares	Amount			
BALANCE—December 31, 2013	20,763,449	$208	$157,056	$7,110	$164,374
Net income	—	—	—	20,677	20,677
Issuance of restricted stock units in settlement of accrued bonuses	—	—	642	—	642
Compensation expense for equity awards	—	—	627	—	627
BALANCE—September 30, 2014	20,763,449	$208	$158,325	$27,787	$186,320

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$20,677	$12,613
Adjustments to reconcile net income to net cash used in operating activities:		
Income from unconsolidated LGI/GTIS Joint Ventures	—	(2,920)
Distributions from unconsolidated LGI/GTIS Joint Ventures	—	3,027
Depreciation and amortization	471	199
Gain on settlement of participation fee obligation	—	(9)
Loss on disposal of assets	14	61
Compensation expense for equity awards	627	—
Deferred income taxes	(179)	—
Changes in assets and liabilities:		
Accounts receivable	(4,312)	(682)
Real estate inventory	(143,534)	(38,311)
Pre-acquisition costs and deposits	(9,026)	(2,674)
Other assets	(589)	(1,843)
Accounts payable	1,449	3,257
Accrued expenses and other liabilities	4,817	3,001
Net cash used in operating activities	(129,585)	(24,281)
Cash flows from investing activities:		
Capital investments in unconsolidated LGI/GTIS Joint Ventures	—	(928)
Capital distributions from unconsolidated LGI/GTIS Joint Ventures	—	148
Proceeds from disposal of assets	—	35
Purchases of property and equipment	(828)	(533)
Net cash used in investing activities	(828)	(1,278)
Cash flows from financing activities:		
Proceeds from notes payable	127,528	64,151
Payments on notes payable	(2,875)	(51,362)
Loan issuance costs	(2,148)	—
Contributions from owners	—	2,535
Distributions to owners	—	(3,240)
Contributions from non-controlling interests	—	15,797
Net cash provided by financing activities	122,505	27,881
Net increase (decrease) in cash and cash equivalents	(7,908)	2,322
Cash and cash equivalents, beginning of period	54,069	7,069
Cash and cash equivalents, end of period	$46,161	$9,391

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND BUSINESS

Organization and Description of the Business

LGI Homes, Inc., a Delaware corporation (the "Company"), was organized on July 9, 2013 as a holding company for the purpose of facilitating the initial public offering (the "IPO") of its common stock in November 2013.

The Company's principal business is the development of communities and the design and construction of homes. At September 30, 2014, the Company had operations in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, and South Carolina.

Initial Public Offering and Reorganization Transactions

On November 13, 2013, the Company completed the IPO and received net proceeds of $102.6 million. In conjunction with the IPO, the Company completed the reorganization of LGI Homes Group, LLC and LGI Homes Corporate, LLC and their consolidated subsidiaries and variable interest entities, as well as LGI Homes II, LLC, LGI Homes - Sunrise Meadow, LLC, LGI Homes - Canyon Crossing, LLC, and LGI Homes - Deer Creek, LLC, (collectively, the "Predecessor") into LGI Homes, Inc. (the "Reorganization Transactions").

Immediate family members, a father and son (the "Family Principals"), individually or jointly owned more than 50% of the voting ownership interest of each entity comprising the Predecessor. The Predecessor entities and the Company were under common management, operated in the same business, and were controlled by the Family Principals immediately before and after the Reorganization Transactions. Following the Reorganization Transactions, the entities that comprised the Predecessor are wholly-owned subsidiaries of the Company. The Reorganization Transactions were accounted for at the transaction date as a consolidation of entities under common control. In addition, since the Predecessor controlled LGI Fund III Holdings, LLC before and after the IPO, the Company accounted for the acquisition of the non-controlling interests as an equity transaction. The accompanying unaudited statements of operations for the three and nine months ended September 30, 2013 and the statement of cash flows for the nine months ended September 30, 2013 present the historical combined financial statements of the Predecessor.

2. ACQUISITION OF LGI/GTIS JOINT VENTURE PARTNERS' INTERESTS

Concurrent with the IPO, the Company acquired from GTIS Partners, LP and its affiliated entities ("GTIS") all of GTIS' equity interests in four unconsolidated joint ventures with the Predecessor, namely LGI-JV Holdings, LLC (formerly LGI-GTIS Holdings, LLC), LGI-JV Holdings II, LLC (formerly LGI-GTIS Holdings II, LLC), LGI-JV Holdings III, LLC (formerly LGI-GTIS Holdings III, LLC) and LGI-JV Holdings IV, LLC (formerly LGI-GTIS Holdings IV, LLC) (collectively, the "LGI/GTIS Joint Ventures"), in exchange for aggregate consideration of $41.3 million, consisting of cash of approximately $36.8 million and 409,091 shares of the Company's common stock valued at $4.5 million on the IPO date (the "GTIS Acquisitions"). As discussed at Note 6, the LGI/GTIS Joint Ventures were historically accounted for as unconsolidated joint ventures under the equity method of accounting. As a result of the GTIS Acquisitions, the Company consolidated these entities. As required by ASC Topic 805, Business Combinations ("ASC Topic 805"), the acquired assets and assumed liabilities were accounted for at fair value and the Predecessor's historical interests in the joint ventures were remeasured at fair value.

In connection with the purchase accounting, the Company recorded a gain of $6.4 million on the re-measurement of the Predecessor's equity interest in the LGI/GTIS Joint Ventures and $12.7 million of goodwill and other intangibles. In addition, there was a $7.9 million step-up adjustment to record the acquisition date real estate inventory and lot option contracts at fair value. Approximately $0.4 million and $2.4 million of the $7.9 million fair value step-up adjustment is included in cost of sales for the three and nine month periods ended September 30, 2014, respectively, related to real estate inventory and lot option contracts at November 13, 2013 that were sold during the respective periods. As of September 30, 2014, a total of $5.8 million of the step-up adjustment has been amortized to cost of sales.

Supplemental Pro-Forma Information

The supplemental pro forma information presented below presents the home sales revenues, cost of sales, and net income before income taxes of the Company as if the GTIS Acquisitions had been completed on January 1, 2012. The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable under the circumstances. The pro forma consolidated financial data is presented for informational purposes only. The pro forma consolidated financial data does not purport to represent what the Company's results of operations would have been

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had the GTIS Acquisitions actually occurred on January 1, 2012 and does not purport to project the Company's results of operations for any future period.

Pro Forma Financial Information	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(in thousands)	
Home sales revenues	$67,997	$163,966
Cost of sales	$49,429	$118,856
Net income before income taxes	$7,996	$19,450

The pro forma results have been adjusted to reflect the elimination of the Predecessor's equity in earnings of the LGI/GTIS Joint Ventures. The pro forma results also reflect $0.1 million and $0.2 million for the three and nine months ended September 30, 2013, respectively for the amortization expense related to the marketing intangible asset. The pro forma financial information excludes the impact of the gain on re-measurement and the incremental impact of the fair value step-up adjustment of real estate inventory and lot option contracts as these are considered to be non-recurring items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of the Company’s 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 nine months ended September 30, 2014 include the accounts of LGI Homes, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited financial statements for the three and nine months ended September 30, 2013 include the Predecessor's historical combined accounts and results of operations. All intercompany and intracompany balances and transactions have been eliminated.

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, warranty reserves and loss contingencies.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and short-term liquid investments with an initial maturity date of less than three months. The Company's cash in demand deposit accounts may exceed federally insured limits and could be negatively impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or diminished access to cash in their demand deposit accounts.

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Accounts Receivable

Accounts receivable consist primarily of proceeds due from title companies for sales closed prior to period end and are generally collected within a few days from closing.

Real Estate Inventory

Inventory consists of land, land under development, finished lots, sales offices, homes in progress, and completed homes. 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, 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 (principally capitalized interest and property taxes) 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 the total number of lots in the community. Management believes the allocation of land development costs on a pro rata basis approximates an allocation using a relative sales value method.

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.

In accordance with the provisions of ASC Topic 360, Property, Plant, and Equipment ("ASC Topic 360"), real estate inventory is evaluated for indicators of impairment by each community during each reporting period. In conducting its review for indicators of impairment on a community level, management evaluates, among other things, the margins on homes that have been sold, communities with slow moving inventory, projected margins on future home sales over the life of the community, and the estimated fair value of the land. For individual communities with indicators of impairment, additional analysis is performed to estimate the community’s undiscounted future cash flows. If the estimated undiscounted future cash flows are greater than the carrying value of the community group of assets, no impairment adjustment is required. If the estimated undiscounted future cash flows are less than the community’s carrying value, the asset group is impaired and is written down to its fair value. The Company estimates the fair value of communities using a discounted future cash flow model. As of September 30, 2014 and December 31, 2013, the real estate inventory is stated at cost; there were no inventory impairment indicators noted for the nine months ended September 30, 2014 and 2013.

Capitalized Interest

Interest and other financing costs are capitalized as cost of inventory during community development and home construction activities, in accordance with ASC Topic 835, Interest ("ASC Topic 835") and expensed in cost of sales as homes in the community are sold. To the extent the debt exceeds qualified assets, a portion of the interest incurred is expensed.

Pre-Acquisition Costs and Deposits

Amounts paid for land options, deposits on land purchase contracts, and other pre-acquisition costs are capitalized and classified as deposits to purchase. Upon execution of the purchase, 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 related deposits 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 Topic 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 the Company's maximum exposure if it elects not to purchase the optioned property. In some instances, the Company may 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 the Company would have to absorb should

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the option not be exercised. Therefore, whenever the Company enters into a land option or purchase contract with an entity and makes a nonrefundable deposit, it may have a variable interest in a variable interest entity ("VIE"). In accordance with ASC Topic 810, the Company performs ongoing reassessments of whether it is the primary beneficiary of a VIE and would consolidate the VIE if the Company is deemed to be the primary beneficiary. As of September 30, 2014 and December 31, 2013, the Company was not deemed to be the primary beneficiary for any VIEs associated with non-refundable land deposit and option contracts.

Deferred Loan Costs

Deferred loan costs represent debt issuance costs and, depending on the nature and purpose of the loan, are capitalized to real estate inventory or amortized to interest expense using the straight-line method which approximates the effective interest method.

Property and Equipment

Property, equipment and leasehold improvements are stated at cost, less accumulated depreciation. Depreciation expense is recorded in general and administrative expenses. Upon sale or retirement, the costs and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in other income, net. Depreciation is generally computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years for property and equipment. Leasehold improvements are depreciated over the shorter of the asset life or the term of the lease. Maintenance and repair costs are expensed as incurred.

Impairments of long-lived assets are determined periodically when indicators of impairment are present. If such indicators are present, the determination of the amount of impairment is based on judgments as to the future undiscounted operating cash flows to be generated from these assets throughout their remaining estimated useful lives. If these undiscounted cash flows are less than the carrying amount of the related asset, impairment is recognized for the excess of the carrying value over its fair value. There were no indicators of impairments noted for property, equipment and leasehold improvements for the nine months ended September 30, 2014 and 2013.

