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

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2019

OR

**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)

77380  
(Zip code)

(281) 362-8998

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	LGIH	NASDAQ Global Select Market

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

Yes  No

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

Yes  No

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

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of August 2, 2019, there were 22,939,883 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 37,555	\$ 46,624
Accounts receivable	43,207	42,836
Real estate inventory	1,328,699	1,228,256
Pre-acquisition costs and deposits	45,991	45,752
Property and equipment, net	1,429	1,432
Other assets	15,146	15,765
Deferred tax assets, net	2,015	2,790
Goodwill and intangible assets, net	12,018	12,018
Total assets	<u>\$ 1,486,060</u>	<u>\$ 1,395,473</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 22,562	\$ 9,241
Accrued expenses and other liabilities	73,340	76,555
Notes payable	664,923	653,734
Total liabilities	<u>760,825</u>	<u>739,530</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Common stock, par value \$0.01, 250,000,000 shares authorized, 23,978,883 shares issued and 22,939,883 shares outstanding as of June 30, 2019 and 23,746,385 shares issued and 22,707,385 shares outstanding as of December 31, 2018	240	237
Additional paid-in capital	246,888	241,988
Retained earnings	496,163	431,774
Treasury stock, at cost, 1,039,000 shares	(18,056)	(18,056)
Total equity	<u>725,235</u>	<u>655,943</u>
Total liabilities and equity	<u>\$ 1,486,060</u>	<u>\$ 1,395,473</u>

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Home sales revenues	\$ 461,830	\$ 419,847	\$ 749,424	\$ 698,871
Cost of sales	350,519	310,082	571,809	519,847
Selling expenses	33,890	29,301	60,681	52,250
General and administrative	18,980	18,302	37,418	33,742
Operating income	58,441	62,162	79,516	93,032
Loss on extinguishment of debt	169	365	169	540
Other income, net	(2,263)	(874)	(2,882)	(1,406)
Net income before income taxes	60,535	62,671	82,229	93,898
Income tax provision	14,480	15,063	17,840	18,988
Net income	\$ 46,055	\$ 47,608	\$ 64,389	\$ 74,910
Earnings per share:				
Basic	\$ 2.01	\$ 2.11	\$ 2.82	\$ 3.34
Diluted	\$ 1.82	\$ 1.90	\$ 2.55	\$ 3.01
Weighted average shares outstanding:				
Basic	22,926,156	22,616,085	22,835,920	22,403,266
Diluted	25,357,396	25,000,647	25,226,062	24,884,628

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid- In Capital	Retained Earnings	Treasury Stock	Total Equity
	Shares	Amount				
<b>BALANCE—December 31, 2018</b>	23,746,385	\$ 237	\$ 241,988	\$ 431,774	\$ (18,056)	\$ 655,943
Net income	—	—	—	18,334	—	18,334
Issuance of restricted stock units in settlement of accrued bonuses	—	—	217	—	—	217
Compensation expense for equity awards	—	—	1,783	—	—	1,783
Stock issued under employee incentive plans	218,345	2	647	—	—	649
<b>BALANCE— March 31, 2019</b>	<b>23,964,730</b>	<b>\$ 239</b>	<b>\$ 244,635</b>	<b>\$ 450,108</b>	<b>\$ (18,056)</b>	<b>\$ 676,926</b>
Net income	—	—	—	46,055	—	46,055
Compensation expense for equity awards	—	—	1,639	—	—	1,639
Stock issued under employee incentive plans	14,153	1	614	—	—	615
<b>BALANCE— June 30, 2019</b>	<b>23,978,883</b>	<b>\$ 240</b>	<b>\$ 246,888</b>	<b>\$ 496,163</b>	<b>\$ (18,056)</b>	<b>\$ 725,235</b>

  

	Common Stock		Additional Paid- In Capital	Retained Earnings	Treasury Stock	Total Equity
	Shares	Amount				
<b>BALANCE—December 31, 2017</b>	22,845,580	\$ 228	\$ 229,680	\$ 276,488	\$ (16,550)	\$ 489,846
Net income	—	—	—	27,302	—	27,302
Issuance of shares in settlement of Convertible Notes	486,679	5	(475)	—	—	(470)
Issuance of restricted stock units in settlement of accrued bonuses	—	—	181	—	—	181
Compensation expense for equity awards	—	—	1,351	—	—	1,351
Stock issued under employee incentive plans	282,887	3	697	—	—	700
<b>BALANCE— March 31, 2018</b>	<b>23,615,146</b>	<b>\$ 236</b>	<b>\$ 231,434</b>	<b>\$ 303,790</b>	<b>\$ (16,550)</b>	<b>\$ 518,910</b>
Net income	—	—	—	47,608	—	47,608
Compensation expense for equity awards	—	—	1,419	—	—	1,419
Stock issued under employee incentive plans	17,845	—	745	—	—	745
<b>BALANCE— June 30, 2018</b>	<b>23,632,991</b>	<b>\$ 236</b>	<b>\$ 233,598</b>	<b>\$ 351,398</b>	<b>\$ (16,550)</b>	<b>\$ 568,682</b>

See accompanying notes to the consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 64,389	\$ 74,910
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	326	366
Loss on extinguishment of debt	169	530
Compensation expense for equity awards	3,422	2,770
Deferred income taxes	775	(95)
Changes in assets and liabilities:		
Accounts receivable	(371)	12,960
Real estate inventory	(99,671)	(143,449)
Pre-acquisition costs and deposits	(239)	(10,696)
Other assets	5,936	3,028
Accounts payable	13,321	7,873
Accrued expenses and other liabilities	(6,950)	(43,867)
Net cash used in operating activities	(18,893)	(95,670)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(323)	(367)
Net cash used in investing activities	(323)	(367)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	79,750	120,000
Payments on notes payable	(68,800)	(40,038)
Loan issuance costs	(2,067)	(3,923)
Proceeds from sale of stock, net of offering expenses	1,264	1,445
Payment for earnout obligation	—	(132)
Net cash provided by financing activities	10,147	77,352
Net decrease in cash and cash equivalents	(9,069)	(18,685)
Cash and cash equivalents, beginning of period	46,624	67,571
Cash and cash equivalents, end of period	\$ 37,555	\$ 48,886

See accompanying notes to the consolidated financial statements.