Investments in Joint Ventures and Unconsolidated Variable Interest Entities (VIEs)

The Predecessor functioned as the managing member of several joint ventures conducting homebuilding activities; these joint ventures became wholly-owned subsidiaries of the Company as a result of the Reorganization Transactions and the GTIS Acquisitions.

In accordance with ASC Topic 810, management had assessed whether these entities were VIEs. The Predecessor had variable interests in the joint venture arrangements that it managed, and these joint ventures were determined to be VIEs because the members of the joint ventures, as a group, had insufficient equity at risk without further capital contributions. The Predecessor’s rights as well as the rights held by the other joint venture members had been evaluated to determine the primary beneficiary of the VIE, including the extent of substantive participating rights and control of activities that most significantly affected its economic performance. Such activities included, but were not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; and the ability to acquire additional land into the VIE. If the Predecessor was not able to control the significant decisions, the Predecessor was not considered the primary beneficiary of the VIE. If the Predecessor was determined to be the primary beneficiary of the VIE, the entity was consolidated in the Predecessor's financial statements.

The Predecessor had investments in four joint ventures where the Predecessor and the other joint venture members were deemed to have joint control and the Predecessor was not the primary beneficiary since all major decisions

required both parties' consent. Accordingly, the Predecessor's interests in these joint ventures were accounted for using the equity method and its share of the joint ventures' net earnings was included in income from unconsolidated joint ventures and investments in unconsolidated joint ventures. Distributions received were credited against the related investment in the joint venture.

During the nine months ended September 30, 2013, the Predecessor formed one VIE, LGI Fund III Holdings, LLC, where it had been determined that the Predecessor was the primary beneficiary. In addition to the Predecessor serving as the managing member of this entity, a Family Principal of the Predecessor also held the general partner controlling interest in the non-managing member of the VIE. As a result, the Predecessor combined with the Family Principal's related party interest had the power to direct all significant activities of the VIE, and had exposure to the risks and rewards of the VIE, based on the division of income and loss pursuant to the joint venture agreement and the Predecessor's ownership in the joint venture. This

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VIE is consolidated in the accompanying unaudited financial statements for the three and nine months ended September 30, 2013.

Management evaluated the Company's investments in unconsolidated entities for indicators of impairment during each reporting period. No impairment charges were recorded related to investments in unconsolidated entities as of September 30, 2013.

Goodwill and Intangible Assets

The excess of the purchase price of a business acquisition over the net fair value of assets acquired and liabilities assumed is capitalized as goodwill in accordance with ASC Topic 805. ASC Topic 805 requires that goodwill and intangible assets that do not have finite lives are not amortized, but are assessed for impairment at least annually or more frequently if certain impairment indicators are present. The Company recorded $12.0 million of goodwill related to the GTIS Acquisitions. No goodwill impairment indicators were noted for the nine months ended September 30, 2014.

The cost of a marketing intangible asset acquired valued at $0.7 million related to the GTIS Acquisitions is being amortized over its estimated useful life of 3 years. When certain events or changes in operating conditions occur, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. For intangible assets that are amortized, a review is performed of their estimated useful lives to evaluate whether events and circumstances warrant a revision to the remaining useful life. No impairment indicators were present during the nine months ended September 30, 2014 associated with this intangible asset.

Warranty Reserves

Future direct warranty costs are accrued and charged to cost of sales in the period when the related home is sold. The Company's warranty liability is based upon historical warranty cost experience and is adjusted as appropriate to reflect qualitative risks associated with the types of homes built, the geographic areas in which they are built, and potential impacts of the Company's continued expansion.

Warranty reserves are reviewed quarterly to assess the reasonableness and adequacy and to make adjustments to the balance of the pre-existing reserves, as needed, to reflect changes in trends and historical data as information becomes available.

Customer Deposits

Customer deposits are received upon signing a purchase contract and are typically $500 - $1,000. Deposits are generally refundable if the customer is unable to obtain financing. Forfeited buyer deposits related to home sales are recognized in other income in the period in which it is determined that the buyer will not complete the purchase of the property and the deposit is nonrefundable to the buyer.

Home Sales

In accordance with ASC Topic 360 – 20, Real Estate Sales ("ASC Topic 360 – 20"), revenues from home sales are recorded at the time each home sale is closed, title and possession are transferred to the buyer, and the Company has no significant continuing involvement with the home. Home sales proceeds are generally received from the title company within a few days after closing. Home sales are reported net of sales discounts and incentives granted to home buyers, which are primarily seller-paid closing costs.

Cost of Sales

As discussed under Real Estate Inventory above, cost of sales for homes closed include the construction costs of each home and allocable land acquisition and land development costs, capitalized interest, and other related common costs (both incurred and estimated to be incurred).

Selling and Commission Costs

Sales commissions are paid and expensed based on homes closed. Other selling costs are expensed in the period incurred.

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Advertising Costs

Advertising and direct mail costs are expensed as incurred. Advertising and direct mail costs were $2.3 million and $0.8 million for the three months ended September 30, 2014 and 2013, respectively. Advertising and direct mail costs were $6.0 million and $1.9 million for the nine months ended September 30, 2014 and 2013, respectively.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the net deferred tax assets will not be realized. The Company’s ability to realize deferred tax assets is assessed throughout the year and a valuation allowance is established, if required. The Company recognizes the impact of a tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The Company recognizes potential interest and penalties related to uncertain tax positions in income tax expense.

The Company's effective tax rate of 34.4% 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. The current year rate of 34.4% is greater than the prior year rate of 2.1% because prior to the Reorganization Transactions, the Predecessor consisted of limited liability companies and limited partnerships, all of which were treated as partnerships for income tax purposes and as such, the federal income taxes were the obligation of the individual members or partners. Federal and state income taxes of approximately $3.8 million and $0.1 million were paid during the three months ended September 30, 2014 and 2013, respectively. Federal and state income taxes of approximately $12.0 million and $0.3 million were paid during the nine months ended September 30, 2014 and 2013, respectively.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding. Diluted earnings per share is based on the weighted average number of shares of common stock and dilutive securities outstanding. Non-vested grants of restricted stock awards were the only potentially dilutive share equivalents the Company had outstanding at September 30, 2014.

Stock-Based Compensation

Compensation costs for non-performance-based restricted stock awards are measured using the closing price on the date of grant and are expensed on a straight-line basis over the vesting period of the award. Compensation costs for performance-based restricted stock awards are also measured using the closing price on the date of grant but are expensed in accordance with ASC 718-10-25-20, Compensation - Stock Compensation ("ASC 718-10-25-20"), which requires an assessment of probability of attainment of the performance target. Once the performance target outcome is determined to be probable, the year-to-date expense is recorded and the remaining expense is recorded on a straight-line basis through the end of the award's vesting period.

Fair Value Measurement of Financial Instruments

ASC Topic 820, Fair Value Measurements (“ASC Topic 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 Topic 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.

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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.

The fair value of financial instruments, including cash and cash equivalents, accounts receivable and notes payable, approximate their carrying amounts due to the short term nature of these instruments. In addition, the notes payable have a floating interest rate, which increases or decreases with market interest rates, and are subject to an interest rate floor. Fair value measurements may be utilized on a nonrecurring basis, such as for the impairment of long-lived assets.

As described in Note 2, the Predecessor's historical interests in the LGI/GTIS Joint Ventures were adjusted to fair value at November 13, 2013. The assets and liabilities of the LGI/GTIS Joint Ventures were recorded at fair value based on Level 2 or Level 3 assumptions and valuation inputs.

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 period ending after December 15, 2016. The adoption of ASU 2014-15 is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12"). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation - Stock Compensation" ("ASC Topic 718"), as it relates to awards with performance conditions that affect vesting to account for such awards. ASU 2014-12 is effective for periods beginning after December 15, 2015. The adoption of ASU 2014-12 is not expected to have a material effect on the Company's 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 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 for the Company beginning January 1, 2017 and, at that time, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption of this ASU is not permitted. The Company is currently evaluating the method and impact the adoption of ASU 2014-09 will have on the Company's consolidated financial statements and disclosures.

4. REAL ESTATE INVENTORY

The Company's real estate inventory consists of the following (in thousands):

	September 30, 2014	December 31, 2013
Land, land under development, and finished lots	$190,738	$82,006
Sales offices	8,110	3,784
Homes in progress	34,322	27,723
Completed homes	58,818	28,470
Total real estate inventory	$291,988	$141,983

Interest and financing costs incurred under the Company's debt obligations, as more fully discussed in Note 8, are capitalized to qualifying real estate projects under development and homes in progress.

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5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	Asset Life (years)	September 30, 2014	December 31, 2013
Computer equipment	3-5	$677	$499
Machinery and equipment	4-5	49	169
Furniture and fixtures	5-7	1,358	745
Leasehold improvements	various	124	108
Total property and equipment		2,208	1,521
Less: Accumulated depreciation		(835)	(676)
Property and equipment, net		$1,373	$845

Depreciation expense was $0.1 million for each of the three months ended September 30, 2014 and 2013 and $0.3 million and $0.2 million for the nine months ended September 30, 2014 and 2013, respectively. Equipment was sold to the LGI/GTIS Joint Ventures at net book value of approximately $0 and $0.03 million during the three and nine months ended September 30, 2013, respectively.

6. INVESTMENTS IN JOINT VENTURES, VARIABLE INTEREST ENTITIES AND NON-CONTROLLING INTERESTS

Unconsolidated Joint Ventures

Prior to the GTIS Acquisitions, the Predecessor's interests in four LGI/GTIS Joint Ventures were accounted for using the equity method of accounting since the Predecessor was not deemed to be the primary beneficiaries of these variable interest entities.

The LGI/GTIS Joint Ventures were each engaged in homebuilding and land development activities. GTIS was the joint venture member in these entities. Management of each of the LGI/GTIS Joint Ventures was vested in the members, being the Predecessor and GTIS. The Predecessor was considered the managing members of these entities. The managing member had the responsibility and authority to operate the LGI/GTIS Joint Ventures on a day-to-day basis subject to the operating budget and business plan, which were approved by both members. The Predecessor used their sales, development and operations teams to support operations and had significant influence even though the respective joint venture members had been deemed to have joint control under ASC Topic 810. All major decisions required both members' consent. Major decisions included, but were not limited to: the acquisition or disposition of a project; capital contributions; and changes, and updates or amendments to the operating budget or business plan. Generally, the LGI/GTIS Joint Ventures did not obtain construction financing from outside lenders, but financed their activities primarily through equity contributions from each of the joint venture members.

Profits were allocated to the members of the LGI/GTIS Joint Ventures based on the predetermined formulas specified in the joint venture agreements for the allocation of distributable cash. The GTIS member and the Predecessor were allocated 85% and 15% of the profits, respectively, (the "Sharing Percentages") until such time as the members received cash distributions equal to their initial capital investment plus, generally, a 15% internal rate of return ("First Tier Return"). Subsequent allocations of distributable cash and profits included a priority allocation of approximately 20% to 40% to the Predecessor, depending on the amount of cash distributions achieved over the life of the joint venture. Since the internal rates of return necessary to receive a higher proportion of distributions were calculated over the life of each LGI/GTIS Joint Venture and both the timing and amount of future contributions and distributions would affect the Predecessor's share of distributions, there was no certainty that the Predecessor would receive greater than 15% of the LGI/GTIS Joint Ventures' distributions. Therefore, the Predecessor recorded its investments in the LGI/GTIS Joint Ventures at 15% of each venture's capital balance and recognized the incremental amounts due to the Predecessor as a result of reaching the higher distribution tiers only when received.