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

**1. ORGANIZATION AND BASIS OF PRESENTATION**

**Organization and Description of the Business**

LGI Homes, Inc., a Delaware corporation (the “Company”, “us,” “we,” or “our”), is engaged in the development of communities and the design, construction and sale of new homes in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, North Carolina, South Carolina, Washington, Tennessee, Minnesota, Oklahoma, Alabama, California, Oregon, Nevada and West Virginia.

**Basis of Presentation**

The unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2018. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited financial statements as of June 30, 2019, and for the three and six months ended June 30, 2019 and 2018, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements.

**Recently Adopted Accounting Standards**

On January 1, 2019, we adopted the Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which amends the existing standards for lease accounting, requiring lessees to recognize most leases on their balance sheets and disclose key information about leasing arrangements. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than one year. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

We adopted the new standard with a modified retrospective transition approach, so financial information is not updated for periods prior to January 1, 2019. Pursuant to the adoption of the new standard, we elected the practical expedients upon transition that do not require us to reassess existing contracts to determine if they contain leases under the new definition of a lease, or to reassess historical lease classification or initial direct costs. We also elected the practical expedient to not separate lease and non-lease components for new leases after adoption of the new standard.

The adoption of Topic 842 is accounted for as a change in accounting principle in conformity with FASB Accounting Standards Codification (“ASC”) 250, “Accounting Changes and Error Corrections.” As a result of the adoption, the most significant changes are related to the recognition of new ROU assets and lease liabilities of \$5.4 million as of January 1, 2019 on the balance sheet for office operating leases. The Company’s existing material leases are all considered operating leases under the new leasing standard and as a result, no adjustment to retained earnings was required.

**Recently Issued Accounting Pronouncements**

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*” (“ASU 2018-13”), which modifies the disclosure requirements of fair value measurements. ASU 2018-13 is effective for us beginning January 1, 2020. Certain disclosures are required to be applied on a retrospective basis and others on a prospective basis. We are currently evaluating the impact that adoption of this guidance will have on our financial statement disclosures.



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In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.” (“ASU 2017-04”), which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for us beginning January 1, 2020, with early adoption permitted, and applied prospectively. We do not expect ASU 2017-04 to have a material impact on our financial statements.

## 2. REVENUES

### Revenue Recognition

Revenues from home sales are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenues from home sales are recorded at the time each home sale is closed, title and possession are transferred to the customer and we have no significant continuing involvement with the home. Home sales discounts and incentives granted to customers, which are related to the customers’ closing costs that we pay on the customers’ behalf, are recorded as a reduction of revenue in our consolidated financial statements of operations.

The following table presents our home sales revenues disaggregated by revenue stream (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Retail home sales revenues	\$ 443,450	\$ 392,320	\$ 724,915	\$ 664,358
Other	18,380	27,527	24,509	34,513
Total home sales revenues	<u>\$ 461,830</u>	<u>\$ 419,847</u>	<u>\$ 749,424</u>	<u>\$ 698,871</u>

The following table presents our home sales revenues disaggregated by geography, based on our determined reportable segments in [Note 13](#) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Central	\$ 189,894	\$ 181,967	\$ 314,091	\$ 289,465
Northwest	78,996	85,233	115,250	142,406
Southeast	77,820	60,369	130,234	105,477
Florida	48,187	55,018	77,099	97,461
West	66,933	37,260	112,750	64,062
Total home sales revenues	<u>\$ 461,830</u>	<u>\$ 419,847</u>	<u>\$ 749,424</u>	<u>\$ 698,871</u>

### Home Sales Revenues

We generate revenues primarily by delivering move-in ready entry-level and move-up spec homes sold under our LGI Homes brand and our luxury series spec homes sold under our Terrata Homes brand.

Retail homes sold under both our LGI Homes brand and Terrata Homes brand focus on providing move-in ready homes with standardized features within favorable markets that meet certain demographic and economic conditions. Our LGI Homes brand primarily markets to entry-level or first-time homebuyers, while our Terrata Homes brand primarily markets to move-up homebuyers.

Our other revenues are composed of our wholesale home sales under our LGI Homes brand and Terrata Homes brand in existing markets. Wholesale homes are primarily sold under a bulk sales agreement and focus on providing move-in ready homes with standardized features to real estate investors that will ultimately use the single-family homes as rental properties.

### Performance Obligations

Our contracts with customers include a single performance obligation to transfer a completed home to the customer. We generally determine selling price per home on the expected cost plus margin. Our contracts contain no significant financing terms as customers who finance do so through a third party. Performance obligations are satisfied at a moment in time when the home is complete and control of the asset is transferred to the customer at closing. Home sales proceeds are generally received from the title company within a few business days after closing.

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Sales and broker commissions are incremental costs incurred to obtain a contract with a customer that would not have been incurred if the contract had not been obtained. Sales and broker commissions are expensed upon fulfillment of a home closing. Advertising costs are costs to obtain a contract that would have been incurred regardless of whether the contract was obtained and are recognized as an expense when incurred. Sales and broker commissions and advertising costs are recorded within sales and marketing expense presented in our consolidated statements of operations as selling expenses.