As of September 30, 2013, three of the four joint ventures had yet to achieve the First-Tier Return; the fourth joint venture was paying a 30% priority allocation to the Predecessor's member. During the three and nine months ended September 30, 2013, the Predecessor recognized $1.3 million and $1.5 million in priority distributions from the

LGI/GTIS Joint Ventures. GTIS' interests in the LGI/GTIS Joint Ventures were acquired on November 13, 2013, and as a result, the LGI/GTIS Joint Ventures became wholly-owned subsidiaries of the Company.

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Summarized condensed combined financial information of the LGI/GTIS Joint Ventures accounted for using the equity method is presented below for the three and nine months ended September 30, 2013 (in thousands):

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Home sales	$30,962	$68,933
Cost of sales	$22,415	$49,805
Net earnings of unconsolidated entities	$4,674	$9,502
Predecessor's share in net earnings of unconsolidated entities	$1,976	$2,920

Consolidated Joint Venture

LGI Fund III Holdings, LLC, a consolidated joint venture, was formed March 31, 2013, and LGI Homes Group, LLC was the managing member of this VIE; this entity became a wholly-owned subsidiary of the Company on November 13, 2013, as a result of the Company’s acquisition of the non-controlling interests in the joint venture as part of the Reorganization Transactions (See Note 1).

Historically, profits were allocated to the members of the consolidated joint ventures based on the predetermined formulas specified in the joint venture agreements for the allocation of distributable cash. The non-managing members and the Predecessor were allocated 85% and 15% of the profits, respectively, (the “Sharing Percentages”) until such time as the members received cash distributions equal to their initial capital investment plus, generally, a 15% internal rate of return (“First Tier Return”). Subsequent allocations of distributable cash and profits included a priority allocation of approximately 20% to 40% to the Predecessor’s member, depending on the amount of cash distributions achieved over the life of the joint venture.

7. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2014	December 31, 2013
Inventory related obligations	$6,471	$—
Retentions payable	2,292	867
Accrued compensation, bonuses and benefits	3,394	2,693
Taxes payable	1,187	1,554
Other	4,403	1,986
Total accrued expenses and other liabilities	$17,747	$7,100

Community Development and other Utility Development District Obligations

The Company owns lots in certain communities 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.

At September 30, 2014, the Company had CDD and other utility development obligations of approximately $6.5 million. Approximately $2.7 million of CDD and other utility development costs and the related increase to finished lots should have been recognized in the Company's balance sheets as of December 31, 2013; the Company believes these obligations are not significant to its consolidated balance sheet as of December 31, 2013.

Estimated Warranty Reserve

The Company typically provides homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems, and a

one-year

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limited warranty on other construction components. The Predecessor provided similar warranty services for homes sold by the LGI/GTIS Joint Ventures prior to the GTIS Acquisitions (see Note 11).

Changes to the Company's warranty accrual (included in Accrued expenses and other liabilities) are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Warranty reserves, beginning of period	$825	$475	$630	$450
Warranty provision	329	357	685	475
Warranty expenditures	(279)	(282)	(440)	(375)
Warranty reserves, end of period	$875	$550	$875	$550

8. NOTES PAYABLE

Secured Revolving Credit Agreement

On April 28, 2014, the Company entered into a credit agreement with Texas Capital Bank, N.A. and a syndication of lenders (the “Credit Agreement”) to provide a $135.0 million senior secured revolving credit facility, which could be increased by request of the Company, to $200.0 million, subject to the terms and provisions of the Credit Agreement. On July 31, 2014, amounts available to the Company under the Credit Agreement were increased by $40.0 million to $175.0 million, and on September 30, 2014, amounts available to the Company under the Credit Agreement were increased from $175.0 million to $200.0 million, in each case, in accordance with the accordion feature of the Credit Agreement.

The Credit Agreement matures on April 28, 2017. Borrowings under the credit facility are limited to the borrowing base, which is based on the loan value of the pool of collateral in which the lenders have a security interest. The Company may add houses, vacant lots, land, and acquisition and development projects to its pool of collateral through April 28, 2015. The loan value of speculative houses, pre-sold houses, model houses, vacant lots, land, and acquisition and development projects is adjusted based on formulas with respect to each of those categories of collateral; the loan value of the collateral decreases based on the amount of time such collateral is in the borrowing base. During the period May 1, 2015 to April 28, 2016, advances will continue to be made for assets previously included in the pool of collateral as they move into higher funding categories. Speculative homes may remain in the borrowing base for up to 18 months. Vacant lots, land and acquisition and development projects may remain in the borrowing base for up to three years. As of September 30, 2014, the borrowing base was $175.4 million, of which $160.2 million was outstanding and the remaining $15.2 million was available to borrow.

The Credit Agreement contains various financial covenants including a minimum EBITDA to debt service payments ratio; a debt to capitalization ratio; a leverage ratio; liquidity ratio and ratio of value of all land, lots, and acquisition and development projects to net worth; and a net worth ratio. In addition, the Credit Agreement contains various covenants that, among other restrictions, limit the amount of the Company's additional debt.

On September 30, 2014, certain provisions of the Credit Agreement were modified and supplemented. The modification of the Credit Agreement increased each of the Combined Acquisition and Development ("A&D") and Entitled Land Subfacility, the Combined A&D, Entitled Land and Lot Inventory Subfacility, and the Entitled Land Subfacility; modified certain of the Credit Agreement financial covenants, which are generally tested on a quarterly basis; and allows the Company to incur up to $85.0 million of unsecured subordinated indebtedness. In addition, the debt to capitalization ratio, leverage ratio, EBITDA ratio and liquidity rate were also modified. At September 30, 2014, the Company was in compliance with all of the covenants contained in the Credit Agreement.

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	September 30, 2014	December 31, 2013
	(in thousands)	
LGI Homes, Inc.—Notes payable to Texas Capital Bank, N.A. and a syndication of lenders under the Credit Agreement ($200 million line at September 30, 2014) maturing through April 28, 2017; interest paid monthly at LIBOR plus 2.75%, with a 3.75% floor; collateralized by the Company and its subsidiaries' land, development and home construction costs	$160,188	$—
LGI Homes Group, LLC—Notes payable to Texas Capital Bank, N.A. under a credit facility ($35 million line at December 31, 2013) expiring June 30, 2015; interest at LIBOR plus 3.0%, with a 4.0% floor; collateralized by borrower's land, development and home construction costs (carrying value of $106.1 million at December 31, 2013); guaranteed by a Family Principal, the managing member, and non-managing members as joint and several guarantors at December 31, 2013; the credit facility was paid in full in April 2014	—	34,078
LGI Homes—Sunrise Meadow, LLC—Notes payable to Texas Capital Bank, N.A. under a credit facility ($2 million at December 31, 2013) expiring December 31, 2013; interest at LIBOR plus 3.9%, with a 4.0% floor; collateralized by borrower's land, development and home construction costs (carrying value of $5.1 million at December 31, 2013); guaranteed by a Family Principal; the credit facility was paid in full in April 2014	—	1,457
Total notes payable	$160,188	$35,535

At September 30, 2014 and December 31, 2013, LIBOR was 0.23% and 0.24%, respectively. Based on the terms of the variable rate notes payable, the interest rates as of September 30, 2014 and December 31, 2013, were based on the interest rate floor terms.

Capitalized Interest

Interest activity, including other financing costs, for notes payable for the periods presented is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest incurred	$1,586	$385	$3,263	$923
Less: Amounts capitalized	(1,586)	(344)	$(3,263)	$(876)
Interest expense	$—	$41	$—	$47
Cash paid for interest	$1,085	$281	$2,520	$769

Included in interest incurred was amortization of deferred financing costs of $0.3 million and $0.6 million for the three and nine months ended September 30, 2014, respectively.

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2014. Earnings per share is not computed for the three and nine months ended September 30, 2013 because the Predecessor consisted of limited liability companies and limited partnerships.

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	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Net income (in thousands)	$7,046	$20,677
Basic weighted average shares outstanding	20,763,449	20,763,449
Add: Dilutive effect of restricted stock units	118,378	108,308
Diluted weighted average shares outstanding	20,881,827	20,871,757
Basic earnings per share	$0.34	$1.00
Diluted earnings per share	$0.34	$0.99

3,030 non-vested restricted stock units were excluded from the computation of diluted earnings per share for the nine months ended September 30, 2014, because their effect was antidilutive. No shares were antidilutive for the three months ended September 30, 2014.

10. STOCK-BASED COMPENSATION

Non-performance Based Restricted Stock Units

The following table summarizes the activity of the Company's restricted stock units ("RSUs"):

	Shares	Weighted Average Grant Date Fair Value
Balance at January 1, 2014	140,222	$11.00
Granted	64,426	17.26
Vested	—	—
Forfeited	(2,806)	11.00
Balance at September 30, 2014	201,842	$13.00

In March 2014, the Company issued 37,307 RSUs to certain officers in settlement of approximately $0.6 million of bonuses that were earned under the 2013 performance-based cash bonus plan and accrued at December 31, 2013. The RSUs have a one-year vesting period and will be settled in shares of the Company's common stock.

In addition, during the nine months ended September 30, 2014, the Company issued 27,119 RSUs to certain employees and executives which vest over periods ranging from one to three years. The RSUs will be settled in shares of the Company’s common stock. The fair value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the date the RSUs were awarded. The weighted average fair value on the grant dates was $18.99 for the three months ended September 30, 2014. The Company recognized $0.2 million and $0.4 million of stock-based compensation expense related to outstanding RSUs grants for the three and nine months ended September 30, 2014, respectively. At September 30, 2014, the Company had unrecognized compensation cost of $0.5 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 1.4 years.

Performance Based Restricted Stock Units

In February 2014, the Compensation Committee approved a target of 62,906 performance-based restricted stock units (“Performance-Based RSUs”) for certain members of senior management of the Company. The Performance-Based RSUs provide for shares of the Company's common stock to be issued based on the attainment of certain performance metrics of the Company over the three year period, January 1, 2014 to December 31, 2016. The number of shares of the Company's common stock that may be issued to the recipients for the Performance-Based RSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The Performance-Based RSUs vest upon the determination date for the actual results at the end of the three-year period

and require the recipients continue to be employed

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by the Company through the determination date. The Performance-Based RSUs will be settled in shares of the Company's common stock.

The fair value of the Performance-Based RSUs was determined to be equal to the number of shares of the Company's common stock to be issued based on the target amount multiplied by the closing price of the Company's common stock of $17.09 on the date the Performance-Based RSU awards were approved by the Compensation Committee. As of September 30, 2014, the target amount represents management's best estimate of the number of shares of the Company's common stock expected to be issued at the end of the three-year performance cycle. The Company recognized $0.1 million and $0.2 million of total stock-based compensation expense related to outstanding Performance-Based RSUs grants for the three and nine months ended September 30, 2014, respectively. At September 30, 2014, the Company had unrecognized compensation cost of $0.8 million, based on the target amount, related to unvested Performance-Based RSUs, which is expected to be recognized over a weighted average period of 1.6 years.