### 3. REAL ESTATE INVENTORY

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

	June 30, 2019	December 31, 2018
Land, land under development and finished lots	\$ 783,014	\$ 736,402
Information centers	25,618	21,179
Homes in progress	297,466	149,506
Completed homes	222,601	321,169
Total real estate inventory	<u>\$ 1,328,699</u>	<u>\$ 1,228,256</u>

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

Land, development and other project costs, including interest and property taxes incurred during development and home construction and net of expected reimbursements of development costs, are capitalized to real estate inventory. Land development and other common costs that benefit the entire community, including field construction supervision and related direct overhead, are allocated to individual lots or homes, as appropriate. The costs of lots are transferred to homes in progress when home construction begins. Home construction costs and related carrying charges are allocated to the cost of individual homes using the specific identification method. Costs that are not specifically identifiable to a home are allocated on a pro rata basis, which we believe approximates the costs that would be determined using an allocation method based on relative sales values since the individual lots or homes within a community are similar in value. Inventory costs for completed homes are expensed to cost of sales as homes are closed. 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 information center during the life of the community and then sold. Actual individual community lives will vary based on the size of the community, the sales absorption rate and whether the property was purchased as raw land or finished lots.

Interest and financing costs incurred under our debt obligations, as more fully discussed in [Note 5](#), are capitalized to qualifying real estate projects under development and homes under construction.

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### 4. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	June 30, 2019	December 31, 2018
Retentions and development payable	\$ 19,290	\$ 18,899
Accrued compensation, bonuses and benefits	10,651	14,263
Accrued interest	12,178	12,339
Taxes payable	6,403	10,773
Inventory related obligations	5,648	7,041
Lease Liability	5,317	—
Warranty reserve	3,050	2,950
Other	10,803	10,290
Total accrued expenses and other liabilities	\$ 73,340	\$ 76,555

#### Inventory Related Obligations

We own lots in certain communities in Arizona, Florida and Texas that have Community Development Districts 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, which 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.

#### Estimated Warranty Reserve

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Warranty reserves, beginning of period	\$ 3,000	\$ 2,600	\$ 2,950	\$ 2,450
Warranty provision	879	695	1,974	1,683
Warranty expenditures	(829)	(495)	(1,874)	(1,333)
Warranty reserves, end of period	\$ 3,050	\$ 2,800	\$ 3,050	\$ 2,800

### 5. NOTES PAYABLE

#### Revolving Credit Agreement

On May 6, 2019, we entered into that certain Fourth Amended and Restated Credit Agreement (the “Credit Agreement”) with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The Credit Agreement has substantially similar terms and provisions to our third amended and restated credit agreement entered into in May 2018 with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the “2018 Credit Agreement”) but, among other things, provides for, a revolving credit facility of \$550.0 million, which can be increased at our request by up to \$100.0 million if the lenders make additional commitments, subject to the terms and conditions of the Credit Agreement.

The Credit Agreement matures on May 31, 2022. Before each anniversary of the Credit Agreement, we may request a one-year extension of the maturity date. The Credit Agreement is guaranteed by each of our subsidiaries that have gross assets of \$0.5 million or more. As of June 30, 2019, the borrowing base under the Credit Agreement was \$852.7 million, of which borrowings, including the Convertible Notes (as defined below) and the Senior Notes (as defined below), of \$675.0 million were outstanding, \$9.2 million of letters of credit were outstanding and \$167.1 million was available to borrow under the Credit Agreement, net of deferred purchase price obligations.

Interest is paid monthly on borrowings under the Credit Agreement at LIBOR plus 2.75%. The Credit Agreement applicable margin for LIBOR loans ranges from 2.35% to 2.75% based on our leverage ratio. At June 30, 2019, LIBOR was 2.40%.

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The Credit Agreement contains various financial covenants, including a minimum tangible net worth, a leverage ratio, a minimum liquidity amount and an EBITDA to interest expense ratio. The Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At June 30, 2019, we were in compliance with all of the covenants contained in the Credit Agreement.

### **Convertible Notes**

We issued \$85.0 million aggregate principal amount of our 4.25% Convertible Notes due 2019 (the “Convertible Notes”) in November 2014 pursuant to an exemption from the registration requirements afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). The Convertible Notes mature on November 15, 2019. Interest on the Convertible Notes is payable semi-annually in arrears on May 15 and November 15 of each year at a rate of 4.25%. When the Convertible Notes were issued, the fair value of \$76.5 million was recorded to notes payable. \$5.5 million of the remaining proceeds was recorded to additional paid in capital to reflect the equity component and the remaining \$3.0 million was recorded as a deferred tax liability. The carrying amount of the Convertible Notes is being accreted to face value over the term to maturity. As of June 30, 2019, we have \$70.0 million aggregate principal amount of Convertible Notes outstanding.

Prior to May 15, 2019, the Convertible Notes were convertible only upon satisfaction of any of the specified conversion events. On or after May 15, 2019 and until the close of business on November 14, 2019 (the business day immediately preceding the stated maturity date of the Convertible Notes), the holders of the Convertible Notes can convert their Convertible Notes at any time at their option. Upon the election of a holder of Convertible Notes to convert their Convertible Notes, we may settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. It is our intent, and belief that we have the ability, to settle in cash the conversion of any Convertible Notes that the holders elect to convert. The initial conversion rate of the Convertible Notes is 46.4792 shares of our common stock for each \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events.

On July 6, 2018, concurrently with the offering of the Senior Notes, we entered into that certain First Supplemental Indenture, dated as of July 6, 2018, among us, our subsidiaries that guarantee our obligations under the 2018 Credit Agreement (the “Subsidiary Guarantors”) and Wilmington Trust, National Association, as trustee, which supplements the indenture governing the Convertible Notes, pursuant to which (i) the subordination provisions in the indenture governing the Convertible Notes were eliminated, (ii) each Subsidiary Guarantor agreed (A) to, concurrently with the issuance of the Senior Notes, fully and unconditionally guarantee the Convertible Notes to the same extent that such Subsidiary Guarantor is guaranteeing the Senior Notes and (B) that such Subsidiary Guarantor’s guarantee of the Convertible Notes ranks equally with such Subsidiary Guarantor’s guarantee of the Senior Notes and (iii) the Company agreed to not, directly or indirectly, incur any indebtedness in the form of, or otherwise become liable in respect of, any notes or other debt securities issued pursuant to an indenture or note purchase agreement (including the Senior Notes) unless such indebtedness is equal with or contractually subordinated to the Convertible Notes in right of payment.

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### Senior Notes Offering

On July 6, 2018, we issued \$300.0 million aggregate principal amount of the Senior Notes in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S under the Securities Act. Interest on the Senior Notes accrues at a rate of 6.875% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2019, and the Senior Notes mature on July 15, 2026. Terms of the Senior Notes are governed by an indenture and supplemental indenture, each dated as of July 6, 2018, among us, the Subsidiary Guarantors and Wilmington Trust, National Association, as trustee.

We received net proceeds from the offering of the Senior Notes of approximately \$296.2 million, after deducting the initial purchasers' discounts of \$2.3 million and commissions and offering expenses of \$1.5 million. The net proceeds from the offering were used to repay a portion of the borrowings under the 2018 Credit Agreement.

Notes payable consist of the following (in thousands):

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Notes payable under the Credit Agreement (\$550.0 million revolving credit facility at June 30, 2019) maturing on May 31, 2022; interest paid monthly at LIBOR plus 2.75%; net of debt issuance costs of approximately \$5.0 million and \$3.7 million at June 30, 2019 and December 31, 2018, respectively	\$ 299,974	\$ 290,131
4.25% Convertible Notes due November 15, 2019; interest paid semi-annually at 4.25%; net of debt issuance costs of approximately \$0.2 million and \$0.4 million at June 30, 2019 and December 31, 2018, respectively; and approximately \$0.6 million and \$1.3 million in unamortized discount at June 30, 2019 and December 31, 2018, respectively	69,256	68,251
6.875% Senior Notes due July 15, 2026; interest paid semi-annually at 6.875%; net of debt issuance costs of approximately \$2.4 million and \$2.5 million at June 30, 2019 and December 31, 2018, respectively; and approximately \$1.9 million and \$2.1 million in unamortized discount at June 30, 2019 and December 31, 2018, respectively	295,693	295,352
<b>Total notes payable</b>	<u>\$ 664,923</u>	<u>\$ 653,734</u>

### Capitalized Interest

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest incurred	\$ 12,108	\$ 8,787	\$ 23,525	\$ 15,980
Less: Amounts capitalized	(12,108)	(8,787)	(23,525)	(15,980)
Interest expense	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Cash paid for interest	\$ 6,199	\$ 8,100	\$ 21,032	\$ 13,269

Included in interest incurred was amortization of deferred financing costs for notes payable and amortization of Convertible Notes and Senior Notes discounts of \$1.0 million and \$1.4 million for the three months ended June 30, 2019 and 2018, respectively, and \$2.1 million and \$2.2 million for the six months ended June 30, 2019 and 2018, respectively.

## 6. INCOME TAXES

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The statute of limitations with regards to our federal income tax filings is three years. The statute of limitations for our state tax jurisdictions is three to four years depending on the jurisdiction. In the normal course of business, we are subject to tax audits in various jurisdictions, and such jurisdictions may assess additional income taxes. We do not expect the outcome of any audit to have a material effect on our consolidated financial statements; however, audit outcomes and the timing of audit adjustments are subject to significant uncertainty.

For the six months ended June 30, 2019, our effective tax rate of 21.7% is higher than the Federal statutory rate primarily as a result of the deductions related to non-deductible salaries related to Section 162(m) of the Internal Revenue Code of 1986,

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as amended, and an increase in rate for state income taxes, net of the federal benefit payments, offset by the deductions in excess of compensation cost (“windfalls”) for share-based payments.

Income taxes paid were \$21.4 million and \$20.8 million for the three months ended June 30, 2019 and 2018, respectively. Income taxes paid were \$21.6 million and \$63.7 million for the six months ended June 30, 2019 and 2018, respectively.

## 7. EQUITY

### Shelf Registration Statement

We have an effective shelf registration statement on Form S-3 (Registration No. 333-227012), registering the offering and sale of an indeterminate amount of debt securities, guarantees of debt securities, preferred stock, common stock, warrants, depository shares, purchase contracts and units that include any of these securities, that was filed on August 24, 2018 with the Securities and Exchange Commission.

## 8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator (in thousands):				
Net Income (Numerator for basic and dilutive earnings per share)	\$ 46,055	\$ 47,608	\$ 64,389	\$ 74,910
Denominator:				
Basic weighted average shares outstanding	22,926,156	22,616,085	22,835,920	22,403,266
Effect of dilutive securities:				
Convertible Notes - treasury stock method	2,242,933	2,166,333	2,153,777	2,191,836
Stock-based compensation units	188,307	218,229	236,365	289,526
Diluted weighted average shares outstanding	25,357,396	25,000,647	25,226,062	24,884,628
Basic earnings per share				
	\$ 2.01	\$ 2.11	\$ 2.82	\$ 3.34
Diluted earnings per share				
	\$ 1.82	\$ 1.90	\$ 2.55	\$ 3.01
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	1,379	2,871	11,268	13,118

In accordance with ASC 260-10, *Earnings Per Share*, we calculated the dilutive effect of the Convertible Notes using the treasury stock method, since we have the intent and ability to settle the principal amount of the outstanding Convertible Notes in cash. Under the treasury stock method, the Convertible Notes have a dilutive impact on diluted earnings per share to the extent that the average market price of our common stock for a reporting period exceeds the conversion price of \$21.52 per share. During the three and six months ended June 30, 2019 and 2018, the average market price of our common stock exceeded the conversion price of \$21.52 per share.