11. RELATED PARTY TRANSACTIONS

From time to time, the Company may engage in transactions with entities that are affiliated with the Company. Transactions with related parties are in the normal course of operations.

Consulting Fees

Concurrent with the IPO, the Company entered into a three-year consulting agreement with a Family Principal for $100,000 per year payable on a monthly basis. Consulting fees were approximately $25,000 and $75,000 for the three and nine months ended September 30, 2014, respectively.

Management and Warranty Fees

The Predecessor had a Management Services Agreement with each of the LGI/GTIS Joint Ventures. The Predecessor provided administration, supervision, marketing, and various other services for the joint ventures. The Predecessor charged the joint ventures a management fee of approximately 3% of home sale revenues and 3% of construction costs for the development of land, as applicable. The management and construction fees were in addition to direct costs charged to the joint ventures. Management fees earned under the agreements were $1.0 million and $2.2 million for the three and nine months ended September 30, 2013, respectively.

The Predecessor collected a warranty fee of $250 from the LGI/GTIS Joint Ventures upon the closing of the sale of each home. The Predecessor provided a Home Builder's Limited Warranty to the buyer of each home. The Predecessor was responsible for the performance and discharge of any warranty claims asserted against the joint ventures or the GTIS member. Warranty fees earned were approximately $52,000 and $119,000 for the three and nine months ended September 30, 2013, respectively.

Riverchase Acquisition

On July 11, 2014, the Company acquired approximately 1,902 acres of land located in Lancaster County, South Carolina, from an entity owned and managed by a Family Principal, for an aggregate purchase price of approximately $15.4 million.

12. COMMITMENTS AND CONTINGENCIES

Contingencies

In the ordinary course of doing business, the Company becomes subject to claims or proceedings from time to time relating 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 the Company's consolidated financial position, results of operations or cash flows.

The Company has provided unsecured environmental indemnities to certain lenders. In each case, the Company has performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company 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, the Company may have recourse against other previous owners. Management is not aware of any environmental claims or occurrences and has recorded no reserves for environmental matters at September 30, 2014 and December 31, 2013.

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Land Deposits

The Company has 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. The Company does not have title to the property and obligations with respect to the option contracts are generally limited to the forfeiture of any related nonrefundable cash deposits.

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

	September 30, 2014	December 31, 2013
Land deposits and option payments	$11,927	$2,977
Commitments under the land purchase option and deposit contracts if the purchases are consummated	$125,063	$111,115
Lots under land options and land purchase contracts	8,538	8,214

As of September 30, 2014, approximately $8.7 million of the deposits are related to purchase contracts to deliver finished lots and these deposits are refundable under certain circumstances and secured by indemnity mortgages on the related property.

Bonding

The Company has outstanding performance and surety bonds of $6.5 million and $0.4 million at September 30, 2014 and December 31, 2013, respectively, related to the Company’s obligations for site improvements at various projects. Certain of the 2013 surety bonds are guaranteed by one of the Family Principals. Management does not believe that draws upon these bonds, if any, will have a material effect on the Company’s consolidated financial position, results of operations, or cash flows.

13. SEGMENT INFORMATION

The Company operates one principal homebuilding business which is organized and reports by division. The Company has four operating segments at September 30, 2014: the Texas division, the Southwest division, the Southeast division and the Florida division. The Texas division is the largest division and it comprised approximately 70% and 86% of total home sales revenues for the nine months ended September 30, 2014, and 2013, 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, the Company 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 as the Company and is managed by the Company’ management team. The Company has no inter-segment sales, as all sales are to external customers.

14. SUBSEQUENT EVENT

Oakmont Acquisition

On October 2, 2014, the Company acquired certain real estate assets owned by Oakmont Home Builders, Inc. and its affiliate for a purchase price of approximately $15.0 million, subject to adjustment and, net of approximately $1.0 million of assumed liabilities. In addition, Oakmont will receive an earn-out to be paid based on home closings

through December 31, 2017.

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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 when used in a historical context refer to LGI Homes, Inc. and its subsidiaries. See Note 1 "Organization and Business—Initial Public Offering and Reorganization Transactions" and "Note 2 Acquisition of LGI/GTIS Joint Venture Partners' Interests" to our unaudited consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the reorganization transactions, the initial public offering and our acquisitions of our joint venture partners' interests in the LGI/GTIS Joint Ventures (the "GTIS Acquisitions").

Business Overview

We are one of the nation's fastest growing residential homebuilders in terms of percentage of home closings. We are engaged in the design and construction of homes in Texas, Arizona, Florida, Georgia New Mexico, Colorado, North Carolina and South Carolina. Our management team has been in the residential land development business since the mid-1990s.

In 2003, we commenced homebuilding operations targeting the entry-level market. Since commencing operations in 2003, we have constructed and closed approximately 8,000 homes. During the nine months ended September 30, 2014, we had 1,704 home closings, compared to 1,112 home closings, including home closings by the LGI/GTIS Joint Ventures, during the nine months ended September 30, 2013.

On November 13, 2013, we completed an initial public offering (the "IPO") of 10,350,000 shares of our common stock. For accounting purposes, the assets, liabilities and results of operations prior to the completion of the IPO relate to LGI Homes Group, LLC, LGI Homes Corporate, LLC, LGI Homes II, LLC (formerly LGI Homes, Ltd.), LGI Homes-Sunrise Meadow, LLC (formerly LGI Homes - Sunrise Meadow, Ltd.), LGI Homes-Canyon Crossing (LGI Homes - Canyon Crossing, Ltd.), LLC, LGI Homes-Deer Creek, LLC and their direct and indirect subsidiaries (collectively, our "Predecessor").

Prior to the completion of the IPO, our Predecessor owned a 15% equity interest in and managed the day-to-day operations of the LGI/GTIS Joint Ventures. Concurrent with the IPO, we acquired all of the equity interests in the LGI/GTIS Joint Ventures that we did not own immediately prior to the IPO. In our historical financial statements, our Predecessor's interest in the LGI/GTIS Joint Ventures were accounted for using the equity method and our Predecessor's share of the LGI/GTIS Joint Ventures' net earnings are included in income from unconsolidated joint ventures. Effective November 13, 2013, we own all of the equity interests in the LGI/GTIS Joint Ventures and we began to account for them on a consolidated basis. For discussion of pro forma financial information for the three and nine months ended September 30, 2013, please see "—Supplemental Management's Discussion and Analysis—Pro Forma Financial Information."

Recent Developments

On October 2, 2014, we acquired certain real estate assets owned by Oakmont Home Builders, Inc. and its affiliate for a purchase price of approximately $15.0 million, subject to adjustment and, net of approximately $1.0 million of assumed liabilities. In addition, Oakmont will receive an earn-out to be paid based on home closings through December 31, 2017. Through this acquisition, we acquired approximately 150 homes under construction and approximately 1,000 owned and controlled lots in the Charlotte, North Carolina market.

On July 31, 2014, the amounts available to us under our credit agreement with Texas Capital Bank, N.A. and a syndication of lenders (the"Credit Agreement") increased by $40.0 million to $175.0 million, and on September 30, 2014, the amount was further increased from $175.0 million to $200.0 million, in each case, in accordance with the accordion feature of the Credit Agreement.

On September 30, 2014, certain provisions of the Credit Agreement were modified and supplemented. The modification of the Credit Agreement increased each of the Combined Acquisition and Development ("A&D") and Entitled Land Subfacility, the Combined A&D, Entitled Land and Lot Inventory Subfacility, and the Entitled Land Subfacility; modified certain of the Credit Agreement financial covenants, which are generally tested on a quarterly basis; and allows us to incur up to $85.0 million of unsecured subordinated indebtedness. In addition, the debt to

capitalization ratio, leverage ratio, EBITDA ratio and liquidity rate were also modified. At September 30, 2014, we were in compliance with all of the covenants contained in the Credit Agreement.

Key Results

Key financial results as of and for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, were as follows:

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- Homes closed increased 132.1% to 557 homes from 240 homes with an increase in the average sales price of our homes of 7.6% to $166,097. On a pro forma basis, homes closed increased 24.3% to 557 homes from 448 homes with an increase in the average sales price of our homes of 9.4%.
- Home sales revenues increased 149.8% to $92.5 million from $37.0 million. On a pro forma basis, home sales revenues increased 36.1% from $68.0 million.
- Gross margin as a percentage of home sales revenues increased to 27.3% from 26.9%. On a pro forma basis, gross margin as a percentage of home sales revenues remained the same at 27.3%.
- Adjusted gross margin as a percentage of home sales revenues increased to 28.3% from 27.2%. On a pro forma basis, adjusted gross margin as a percentage of home sales revenues increased to 28.3% from 27.5%.[1]
- Net income before income taxes increased 99.3% to $10.5 million from $5.3 million. On a pro forma basis, net income before income taxes increased 31.8% to $10.5 million from $8.0 million.
- Adjusted EBITDA margin as a percentage of home sales revenues decreased to 11.9% from 14.8% and decreased from adjusted EBITDA margin as a percentage of home sales revenues on a pro forma basis of 12.1%.[2]
- Active communities as of September 30, 2014 increased to 34 from 22, on a pro forma basis. Our expansion with our Florida and Southeast divisions is reflected in this increase.
- Total owned and controlled lots increased 8.5% to 21,638 lots at September 30, 2014 from 19,936 lots at June 30, 2014.

Key financial results as of and for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, were as follows:

- Homes closed increased 167.5% to 1,704 homes from 637 homes with an increase in the average sales price of our homes of 8.1% to $161,296. On a pro forma basis, homes closed increased 53.2% to 1,704 homes from 1,112 homes with an increase in the average sales price of our homes of 9.4%.
- Home sales revenues increased 189.2% to $274.8 million from $95.0 million. On a pro forma basis, home sales revenues increased 67.6% from $164.0 million.
- Gross margin as a percentage of home sales revenues decreased to 26.6% from 27.2%. On a pro forma basis, gross margin as a percentage of home sales revenues decreased to 26.6% from 27.5%.
- Adjusted gross margin as a percentage of home sales revenues remained the same at 27.9%. On a pro forma basis, adjusted gross margin as a percentage of home sales revenues remained the same at 27.9%.
- Net income before income taxes increased 144.5% to $31.5 million from $12.9 million. On a pro forma basis, net income before income taxes increased 62.0% to $31.5 million from $19.4 million.
- Adjusted EBITDA margin as a percentage of home sales revenues decreased to 12.7% from 14.5% and increased from adjusted EBITDA margin as a percentage of home sales revenues on a pro forma basis of 12.5%.[2]
- Total owned and controlled lots increased 33.8% to 21,638 lots at September 30, 2014 from 14,895 lots at December 31, 2013.

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[1] Adjusted gross margin is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating 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.

[2] Adjusted EBITDA is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. Please see “—Non-GAAP Measures—Adjusted EBITDA” for a reconciliation of adjusted EBITDA to net income, which is the GAAP financial measure that our management believes to be most directly comparable.