**9. STOCK-BASED COMPENSATION**

**Non-performance Based Restricted Stock Units**

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

	Six Months Ended June 30,			
	2019		2018	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning balance	171,055	\$ 39.04	175,100	\$ 27.66
Granted	48,830	\$ 57.00	38,546	\$ 64.06
Vested	(42,686)	\$ 22.22	(35,968)	\$ 15.51
Forfeited	(6,641)	\$ 46.69	(4,993)	\$ 33.79
Ending balance	170,558	\$ 48.12	172,685	\$ 38.14

We recognized \$0.6 million and \$0.5 million of stock-based compensation expense related to outstanding RSUs for the three months ended June 30, 2019 and 2018, respectively. We recognized \$1.1 million and \$0.9 million of stock-based compensation expense related to outstanding RSUs for the six months ended June 30, 2019 and 2018, respectively. Generally, the RSUs cliff vest on the third anniversary of the grant date and can only be settled in shares of our common stock. At June 30, 2019, we had unrecognized compensation cost of \$4.8 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.1 years.

**Performance-Based Restricted Stock Units**

The Compensation Committee of our Board of Directors has granted awards of Performance-Based RSUs (“PSUs”) under the Amended and Restated LGI Homes, Inc. 2013 Equity Incentive Plan to certain members of senior management based on the three-year performance cycles. The PSUs provide for shares of our common stock to be issued based on the attainment of certain performance metrics over the applicable three-year periods. The number of shares of our common stock that may be issued to the recipients for the PSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The terms of the PSUs provide that the payouts will be capped at 100% of the target number of PSUs granted if absolute total stockholder return is negative during the performance period, regardless of EPS performance; this market condition applies for amounts recorded above target. The compensation expense associated with the PSU grants is determined using the derived grant date fair value, based on a third-party valuation analysis, and expensed over the applicable period. The PSUs vest upon the determination date for the actual results at the end of the three-year period and require that the recipients continue to be employed by us through the determination date. The PSUs can only be settled in shares of our common stock.

The following table summarizes the activity of our PSUs for the six months ended June 30, 2019:

Period Granted	Performance Period	Target PSUs Outstanding at December 31, 2018	Target PSUs Granted	Target PSUs Vested	Target PSUs Forfeited	Target PSUs Outstanding at June 30, 2019	Weighted Average Grant Date Fair Value
2016	2016 - 2018	83,656	—	(83,656)	—	—	\$ 21.79
2017	2017 - 2019	108,247	—	—	(3,477)	104,770	\$ 31.64
2018	2018 - 2020	61,898	—	—	(1,858)	60,040	\$ 64.60
2019	2019 - 2021	—	83,367	—	(2,125)	81,242	\$ 56.49
Total		253,801	83,367	(83,656)	(7,460)	246,052	

At June 30, 2019, management estimates that the recipients will receive approximately 100%, 100% and 196% of the 2019, 2018 and 2017 target number of PSUs, respectively, at the end of the applicable three-year performance cycle based on projected performance compared to the target performance metrics. We recognized \$0.9 million of total stock-based compensation expense related to outstanding PSUs for each of the three months ended June 30, 2019 and 2018. We recognized \$2.1 million and \$1.8 million of total stock-based compensation expense related to outstanding PSUs for the six months ended June 30, 2019 and 2018, respectively. PSUs granted in 2016 vested on March 15, 2019 at 200% of the target amount, and 167,312 shares of our common stock were issued upon such vesting. At June 30, 2019, we had unrecognized compensation cost of \$7.6 million, based on the probable amount, related to unvested PSUs, which is expected to be recognized over a weighted average period of 2.1 years.

## 10. FAIR VALUE DISCLOSURES

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

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

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

*Level 2* - Fair value is determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities, or quoted prices in markets that are not active.

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

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets. The fair value of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate their carrying amounts due to the short-term nature of these instruments. As of June 30, 2019, our revolving credit facility’s carrying value approximates market value since it has a floating interest rate, which increases or decreases with market interest rates and our leverage ratio.

In order to determine the fair value of the Convertible Notes and the Senior Notes listed below, the future contractual cash flows are discounted at our estimate of current market rates of interest, which were determined based upon the average interest rates of similar convertible notes and senior notes within the homebuilding industry (Level 2 measurement).

The following table below shows the level and measurement of liabilities at June 30, 2019 and December 31, 2018 (in thousands):

	Fair Value Hierarchy	June 30, 2019		December 31, 2018	
		Carrying Value	Estimated Fair Value <sup>(1)</sup>	Carrying Value	Estimated Fair Value <sup>(1)</sup>
Convertible Notes	Level 2	\$ 69,256	\$ 69,618	\$ 68,251	\$ 67,787
Senior Notes	Level 2	\$ 295,693	\$ 321,946	\$ 295,352	\$ 296,905

(1) Excludes the fair value of the equity component of the Convertible Notes. See the “Convertible Notes” section within [Note 5](#) for further details.

## 11. RELATED PARTY TRANSACTIONS

### Land Purchases from Affiliates

As of June 30, 2019, we have two land purchase contracts to purchase a total of 198 finished lots in Pasco County and Manatee County, Florida from affiliates of one of our directors for a total base purchase price of approximately \$6.9 million. The lots will be purchased in takedowns, subject to annual price escalation ranging from 3% to 6% per annum, and may provide for additional payments to the seller at the time of sale to the homebuyer. We have a \$0.7 million non-refundable deposit at June 30, 2019 related to these land purchase contracts. We anticipate the first closing on the Pasco County contract to occur in the second half of 2019 and first closing on the Manatee County contract to occur in 2020.



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### 12. COMMITMENTS AND CONTINGENCIES

#### Contingencies

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

We have provided unsecured environmental indemnities to certain lenders and other counterparties. In each case, we have performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate us to reimburse the guaranteed parties for damages related to environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, we may have recourse against other previous owners. In the ordinary course of doing business, we are subject to regulatory proceedings from time to time related to environmental and other matters. In the opinion of management, these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

#### Land Deposits

We have land purchase contracts, generally through cash deposits, for the right to purchase land or lots at a future point in time with predetermined terms. We do not have title to the property, and obligations with respect to the land purchase contracts are generally limited to the forfeiture of the related nonrefundable cash deposits. The following is a summary of our land purchase deposits included in pre-acquisition costs and deposits (in thousands, except for lot count):

	<b>June 30, 2019</b>		<b>December 31, 2018</b>	
Land deposits and option payments	\$	42,658	\$	40,015
Commitments under the land purchase contracts if the purchases are consummated	\$	745,518	\$	776,224
Lots under land purchase contracts		23,215		22,820

As of June 30, 2019 and December 31, 2018, approximately \$30.3 million and \$25.2 million, respectively, of the land deposits are related to purchase contracts to deliver finished lots that are refundable under certain circumstances, such as feasibility or specific performance, and secured by mortgages, or letters of credit or guaranteed by the seller or its affiliates.

#### Lease Obligations

As described in the “Recently Adopted Accounting Standards” section within [Note 1](#), as of January 1, 2019, we adopted the provisions of ASU 2016-02 and recognized lease obligations and associated ROU assets for our existing non-cancelable leases. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We have non-cancelable operating leases primarily associated with our corporate and regional office facilities. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms. Variable lease costs such as common area costs and property taxes are expensed as incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets, as included in other assets on the consolidated balance sheets, were \$5.1 million as of June 30, 2019. Lease obligations, as included in accrued expenses and other liabilities on the consolidated balance sheets, were \$5.3 million as of June 30, 2019.

Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, for the three and six months ended June 30, 2019 was \$0.3 million and \$0.6 million, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating leases during the three and six months ended June 30, 2019 was \$0.3 million and \$0.6 million, respectively. As of June 30, 2019, the weighted-average discount rate was 5.74% and our weighted-average remaining life was 7.9 years. The Company does not have any significant lease contracts that have not yet commenced at June 30, 2019.

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The table below shows the future minimum payments under non-cancelable operating leases at June 30, 2019 (in thousands):

<b>Year Ending December 31,</b>	<b>Operating leases</b>
2019	\$ 481
2020	927
2021	926
2022	799
2023	722
Thereafter	2,838
<b>Total</b>	<b>6,693</b>
Lease amount representing interest	(1,376)
<b>Present value of lease liabilities</b>	<b>\$ 5,317</b>

### **Bonding and Letters of Credit**

We have outstanding letters of credit and performance and surety bonds totaling \$91.5 million (including \$9.2 million of letters of credit issued under the Credit Agreement) and \$77.5 million at June 30, 2019 and December 31, 2018, respectively, related to our obligations for site improvements at various projects. Management does not believe that draws upon the letters of credit, surety bonds or financial guarantees if any, will have a material effect on our consolidated financial position, results of operations or cash flows.

### **13. SEGMENT INFORMATION**

Beginning in the fourth quarter of 2018, we changed our reportable segments to Central, Northwest, Southeast, Florida, and West. These segments reflect the way the Company evaluates its business performance and manages its operations. Prior period information has been restated for corresponding items of our segment information.

We operate one principal homebuilding business that is organized and reports by division. We have seven operating segments (our Central, Midwest, Northwest, Southeast, Mid-Atlantic, Florida, and West divisions) that we aggregate into five reportable segments at June 30, 2019: our Central, Northwest, Southeast, Florida, and West divisions. The Central division is our largest division and comprised approximately 42% and 41% of total home sales revenues for the six months ended June 30, 2019 and 2018, respectively.

In accordance with ASC Topic 280, *Segment Reporting*, 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-makers (“CODMs”) in deciding how to allocate resources and in assessing performance. The CODMs primarily evaluate performance based on the number of homes closed, gross margin and average sales price.

The seven operating segments qualify as our five reportable segments. In determining the most appropriate reportable segments, we consider operating segments’ economic and other characteristics, including home floor plans, average selling prices, gross margin percentage, geographical proximity, production construction processes, suppliers, subcontractors, regulatory environments, customer type and underlying demand and supply. Each operating segment follows the same accounting policies and is managed by our management team. We have no inter-segment sales, as all sales are to external customers. Operating results for each segment may not be indicative of the results for such segment had it been an independent, stand-alone entity for the periods presented.

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Financial information relating to our reportable segments was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Central	\$ 189,894	\$ 181,967	\$ 314,091	\$ 289,465
Northwest	78,996	85,233	115,250	142,406
Southeast	77,820	60,369	130,234	105,477
Florida	48,187	55,018	77,099	97,461
West	66,933	37,260	112,750	64,062
<b>Total home sales revenues</b>	<b>\$ 461,830</b>	<b>\$ 419,847</b>	<b>\$ 749,424</b>	<b>\$ 698,871</b>

<b>Net income (loss) before income taxes:</b>				
Central	\$ 32,593	\$ 33,537	\$ 47,240	\$ 48,843
Northwest	11,853	12,868	15,229	19,130
Southeast	5,745	7,599	6,160	11,926
Florida	4,552	7,585	5,767	11,557
West	7,230	3,114	10,337	4,895
Corporate <sup>(1)</sup>	(1,438)	(2,032)	(2,504)	(2,453)
<b>Total net income (loss) before income taxes</b>	<b>\$ 60,535</b>	<b>\$ 62,671</b>	<b>\$ 82,229</b>	<b>\$ 93,898</b>

(1) The Corporate amount consists primarily of general and administration unallocated costs for various shared service functions, as well as our warranty reserve and loss on extinguishment of debt. Actual warranty expenses are reflected within the reportable segments.