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Outlook

We believe there continues to be opportunities to grow our share of sales in our existing markets. Given our familiarity with each of our existing markets and the favorable demographic and economic trends that are forecasted in our markets, we expect to continue to see growth in these markets.

We also believe that we will be able to grow our business by increasing the number of price points in our existing markets. We are seeing opportunities to develop properties with multiple price points and product lines in the same communities. As our average sale price continues to increase and we begin to sell our higher price point product, we expect that we may see a slightly lower absorption rate from product mix but believe we will continue to realize adjusted gross margins within our target range.

We intend to expand into new markets where we identify opportunities to build homes and develop communities that meet our profit and return objectives. During the three months ended September 30, 2014, we began home construction in Denver, Colorado. We recently entered into the Charlotte, North Carolina market through the acquisition of land in Lancaster County, South Carolina in July 2014 and the acquisition of certain real estate assets owned by Oakmont Home Builders, Inc. and its affiliate in October 2014. We have employees in each market as of September 30, 2014. We will continue to analyze other potential markets as we continue our efforts to expand into new geographical markets.

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(dollars in thousands, except per share data and average home sales price)			
Statement of Income Data:				
Revenues:				
Home sales	$92,516	$37,035	$274,848	$95,033
Management and warranty fees	—	1,007	—	2,309
Total revenues	$92,516	$38,042	$274,848	$97,342
Expenses:				
Cost of sales	67,256	27,083	201,661	69,225
Selling expenses	9,239	3,589	25,788	9,082
General and administrative	6,115	4,052	16,557	9,078
Income from unconsolidated joint ventures	—	(1,976)	—	(2,920)
Operating income	$9,906	$5,294	$30,842	$12,877
Interest expense, net	—	(41)	—	(47)
Other income, net	628	34	663	56
Net income before income taxes	$10,534	$5,287	$31,505	$12,886
Income tax provision	(3,488)	(137)	(10,828)	(273)
Net income	$7,046	$5,150	$20,677	$12,613
Loss attributable to non-controlling interests	—	437	—	583
Net income attributable to owners	$7,046	$5,587	$20,677	$13,196
Basic earnings per share	$0.34		$1.00	
Diluted earnings per share	$0.34		$0.99	
Other Financial and Operating Data:				
Active communities at end of period	34	14	34	14
Home closings	557	240	1,704	637
Average sales price of homes closed	$166,097	$154,313	$161,296	$149,188
Gross margin (1)	$25,260	$9,952	$73,187	$25,808
Gross margin % (2)	27.3 %	26.9 %	26.6 %	27.2 %
Adjusted gross margin (3)	$26,167	$10,065	$76,782	$26,508
Adjusted gross margin % (2)(3)	28.3 %	27.2 %	27.9 %	27.9 %
Adjusted EBITDA (4)	$10,984	$5,475	$34,908	$13,776
Adjusted EBITDA margin % (2)(4)	11.9 %	14.8 %	12.7 %	14.5 %

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

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

(3) 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.

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(4) Adjusted EBITDA is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization, (iv) capitalized interest charged to the cost of sales, (v) other income, net and (vi) adjustments resulting from the application of purchase accounting. Our management believes that the presentation of adjusted EBITDA provides useful information to investors regarding our results of operations because it assists both investors and management in analyzing and benchmarking the performance and value of our business. Adjusted EBITDA provides an indicator of general economic performance that is not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization and items considered to be non-recurring. Accordingly, our management believes that this measurement is useful for comparing general operating performance from period to period. Other companies may define adjusted EBITDA differently and, as a result, our measure of adjusted EBITDA may not be directly comparable to adjusted EBITDA of other companies. Although we use adjusted EBITDA as a financial measure to assess the performance of our business, the use of adjusted EBITDA is limited because it does not include certain costs, such as interest and taxes, necessary to operate our business. Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income in accordance with GAAP as a measure of performance. Our presentation of adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or nonrecurring items. Our adjusted EBITDA is limited as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Please see "—Non-GAAP Measures—Adjusted EBITDA" for a reconciliation of adjusted EBITDA to net income, which is the GAAP financial measure that our management believes to be most directly comparable.

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Homes Sales. Our home sales revenues and closings by division for the three months ended September 30, 2014 and 2013 were as follows (dollars in thousands):

	Three Months Ended September 30,			
	2014		2013	
	Revenues	Closings	Revenues	Closings
Texas	$64,282	389	$30,834	200
Southwest	11,277	67	5,469	35
Florida	9,244	53	732	5
Southeast	7,713	48	—	—
Total home sales	$92,516	557	$37,035	240

Home sales revenues for the three months ended September 30, 2014 were $92.5 million, an increase of $55.5 million, or 149.8%, from $37.0 million for the three months ended September 30, 2013. The increase in home sales revenues is primarily due to a 132.1% increase in homes closed and an increase in the average selling price per home during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increase in home closings for the three months ended September 30, 2014 is partially attributable to the GTIS Acquisitions completed in November 2013 (see the Supplemental Management Discussion and Analysis - Pro Forma Financial Information below). The average selling price per home closed during the three months ended September 30, 2014 was $166,097, an increase of $11,784, or 7.6%, from the average selling price per home of $154,313 for the three months ended September 30, 2013.

Management and Warranty Fees. Management and warranty fees were $1.0 million for the three months ended September 30, 2013. Management and warranty fees were received from the LGI/GTIS Joint Ventures through November 2013 when the joint ventures were acquired. Total home closings on a combined basis for the LGI/GTIS Joint Ventures were 208 for the three months ended September 30, 2013. There were no management and warranty fees for the three months ended September 30, 2014 as the LGI/GTIS Joint Ventures have been consolidated since the GTIS Acquisitions.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the three months ended September 30, 2014 to $67.3 million, an increase of $40.2 million, or 148.3%, from $27.1 million for the three months ended September 30, 2013. This increase is primarily due to a 132.1% increase in homes closed during the third quarter of 2014 as compared to the third quarter of 2013. In addition, cost of sales for the three months ended September 30, 2014, include $0.4 million related to the fair value step-up adjustment for real estate inventory and lot option contracts acquired from the LGI/GTIS Joint Ventures and that resulted in home sales closed during the three months ended September 30, 2014. Gross margin for the three months ended September 30, 2014 was $25.3 million, an increase of $15.3 million, or 153.8%, from $10.0 million for the three months ended September 30, 2013. Gross margin as a percentage of home sales revenues was 27.3% for the three months ended September 30, 2014 and 26.9% for the three months ended September 30, 2013. The increase in gross margin as a percentage of home sales revenues reflects the higher average homes sales prices offset by increased construction

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costs and higher lot costs for the third quarter of 2014 as compared to the third quarter of 2013, and the impact of the amortization of the step-up adjustment related to real estate inventory and the lot option contracts.

Selling Expenses. Selling expenses as a percentage of home sales revenues were 10.0% and 9.7% for the three months ended September 30, 2014 and 2013, respectively. The increase in selling expenses as a percentage of home sales revenues was primarily due to start up expenses related to new community openings. Selling expenses for the three months ended September 30, 2014 were $9.2 million, an increase of $5.6 million, or 157.4%, from $3.6 million for the three months ended September 30, 2013. Sales commissions increased to $3.6 million for the three months ended September 30, 2014 from $1.4 million during that same period in the prior year primarily due to a 132.1% increase in homes closed during the third quarter of 2014 as compared to the third quarter of 2013. Advertising and direct mail costs increased to $2.3 million during the three months ended September 30, 2014 from $0.8 million for the same period in the prior year primarily due to the increase in the number of active communities for the third quarter of 2014 as compared to the third quarter of 2013.

General and Administrative. General and administrative expenses as a percentage of home sales revenues were 6.6% and 10.9% for the three months ended September 30, 2014 and 2013, 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 current quarter and less accounting and professional expenses incurred during the current quarter as compared to the same period in the prior year when we were preparing for our initial public offering. General and administrative expenses for the three months ended September 30, 2014 were $6.1 million, an increase of $2.1 million, or 50.9%, from $4.1 million for the three months ended September 30, 2013. The increase in the amount of general and administrative expenses in the third quarter of 2014 as compared to the third quarter of 2013 is attributable to additional employees and office space added to support the increased number of active communities and higher number of home closings.

Income from unconsolidated joint ventures. Our share of income from the LGI/GTIS Joint Ventures for the three months ended September 30, 2013 was $2.0 million. We acquired our joint venture partner's interests in the LGI/GTIS Joint Ventures on November 13, 2013 in the GTIS Acquisitions.

Other Income. Other income, net of other expenses was $0.6 million for the three months ended September 30, 2014, an increase of $0.6 million from $0.03 million for the three months ended September 30, 2013. The increase in other income reflects the gain realized from the sale of land not directly associated with our core homebuilding operations.

Operating Income and Net Income. Operating income for the three months ended September 30, 2014 was $9.9 million, an increase of $4.6 million, or 87.1%, from $5.3 million for the three months ended September 30, 2013. Net income for the three months ended September 30, 2014 was $7.0 million, an increase of $1.9 million, or 36.8%, from $5.2 million for the three months ended September 30, 2013. The increases are primarily attributed to a 132.1% increase in homes closed and the 7.6% increase in average home sales price during the third quarter of 2014 as compared to the third quarter of 2013, net of the amortization of the step-up adjustment and increased expenses associated with new communities.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Homes Sales. Our home sales revenues and closings by division for the nine months ended September 30, 2014 and 2013 were as follows (dollars in thousands):

	Nine Months Ended September 30,			
	2014		2013	
	Revenues	Closings	Revenues	Closings
Texas	$192,111	1,199	$82,036	552
Southwest	31,211	188	12,266	80
Florida	30,960	185	731	5
Southeast	20,566	132	—	—
Total home sales	$274,848	1,704	$95,033	637

Home sales revenues for the nine months ended September 30, 2014 were $274.8 million, an increase of $179.8 million, or 189.2%, from $95.0 million for the nine months ended September 30, 2013. The increase in home sales revenues is primarily due to a 167.5% increase in homes closed and an increase in the average selling price per home during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in home closings for the nine months ended September 30, 2014 is partially attributable to the GTIS Acquisitions completed in November 2013 (see the Supplemental

Management Discussion and Analysis - Pro Forma Financial Information below). The average selling price per home closed during the nine months ended September 30, 2014 was $161,296, an increase of $12,108, or 8.1%, from the average selling price per home of $149,188 for the nine months ended September 30, 2013.