	June 30, 2019	December 31, 2018
<b>Assets:</b>		
Central	\$ 548,289	\$ 569,409
Northwest	224,960	200,443
Southeast	364,634	300,758
Florida	128,558	106,398
West	171,575	161,514
Corporate <sup>(1)</sup>	48,044	56,951
<b>Total assets</b>	<b>\$ 1,486,060</b>	<b>\$ 1,395,473</b>

(1) As of June 30, 2019, the Corporate balance consists primarily of cash, prepaid insurance, ROU assets and prepaid expenses.

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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 refer to LGI Homes, Inc. and its subsidiaries.

#### Business Overview

We are engaged in the design, construction and sale of new homes in the following markets:

West	Northwest	Central	Midwest	Florida	Southeast	Mid-Atlantic
Phoenix, AZ	Seattle, WA	Houston, TX	Minneapolis, MN	Tampa, FL	Atlanta, GA	Washington, D.C.
Tucson, AZ	Portland, OR	Dallas/Ft. Worth, TX		Orlando, FL	Charlotte, NC/SC	
Albuquerque, NM	Denver, CO	San Antonio, TX		Fort Myers, FL	Nashville, TN	
Sacramento, CA	Colorado Springs, CO	Austin, TX		Jacksonville, FL	Raleigh, NC	
Las Vegas, NV		Oklahoma City, OK		Fort Pierce, FL	Wilmington, NC	
					Winston-Salem, NC	
					Birmingham, AL	

Our management team has been in the residential land development business since the mid-1990s. Since commencing home building operations in 2003, we have constructed and closed over 32,000 homes. During the six months ended June 30, 2019, we had 3,172 home closings, compared to 3,059 home closings during the six months ended June 30, 2018.

We sell homes under the LGI Homes and Terrata Homes brands. Our 93 active communities at June 30, 2019 included four Terrata Homes communities.

#### Recent Developments

On May 6, 2019, we entered into that certain Fourth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"), which amends and restates and has substantially similar terms and provisions to the 2018 Credit Agreement and provides for a \$550.0 million revolving credit facility, which can be increased at the request of the Company by up to \$100.0 million, subject to the terms and conditions of the Credit Agreement. See [Note 5](#) - Notes Payable for more information regarding the Credit Agreement.

#### Key Results

Key financial results as of and for the three months ended June 30, 2019, as compared to the three months ended June 30, 2018, were as follows:

- Home sales revenues increased 10.0% to \$461.8 million from \$419.8 million.
- Homes closed increased 7.1% to 1,944 homes from 1,815 homes.
- Average sales price of our homes increased 2.7% to \$237,567 from \$231,321.
- Gross margin as a percentage of home sales revenues decreased to 24.1% from 26.1%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 26.3% from 27.7%.
- Net income before income taxes decreased 3.4% to \$60.5 million from \$62.7 million.
- Net income decreased 3.3% to \$46.1 million from \$47.6 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 15.1% from 16.5%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 14.8% from 16.4%.
- Total owned and controlled lots increased 6.9% to 54,191 lots at June 30, 2019 from 50,700 lots at March 31, 2019.

For reconciliations of the non-GAAP financial measures of adjusted gross margin, EBITDA and adjusted EBITDA to the most directly comparable GAAP financial measures, please see "[Non-GAAP Measures](#)."

Key financial results as of and for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018, were as follows:

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- Home sales revenues increased 7.2% to \$749.4 million from \$698.9 million.
- Homes closed increased 3.7% to 3,172 homes from 3,059 homes.
- Average sales price of our homes increased 3.4% to \$236,262 from \$228,464.
- Gross margin as a percentage of home sales revenues decreased to 23.7% from 25.6%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 25.8% from 27.2%.
- Net income before income taxes decreased 12.4% to \$82.2 million from \$93.9 million.
- Net income decreased 14.0% to \$64.4 million from \$74.9 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 12.9% from 15.0%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 12.8% from 14.9%.
- Total owned and controlled lots increased 5.3% to 54,191 lots at June 30, 2019 from 51,442 lots at December 31, 2018.

For reconciliations of the non-GAAP financial measures of adjusted gross margin, EBITDA and adjusted EBITDA to the most directly comparable GAAP financial measures, please see “[—Non-GAAP Measures.](#)”

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### Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(dollars in thousands, except per share data and average home sales price)				
<b>Statement of Income Data:</b>				
Home sales revenues	\$ 461,830	\$ 419,847	\$ 749,424	\$ 698,871
Expenses:				
Cost of sales	350,519	310,082	571,809	519,847
Selling expenses	33,890	29,301	60,681	52,250
General and administrative	18,980	18,302	37,418	33,742
Operating income	58,441	62,162	79,516	93,032
Loss on extinguishment of debt	169	365	169	540
Other income, net	(2,263)	(874)	(2,882)	(1,406)
Net income before income taxes	60,535	62,671	82,229	93,898
Income tax provision	14,480	15,063	17,840	18,988
Net income	\$ 46,055	\$ 47,608	\$ 64,389	\$ 74,910
Basic earnings per share	\$ 2.01	\$ 2.11	\$ 2.82	\$ 3.34
Diluted earnings per share	\$ 1.82	\$ 1.90	\$ 2.55	\$ 3.01
<b>Other Financial and Operating Data:</b>				
Active communities at end of period	93	79	93	79
Home closings	1,944	1,815	3,172	3,059
Average sales price of homes closed	\$ 237,567	\$ 231,321	\$ 236,262	\$ 228,464
Gross margin <sup>(1)</sup>	\$ 111,311	\$ 109,765	\$ 177,615	\$ 179,024
Gross margin % <sup>(2)</sup>	24.1%	26.1%	23.7%	25.6%
Adjusted gross margin <sup>(3)</sup>	\$ 121,256	\$ 116,353	\$ 193,584	\$ 189,921
Adjusted gross margin % <sup>(2)(3)</sup>	26.3%	27.7%	25.8%	27.2%
EBITDA <sup>(4)</sup>	\$ 69,685	\$ 69,445	\$ 96,938	\$ 105,164
EBITDA margin % <sup>(2)(4)</sup>	15.1%	16.5%	12.9%	15.0%
Adjusted EBITDA <sup>(4)</sup>	\$ 68,547	\$ 68,936	\$ 95,811	\$ 104,295
Adjusted EBITDA margin % <sup>(2)(4)</sup>	14.8%	16.4%	12.8%	14.9%

(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 adjustments, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance. Please see "[Non-GAAP Measures](#)" 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.