Management and Warranty Fees. Management and warranty fees were $2.3 million for the nine months ended September 30, 2013. Management and warranty fees were received from the LGI/GTIS Joint Ventures through November 2013 when the joint ventures were acquired. Total home closings on a combined basis for the LGI/GTIS Joint Ventures were 475 for the nine months ended September 30, 2013. There were no management and warranty fees for the nine months ended September 30, 2014 as the LGI/GTIS Joint Ventures have been consolidated since the GTIS Acquisitions.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the nine months ended September 30, 2014 to $201.7 million, an increase of $132.4 million, or 191.3%, from $69.2 million for the nine months ended September, 30 2013. This increase is primarily due to a 167.5% increase in homes closed during the first nine months of 2014 as compared to the first nine months of 2013. In addition, cost of sales for the nine months ended September 30, 2014, include $2.4 million related to the fair value step-up adjustment for real estate inventory acquired from the LGI/GTIS Joint Ventures and sold in the nine months ended September 30, 2014. Gross margin for the nine months ended September 30, 2014 was $73.2 million, an increase of $47.4 million, or 183.6%, from $25.8 million for the nine months ended September 30, 2013. Gross margin as a percentage of home sales revenues was 26.6% for the nine months ended September 30, 2014 and 27.2% for the nine months ended September 30, 2013. The decrease in gross margin as a percentage of home sales revenues reflects the $2.4 million amortization of the step-up adjustment plus increased construction costs and higher lot costs for the first nine months of 2014 as compared to the first nine months of 2013; these construction and lot costs were partially offset by higher average homes sales prices.

Selling Expenses. Selling expenses as a percentage of home sales revenues were 9.4% and 9.6% for the nine months ended September 30, 2014 and 2013, respectively. The decrease of selling expenses as a percentage of home sales revenues was primarily due to the operating leverage realized from our salaried sales and marketing personnel in the first nine months of 2014. Selling expenses for the nine months ended September 30, 2014 were $25.8 million, an increase of $16.7 million, or 183.9%, from $9.1 million for the nine months ended September 30, 2013. Sales commissions increased to $10.3 million for the nine months ended September 30, 2014 from $3.5 million during that same period in the prior year primarily due to a 167.5% increase in homes closed during the nine months of 2014 as compared to the nine months of 2013. Advertising and direct mail costs increased to $6.0 million during the nine months ended September 30, 2014 from $1.9 million for the same period in the prior year primarily due the increase in the number of active communities for the first nine months of 2014 as compared to the first nine months of 2013.

General and Administrative. General and administrative expenses as a percentage of home sales revenues were 6.0% and 9.6% for the nine months ended September 30, 2014 and 2013, 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 nine months ended September 30, 2014. General and administrative expenses for the nine months ended September 30, 2014 were $16.6 million, an increase of $7.5 million, or 82.4%, from $9.1 million for the nine months ended September 30, 2013. The increase in general and administrative expenses is primarily due to the higher number of home closings and active communities in the first nine months of 2014 as compared to the first nine months of 2013. To support the increased number of active communities, we hired more employees and acquired additional office space.

Income from unconsolidated joint ventures. Our share of income from the LGI/GTIS Joint Ventures for the nine months ended September 30, 2013 was $2.9 million. We acquired our joint venture partners' interests in the LGI/GTIS Joint Ventures on November 13, 2013.

Other Income. Other income, net of other expenses was $0.6 million for the nine months ended September 30, 2014, an increase of $0.6 million from $0.06 million for the nine months ended September 30, 2013. The increase in other income reflects the gain realized from the sale of land not directly associated with our core homebuilding operations.

Operating Income and Net Income. Operating income for the nine months ended September 30, 2014 was $30.8 million, an increase of $18.0 million, or 139.5%, from $12.9 million for the nine months ended September 30, 2013. Net income for the nine months ended September 30, 2014 was $20.7 million, an increase of $8.1 million, or 63.9%,

from $12.6 million for the nine months ended September 30, 2013. The increases are primarily attributed to a 167.5% increase in homes closed and the increase in average home sale prices during the first nine months of 2014 as compared to the first nine months of 2013, net of the amortization of the step-up adjustment and increased expenses associated with new communities.

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Supplemental Management's Discussion and Analysis

Pro Forma Financial Information

The following pro forma statement of operations has been developed by applying pro forma adjustments to our statements of operations for the three and nine months ended September 30, 2013 included elsewhere in this Quarterly Report and the combined financial statements of the LGI/GTIS Joint Ventures. The pro forma statement of operations for the three and nine months ended September 30, 2013 gives effect to the GTIS Acquisitions as if they had occurred on January 1, 2012.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The pro forma financial data is presented for informational purposes only. The pro forma financial data does not purport to represent what our results of operations would have been had the GTIS Acquisitions actually occurred on the date indicated and does not purport to project our results of operations for any future period. The pro forma financial statements should be read in conjunction with the information contained in other sections of this Quarterly Report including our historical financial statements and related notes thereto, and other sections of this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Quarterly Report. All pro forma adjustments and their underlying assumptions are described more fully in the notes to our pro forma statements of operations.

The pro forma financial information has been prepared to give effect to the GTIS Acquisitions in accordance with ASC Topic 805, “Business Combinations.” A fair value step-up adjustment of approximately $7.9 million was recorded to the real estate inventory and certain lot option contracts in connection with the GTIS Acquisitions. The pro forma adjustments do not reflect cost of sales related to the step-up adjustment since the step-up does not have a continuing impact on our results of operations due to the short-term impact on our financial performance.

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Unaudited Pro Forma Statement of Operations
for the Three Months Ended September 30, 2013

	LGI Homes, Inc.	LGI/GTIS Joint Ventures (1)	Adjustments		LGI Homes, Inc. Pro Forma
	(In thousands)				
Revenues:					
Home sales	$37,035	$30,962	$—		$67,997
Management and warranty fees	1,007	—	(1,007)	(c)	—
Total revenues	38,042	30,962	(1,007)		67,997
Cost of sales	27,083	22,415	(69)	(c)	49,429
Selling expenses	3,589	2,464	—		6,053
General and administrative	4,052	1,352	(877)	(b)(c)	4,527
Income from unconsolidated LGI/GTIS Joint Ventures	(1,976)	—	1,976	(a)	—
Operating income	5,294	4,731	(2,037)		7,988
Interest expense	(41)	—	—		(41)
Other income, net	34	15	—		49
Net income before income taxes	5,287	4,746	(2,037)		7,996
Income tax provision	(137)	(72)	—		(209)
Net income	5,150	4,674	(2,037)		7,787
Loss attributable to non-controlling interests	437	—	—		437
Net income attributable to owners	$5,587	$4,674	$(2,037)		$8,224

(1) This column is a combination of the unaudited financial statements of LGI-GTIS Holdings, LLC, LGI-GTIS Holdings II, LLC, LGI-GTIS Holdings III, LLC and LGI-GTIS Holdings IV, LLC, for the three months ended September 30, 2013.

Notes to Unaudited Pro Forma Statement of Operations for the Three Months Ended September 30, 2013

(a) Eliminates our Predecessor's equity in the income of the LGI/GTIS Joint Ventures.

(b) Reflects amortization of the $0.7 million marketing related intangible asset (i.e., trade name rights) recorded in the GTIS Acquisitions. The trade name rights have an estimated useful life of three years based upon the timing of the majority of the forecasted revenues to be earned over the remaining development cycle of the LGI/GTIS Joint Ventures' communities. Amortization is recorded on a straight-line basis. Pro forma amortization expense was $0.1 million for the three months ended September 30, 2013.

(c) Reflects the elimination of $1.0 million of management and warranty fees our Predecessor charged to the LGI/GTIS Joint Ventures during the period pursuant to certain management services agreements. The applicable management services agreements were terminated in connection with the GTIS Acquisitions. The corresponding charges were recorded to general and administrative expense and cost of sales by the LGI/GTIS Joint Ventures.

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Unaudited Pro Forma Statement of Operations
for the Nine Months Ended September 30, 2013

	LGI Homes, Inc.	LGI/GTIS Joint Ventures (1)	Adjustments		LGI Homes, Inc. Pro Forma
	(In thousands)				
Revenues:					
Home sales	$95,033	$68,933	$—		$163,966
Management and warranty fees	2,309	—	(2,309)	(c)	—
Total revenues	97,342	68,933	(2,309)		163,966
Cost of sales	69,225	49,805	(174)	(c)	118,856
Selling expenses	9,082	6,135	—		15,217
General and administrative	9,078	3,401	(1,985)	(b)(c)	10,494
Income from unconsolidated LGI/GTIS Joint Ventures	(2,920)	—	2,920	(a)	—
Operating income	12,877	9,592	(3,070)		19,399
Interest expense	(47)	—	—		(47)
Other income, net	56	77	(35)	(c)	98
Net income before income taxes	12,886	9,669	(3,105)		19,450
Income tax provision	(273)	(167)	—		(440)
Net income	12,613	9,502	(3,105)		19,010
Loss attributable to non-controlling interests	583	—	—		583
Net income attributable to owners	$13,196	$9,502	$(3,105)		$19,593

(1) This column is a combination of the unaudited financial statements of LGI-GTIS Holdings, LLC, LGI-GTIS Holdings II, LLC, LGI-GTIS Holdings III, LLC and LGI-GTIS Holdings IV, LLC, for the nine months ended September 30, 2013.

Notes to Unaudited Pro Forma Statement of Operations for the Nine Months Ended September 30, 2013

(a) Eliminates our Predecessor's equity in the income of the LGI/GTIS Joint Ventures.

(b) Reflects amortization of the $0.7 million marketing related intangible asset (i.e., trade name rights) recorded in the GTIS Acquisitions. The trade name rights have an estimated useful life of three years based upon the timing of the majority of the forecasted revenues to be earned over the remaining development cycle of the LGI/GTIS Joint Ventures' communities. Amortization is recorded on a straight-line basis. Pro forma amortization expense was $0.2 million for the nine months ended September 30, 2013.

(c) Reflects the elimination of $2.3 million of management and warranty fees our Predecessor charged to the LGI/GTIS Joint Ventures during the period pursuant to certain management services agreements. The applicable management services agreements were terminated in connection with the GTIS Acquisitions. The corresponding charges of were recorded to general and administrative expense, cost of sales and other income by the LGI/GTIS Joint Ventures.

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Three Months Ended September 30, 2014 Compared to Pro Forma Three Months Ended September 30, 2013

Pro forma Homes Sales. Our home sales revenues and closings by division for the three months ended September 30, 2014 and pro forma home sales revenues and closings by division for the three months ended September 30, 2013 were as follows (dollars in thousands, unless otherwise stated):

	Three Months Ended September 30, 2014		Pro Forma Three Months Ended September 30, 2013	
	Revenues	Closings	Revenues	Closings
Texas	$64,282	389	56,165	372
Southwest	11,277	67	9,225	59
Florida	9,244	53	2,607	17
Southeast	7,713	48	—	—
Total home sales	$92,516	557	$67,997	448

Other Financial and Operating Data:	2014	2013
Active communities at end of period	34	22
Average sales price of homes closed	$166,097	$151,779
Gross margin (1)	$25,260	$18,568
Gross margin % (2)	27.3 %	27.3 %

(1) Gross margin is home sales revenues less cost of sales.
(2) Calculated as a percentage of home sales revenues.

Home sales revenues for the three months ended September 30, 2014 were $92.5 million, an increase of $24.5 million, or 36.1%, from pro forma home sales revenues of $68.0 million for the three months ended September 30, 2013. The increase in home sales revenues is primarily due to a 24.3% increase in homes closed and an increase in the average home sales price per home during the third quarter of 2014 as compared to the third quarter of 2013, on a pro forma basis. The average home sales price for the third quarter of 2014 was $166,097, an increase of $14,318, or 9.4%, from the pro forma average home sales price of $151,779 for the third quarter of 2013.

Pro forma Cost of Sales and Gross Margin (pro forma home sales revenues less pro forma cost of sales). Cost of sales for the three months ended September 30, 2014 was $67.3 million, an increase of $17.8 million, or 36.1%, from pro forma cost of sales of $49.4 million for the three months ended September 30, 2013. This increase is primarily due to a 109-unit, or 24.3%, increase in homes closed for the three months ended September 30, 2014 as compared to homes closed on a pro forma basis for the three months ended September 30, 2013. In addition, cost of sales for the three months ended September 30, 2014 includes $0.4 million related to the fair value step-up adjustment for real estate inventory and lot option contracts acquired from the LGI/GTIS Joint Ventures and sold in the third quarter of 2014. Gross margin for the third quarter of 2014 was $25.3 million, an increase of $6.7 million, or 36.0%, from pro forma gross margin of $18.6 million for the third quarter of 2013. Gross margin as a percentage of sales was 27.3% for the third quarter of 2014 as compared to 27.3% for the third quarter of 2013, on a pro forma basis.

Pro forma Selling Expenses. Selling expenses as a percentage of home sales revenues were 10.0% and pro forma selling expenses as a percentage of home sales revenues were 8.9% for the three months ended September 30, 2014 and 2013, respectively. The increase in selling expenses as a percentage of home sales revenues was primarily due to start up expenses related to new community openings and increased sales bonuses. Selling expenses for the third quarter of 2014 were $9.2 million, an increase of $3.2 million, or 52.6%, from pro forma selling expenses of $6.1 million for the third quarter of 2013. This increase is largely due to the higher number of home closings and the growth in active communities for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 on a pro forma basis. Sales commissions increased to $3.6 million from $1.4 million and

advertising and direct mail costs increased to $2.3 million for the three months ended September 30, 2014 from $1.3 million for the three months ended September 30, 2013, on a pro forma basis.

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Pro forma General and Administrative. General and administrative expenses as a percentage of home sales revenues were 6.6% and pro forma general and administrative expenses as a percentage of home sales revenues were 6.7% for the three months ended September 30, 2014 and 2013, 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 third quarter of 2014 and less accounting and professional expenses incurred during the third quarter of 2013, on a pro forma basis. General and administrative expenses for the third quarter of 2014 were $6.1 million, an increase of $1.6 million, or 35.1%, from pro forma general and administrative expenses of $4.5 million for the third quarter of 2013. The increase in the amount of general and administrative expenses in the third quarter of 2014 as compared to the pro forma amount for the third quarter of 2013 is attributable to additional employees and office space added to support the increased number of active communities and higher number of home closings.
Pro forma Operating Income and Pro forma Net Income. Operating income for the three months ended September 30, 2014 was $9.9 million, an increase of $1.9 million, or 24.0%, from pro forma operating income of $8.0 million for the three months ended September 30, 2013. Net income for the three months ended September 30, 2014 was $7.0 million, a decrease of $0.7 million, or 9.5%, from pro forma net income of $7.8 million for the three months ended September 30, 2013. The decrease in net income during the third quarter of 2014 as compared to the third quarter of 2013, on a pro forma basis is primarily attributed to income taxes recorded during the third quarter of 2014. Prior to the Reorganization Transactions, the Predecessor consisted of limited liability companies and limited partnerships, all of which were treated as partnerships for income tax purposes and as such, the federal income taxes were the obligation of the individual members or partners.

Nine Months Ended September 30, 2014 Compared to Pro Forma Nine Months Ended September 30, 2013
Pro forma Homes Sales. Our home sales revenues and closings by division for the nine months ended September 30, 2014 and pro forma home sales revenues and closings by division for the nine months ended September 30, 2013 were as follows (dollars in thousands, unless otherwise stated):

	Nine Months Ended September 30, 2014		Pro Forma Nine Months Ended September 30, 2013	
	Revenues	Closings	Revenues	Closings
Texas	$192,111	1,199	$139,787	954
Southwest	31,211	188	19,382	126
Florida	30,960	185	4,797	32
Southeast	20,566	132	—	—
Total home sales	$274,848	1,704	$163,966	1,112

Other Financial and Operating Data:	2014	2013
Active communities at end of period	34	22
Average sales price of homes closed	$161,296	$147,452
Gross margin (1)	$73,187	$45,110
Gross margin % (2)	26.6 %	27.5 %

(1) Gross margin is home sales revenues less cost of sales.
(2) Calculated as a percentage of home sales revenues.

Home sales revenues for the nine months ended September 30, 2014 were $274.8 million, an increase of $110.9 million, or 67.6%, from pro forma home sales revenues of $164.0 million for the nine months ended September 30, 2013. The increase in home sales revenues is primarily due to a 53.2% increase in homes closed and an increase in the average home sales price per home during the first nine months of 2014 as compared to the first nine months of 2013,

on a pro forma basis. The average home sales price for the first nine months of 2014 was $161,296, an increase of $13,844, or 9.4%, from the pro forma average home sales price of $147,452 for the first nine months of 2013.

Pro forma Cost of Sales and Gross Margin (pro forma home sales revenues less pro forma cost of sales). Cost of sales for the nine months ended September 30, 2014 was $201.7 million, an increase of $82.8 million, or 69.7%, from pro forma cost

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of sales of $118.9 million for the nine months ended September 30, 2013. This increase is primarily due to a 592-unit, or 53.2%, increase in homes closed for the nine months ended September 30, 2014 as compared to homes closed on a pro forma basis for the nine months ended September 30, 2013. In addition, cost of sales for the nine months ended September 30, 2014 includes $2.4 million of amortization related to the fair value step-up adjustment for real estate inventory and lot option contracts acquired from the LGI/GTIS Joint Ventures and sold in the first nine months of 2014. Gross margin for the first nine months of 2014 was $73.2 million, an increase of $28.1 million, or 62.2%, from pro forma gross margin of $45.1 million for the first nine months of 2013. Gross margin as a percentage of sales was 26.6% for the first nine months of 2014 as compared to 27.5% for the first nine months of 2013, on a pro forma basis. The decrease in gross margin as a percentage of sales reflects the impact of the step-up adjustment plus increased construction costs and higher lot costs partially offset by higher average home sales prices for the first nine months of 2014 as compared to the first nine months of 2013.

Pro forma Selling Expenses. Selling expenses as a percentage of home sales revenues were 9.4% and pro forma selling expenses as a percentage of home sales revenues were 9.3% for the nine months ended September 30, 2014 and 2013, respectively. The increase in selling expenses as a percentage of home sales revenues was primarily due to start up expenses related to new community openings and increased sales bonuses. Selling expenses for the first nine months of 2014 were $25.8 million, an increase of $10.6 million, or 69.5%, from pro forma selling expenses of $15.2 million for the first nine months of 2013. This increase is largely due to the higher number of home closings and the growth in active communities for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 on a pro forma basis. Sales commissions increased to $10.3 million from $6.1 million and advertising and direct mail costs increased to $6.0 million for the nine months ended September 30, 2014 from $3.3 million for the nine months ended September 30, 2013, on a pro forma basis.

Pro forma General and Administrative. General and administrative expenses as a percentage of home sales revenues were 6.0% and pro forma general and administrative expenses as a percentage of home sales revenues were 6.4% for the nine months ended September 30, 2014 and 2013, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects leverage from the increase in home sales revenues during the nine months ended September 30, 2014 and less accounting and professional fees during the first nine months of 2014 as compared to the first nine months of 2013 when we were preparing for our initial public offering. General and administrative expenses for the first nine months of 2014 were $16.6 million, an increase of $6.1 million, or 57.8%, from pro forma general and administrative expenses of $10.5 million for the first nine months of 2013. The increase in general and administrative expenses for the nine months ended September 30, 2014 as compared to the pro forma amount for the same period in the prior year is primarily due to the higher number of home closings and active communities for the first nine months of 2014. To support the increased number of active communities, we hired more employees and acquired additional office space.

Pro forma Operating Income and Pro forma Net Income. Operating income for the nine months ended September 30, 2014 was $30.8 million, an increase of $11.4 million, or 59.0%, from pro forma operating income of $19.4 million for the nine months ended September 30, 2013. Net income for the nine months ended September 30, 2014 was $20.7 million, an increase of $1.7 million, or 8.8%, from pro forma net income of $19.0 million for the nine months ended September 30, 2013. The increase in net income is primarily attributed to a 592-unit increase in homes closed and the increase in average home sales prices during the first nine months of 2014 as compared to the first nine months of 2013, on a pro forma basis, net of the amortization of the step-up adjustment and income tax expense recorded in the first nine months of 2014, increased expenses associated with new communities and higher professional service fees and expenses.

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,” and “Adjusted EBITDA.”

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 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.

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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 September 30,		Pro Forma Three Months Ended September 30,
	2014	2013	2013
Home sales revenues	$92,516	$37,035	$67,997
Cost of sales	67,256	27,083	49,429
Gross margin	25,260	9,952	18,568
Purchase accounting adjustment (a)	434	—	—
Capitalized interest charged to cost of sales	473	114	114
Adjusted gross margin	$26,167	$10,066	$18,682
Gross margin % (b)	27.3 %	26.9 %	27.3 %
Adjusted gross margin % (b)	28.3 %	27.2 %	27.5 %

	Nine Months Ended September 30,		Pro Forma Nine Months Ended September 30,
	2014	2013	2013
Home sales revenues	$274,848	$95,033	$163,966
Cost of sales	201,661	69,225	118,856
Gross margin	73,187	25,808	45,110
Purchase accounting adjustment (a)	2,448	—	—
Capitalized interest charged to cost of sales	1,147	700	700
Adjusted gross margin	$76,782	$26,508	$45,810
Gross margin % (b)	26.6 %	27.2 %	27.5 %
Adjusted gross margin % (b)	27.9 %	27.9 %	27.9 %

(a) This adjustment results from the application of purchase accounting in connection with the GTIS Acquisitions and represents the amount of the fair value step-up adjustment to real estate inventory and lot option contracts sold during the three and nine months ended September 30, 2014, as applicable.

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

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization, (iv) capitalized interest charged to cost of sales, (v) other income, net and (vi) adjustments resulting from the application of purchase accounting. Our management believes that the presentation of adjusted EBITDA provides useful information to investors regarding our results of operations because it assists both investors and management in analyzing and benchmarking the performance and value of our business. Adjusted EBITDA provides an indicator of general economic performance that is not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization and items considered to be non-recurring. Accordingly, our

management believes that this measurement is useful for comparing general operating performance from period to period. Other companies may define adjusted EBITDA differently and, as a result, our measure of adjusted EBITDA may not be directly comparable to adjusted EBITDA of other companies. Although we use adjusted EBITDA as a financial measure to assess the performance of our business, the use of adjusted EBITDA is limited because it does not include certain material costs, such as interest and taxes, necessary to operate our business. Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income in accordance with GAAP as a measure of performance. Our presentation of adjusted EBITDA should not be construed as an indication that our future results will be

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unaffected by unusual or nonrecurring items. Our adjusted EBITDA is limited as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- it does not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments, including for the purchase of land;
- it does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced or require improvements in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements or improvements;
- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate it differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, our adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. We compensate for these limitations by using our adjusted EBITDA along with other comparative tools, together with GAAP measurements, to assist in the evaluation of operating performance. These GAAP measurements include operating income, net income and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments and other non-recurring charges, which are not reflected in our adjusted EBITDA.

Adjusted EBITDA is not intended as an alternative to net income as an indicator of our operating performance, as an alternative to any other measure of performance in conformity with GAAP or as an alternative to cash flows as a measure of liquidity. You should therefore not place undue reliance on our adjusted EBITDA calculated using this measure. Our GAAP-based measures can be found in our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

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

	Three Months Ended September 30,		Pro Forma Three Months Ended September 30,
	2014	2013	2013
Net income	$7,046	$5,150	$7,787
Interest expense	—	41	41
Income taxes	3,488	137	209
Depreciation and amortization (c)	171	67	129
Capitalized interest charged to cost of sales	473	114	114
Purchase accounting adjustment (a)	434	—	—

Other income, net	(628)	(34)	(49)
Adjusted EBITDA	$10,984	$5,475	$8,231
Adjusted EBITDA margin % (b)	11.9 %	14.8 %	12.1 %

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	Nine Months Ended September 30,		Pro Forma Nine Months Ended September 30,
	2014	2013	2013
Net income	$20,677	$12,613	$19,010
Interest expense	—	47	47
Income taxes	10,828	273	440
Depreciation and amortization (c)	471	199	384
Capitalized interest charged to cost of sales	1,147	700	700
Purchase accounting adjustment (a)	2,448	—	—
Other income, net	(663)	(56)	(98)
Adjusted EBITDA	$34,908	$13,776	$20,483
Adjusted EBITDA margin % (b)	12.7 %	14.5 %	12.5 %

(a) This adjustment results from the application of purchase accounting in connection with the GTIS Acquisitions and represents the amount of the fair value step-up adjustment to real estate inventory and lot option contracts sold during the three and nine months ended September 30, 2014, as applicable.

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

(c) Depreciation and amortization expenses includes amortization related to the marketing intangible asset.

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 ($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 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 and the number of our active communities. 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 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):

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Backlog Data	Nine Months Ended September 30,			
	2014		2013	
Net orders (1)	1,756		668	
Cancellation rate (2)	31.6	%	25.7	%
Ending backlog – homes (3)	242		98	
Ending backlog – value (3)	$42,402		$15,168	

(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 from 25 as of December 31, 2013 to 34 as of September 30, 2014. We also increased our lot inventory from approximately 14,895 owned or controlled lots as of December 31, 2013 to 21,638 owned or controlled lots as of September 30, 2014.

The table below shows (i) home closings by division for the nine months ended September 30, 2014, and (ii) our owned or controlled lots by division as of September 30, 2014.

	Nine Months Ended September 30, 2014	As of September 30, 2014		
Division	Home Closings	Owned (1)	Controlled	Total
Texas	1,199	9,273	4,030	13,303
Southwest	188	1,015	3,213	4,228
Florida	185	572	1,282	1,854
Southeast	132	2,240	13	2,253
Total	1,704	13,100	8,538	21,638

(1) Of the 13,100 owned lots as of September 30, 2014, 9,031 were raw/under development lots and 4,069 were finished lots.

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 closings. As homes are closed, we start more homes to maintain our inventory levels. At September 30, 2014, we had a total of 512 completed homes and 431 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 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.

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Seasonality

In all of our regions, 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 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 September 30, 2014, we had $46.2 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, 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 revenues. In the later stages of an active community, cash inflows may significantly exceed 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 purchases, lot development, home construction, interest costs on our indebtedness and the payment of various liabilities.

We rely on our ability to finance our operations by generating operating cash flows and, borrowing under our secured revolving credit facility (see discussion below) and 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 are actively acquiring and developing lots in our markets to maintain and grow our lot supply and active community count. We expect to continue to expand our business, based on demand for new homes improving or remaining at current levels, and thus we expect cash outlays for land purchases, land development, home construction and operating expenses to continue to exceed our cash generated by operations in 2014.

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, and cash expected to be available from our secured revolving credit facility by evaluating the timing and extent of our land purchases, as needed.

Secured Revolving Credit Facility

On April 28, 2014, we entered into a credit agreement with Texas Capital Bank, N.A. and a syndication of lenders (the “Credit Agreement”) to provide a $135.0 million senior secured revolving credit facility, which could be increased by request, to $200.0 million, subject to the terms and provisions of the Credit Agreement. On July 31, 2014, amounts available to us under the Credit Agreement were increased by $40.0 million to $175.0 million, and on September 30, 2014, amounts available to us under the Credit Agreement were increased from $175.0 million to $200.0 million, in each case, in accordance with the accordion feature of the Credit Agreement.

The Credit Agreement matures on April 28, 2017. Borrowings under the credit facility are limited to the borrowing base, which is based on the loan value of the pool of collateral in which the lenders have a security interest. We may add houses, vacant lots, land, and acquisition and development projects to its pool of collateral through April 28, 2015. The loan value of speculative houses, pre-sold houses, model houses, vacant lots, land, and acquisition and

development projects is adjusted based on formulas with respect to each of those categories of collateral; the loan value of the collateral decreases based on the amount of time such collateral is in the borrowing base beyond 12 months. During the period May 1, 2015 to April 28, 2016, advances will continue to be made for assets previously included in the pool of collateral as they move into higher funding categories. Speculative homes may remain in the borrowing base for up to 18 months. Vacant lots, land and acquisition and development projects may remain in the borrowing base for up to three years. At September 30, 2014, the borrowing base was $175.4 million, of which $160.2 million was outstanding and the remaining $15.2 million was available to borrow.

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The Credit Agreement contains various financial covenants including a minimum EBITDA to debt service payments ratio; a debt to capitalization ratio; a leverage ratio; liquidity ratio and ratio of value of all land, lots, and acquisition and development projects to net worth; and a net worth ratio. In addition, the Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt.
On September 30, 2014, certain provisions of the Credit Agreement were modified and supplemented. The modification of the Credit Agreement increased each of the Combined Acquisition and Development ("A&D") and Entitled Land Subfacility, the Combined A&D, Entitled Land and Lot Inventory Subfacility, and the Entitled Land Subfacility, modified certain of the Credit Agreement financial covenants, which are generally tested on a quarterly basis, and allows us to incur up to $85.0 million of unsecured subordinated indebtedness. In addition, the debt to capitalization ratio, leverage ratio, EBITDA ratio and liquidity rate required were also modified. At September 30, 2014, we were in compliance with all of the covenants contained in the Credit agreement.

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 $6.5 million as of September 30, 2014. Although significant development and construction activities have been completed related to these site improvements, 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, letters of credit or financial guarantees as of September 30, 2014 will be drawn upon.

Cash Flows

Nine Months Ended September 30, 2014 compared to Nine Months Ended September 30, 2013

Net cash used in operating activities during the nine months ended September 30, 2014 was $129.6 million as compared to $24.3 million during the nine months ended September 30, 2013. The $105.3 million increase in net cash used in operating activities was primarily attributable to a $105.2 million net increase in real estate inventory for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. We made land and finished lot purchases in all of our divisions, with the majority of purchases in Texas. The $6.4 million increase in preacquisition costs and deposits is primarily attributed to approximately $8.7 million of land purchase deposits for finished lots that are refundable under certain circumstances and secured by indemnity mortgages on the related property. The net cash used in operating activities for the nine months ended September 30, 2014 is partially offset by a $8.1 million increase in net income.

Net cash used in investing activities was $0.8 million during the nine months ended September 30, 2014 as compared to $1.3 million used in investing activities during the nine months ended September 30, 2013. The decrease in cash used in investing activities is primarily due to the acquisition of the LGI/GTIS Joint Ventures in November 2013. Capital investments of $0.9 million were made to our unconsolidated joint ventures during the nine months ended September 30, 2013.

Net cash provided by financing activities totaled $122.5 million during the nine months ended September 30, 2014 as compared to $27.9 million during the nine months ended September 30, 2013. The $94.6 million increase in net cash

provided by financing activities is primarily due to a $111.9 million increase in net borrowings in the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 partially offset by $15.8 million of contributions received from non-controlling interests in connection with the formation of LGI Holdings III, LLC on March 31, 2013.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into land option contracts in order to procure 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 deposit and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, including obtaining applicable property and development entitlements. We also utilize option contracts with land sellers as a method of acquiring lots and land in staged takedowns, to

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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 nonrefundable deposit for the right to acquire 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 by forfeiting our cash deposit with no further financial obligations to the land seller. As of September 30, 2014, we had $11.9 million of cash deposits pertaining to land option contracts and purchase contracts for 8,538 lots with an aggregate remaining purchase price of $125.1 million. Approximately $8.7 million of the cash deposits as of September 30, 2014 are related to purchase contracts to deliver finished lots and these deposits are refundable under certain circumstances and secured by indemnity mortgages on the related property.

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. Options 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, 2013 other than the increase to our outstanding debt obligations discussed above.

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. See Note 3 - Summary of Significant Accounting Policies, to our unaudited consolidated financial statements included herein in our Quarterly Report on Form 10-Q for the three months ended September 30, 2014 for additional information about our accounting policies.

We believe that there have been no significant changes to our critical accounting policies during the three months ended September 30, 2014 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, 2013.

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.

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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;
- a slowdown in the homebuilding industry;
- continued 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;
- our ability to successfully expand into new markets;
- our ability to successfully extend our business model to building homes with higher price points, developing larger communities and sales of acreage home sites;
- our ability to identify potential acquisition candidates and close such acquisitions;
- our ability to successfully integrate any acquisitions, including the assets acquired from Oakmont Home Builders, Inc. and its affiliate, 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;
- decline in the market value of our land portfolio;
- continued or increased disruption in the terms or availability of mortgage financing or the number of foreclosures in our markets;
- shortages of or increased prices for labor, land or raw materials used in 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;
- an inability to develop our projects successfully or within expected timeframes;
- the success of our operations in recently opened new markets and our ability to expand into additional new markets;
- 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; and
- other factors we discuss under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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.

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. Thus, we are not required to provide more than two years of audited financial statements, selected financial data and related Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report. For as long as we are an emerging growth company, unlike other public companies, we will not be required to:

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- 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 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 three months ended September 30, 2014. 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 September 30, 2014, we had $160.2 million of variable rate indebtedness outstanding under our Credit Agreement. All of the outstanding borrowings under the Credit Agreement are at variable rates based on LIBOR, or subject to an interest rate floor. The interest rate for our variable rate indebtedness as of September 30, 2014 was 3.75%, the floor rate of the Credit Agreement. A hypothetical 100 basis point increase in the average interest rate on our variable rate indebtedness would increase our annual interest expense by approximately $1.6 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.

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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 September 30, 2014. 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

Other than in connection with our continued transition from a private company to a public company, 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 September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

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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:	November 12, 2014	/s/ Eric Lipar Eric Lipar Chief Executive Officer and Chairman of the Board
	November 12, 2014	/s/ Charles Merdian Charles Merdian Chief Financial Officer, Secretary and Treasurer

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EXHIBIT INDEX

Exhibit No.	Description
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.

† 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.