(4) EBITDA and adjusted EBITDA are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. We define EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization and (iv) capitalized interest charged to the cost of sales. 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) loss on extinguishment of debt, (vi) other income, net and (vii) adjustments resulting from the application of purchase accounting. Our management believes that the presentation of EBITDA and 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. EBITDA and adjusted

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EBITDA provide indicators of general economic performance that are not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization and items considered to be unusual or non-recurring. Accordingly, our management believes that these measures are useful for comparing general operating performance from period to period. Other companies may define these measures differently and, as a result, our measures of EBITDA and adjusted EBITDA may not be directly comparable to the measures of other companies. Although we use EBITDA and adjusted EBITDA as financial measures to assess the performance of our business, the use of these measures is limited because they do not include certain material costs, such as interest and taxes, necessary to operate our business. EBITDA and 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 EBITDA and adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or non-recurring items. Our use of EBITDA and adjusted EBITDA is limited as an analytical tool, and you should not consider these measures in isolation or as substitutes for analysis of our results as reported under GAAP. Please see “[Non-GAAP Measures](#)” for reconciliations of EBITDA and adjusted EBITDA to net income, which is the GAAP financial measure that our management believes to be most directly comparable.

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**Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018**

*Homes Sales.* Our home sales revenues, home closings, average sales price (ASP), average community count, average monthly absorption rate and closing community count by reportable segment for the three months ended June 30, 2019 and 2018 were as follows (revenues in thousands):

<b>Three Months Ended June 30, 2019</b>						
	<b>Revenues</b>	<b>Home Closings</b>	<b>ASP</b>	<b>Average Community Count</b>	<b>Average Monthly Absorption Rate</b>	
Central	\$ 189,894	888	\$ 213,845	33.3	8.9	
Northwest	78,996	214	369,140	11.0	6.5	
Southeast	77,820	360	216,167	24.0	5.0	
Florida	48,187	234	205,927	11.7	6.7	
West	66,933	248	269,891	13.0	6.4	
<b>Total</b>	<b>\$ 461,830</b>	<b>1,944</b>	<b>\$ 237,567</b>	<b>93.0</b>	<b>7.0</b>	

<b>Three Months Ended June 30, 2018</b>						
	<b>Revenues</b>	<b>Home Closings</b>	<b>ASP</b>	<b>Average Community Count</b>	<b>Average Monthly Absorption Rate</b>	
Central	\$ 181,967	853	\$ 213,326	30.7	9.3	
Northwest	85,233	239	356,623	9.3	8.6	
Southeast	60,369	298	202,581	17.0	5.8	
Florida	55,018	257	214,078	11.7	7.3	
West	37,260	168	221,786	9.3	6.0	
<b>Total</b>	<b>\$ 419,847</b>	<b>1,815</b>	<b>\$ 231,321</b>	<b>78.0</b>	<b>7.8</b>	

<b>Community count</b>	<b>As of June 30,</b>	
	<b>2019</b>	<b>2018</b>
Central	33	31
Northwest	11	9
Southeast	24	17
Florida	12	12
West	13	10
<b>Total community count</b>	<b>93</b>	<b>79</b>

Home sales revenues for the three months ended June 30, 2019 were \$461.8 million, an increase of \$42.0 million, or 10.0%, from \$419.8 million for the three months ended June 30, 2018. The increase in home sales revenues is primarily due to a 7.1% increase in homes closed and an increase in the average sales price per home during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. The average sales price per home closed during the three months ended June 30, 2019 was \$237,567, an increase of \$6,246, or 2.7%, from the average sales price per home of \$231,321 for the three months ended June 30, 2018. This increase in the average sales price per home is primarily due to changes in product mix, higher price points in new markets and a favorable pricing environment. The increase in home closings was largely due to increased home closings in our West, Southeast and Central reportable segments, partially offset by decreased home closings in our Northwest and Florida reportable segments during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. The decreased home closings in our Northwest and Florida reportable segments were primarily due to close out of or transition between, and to a lesser extent available inventory in, certain of their respective active communities.

Home sales revenues in our West reportable segment increased by \$29.7 million, or 79.6%, primarily due to community count associated with our geographic expansion into our California and Nevada markets. Home sales revenues in our Southeast reportable segment increased by \$17.5 million, or 28.9%, primarily due to community count associated with the Wynn Homes acquisition in August 2018. Home sales revenues in our Central reportable segment increased by \$7.9 million, or 4.4%, during the



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three months ended June 30, 2019 as compared to the three months ended June 30, 2018, primarily due to a 4.1% increase in the number of homes closed in this segment. Home sales revenues in our Northwest and Florida reportable segments decreased by \$6.2 million and \$6.8 million, or 7.3% and 12.4%, respectively, largely due to close out or transition between certain of their respective active communities for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. Our active selling communities at June 30, 2019 increased to 93 from 79 at June 30, 2018. All reportable segments added communities by expanding into new markets or deepening existing markets with the exception of the Florida reportable segment, which maintained the same active community count due to close out or transition between certain of its active communities.

*Cost of Sales and Gross Margin (home sales revenues less cost of sales).* Cost of sales increased for the three months ended June 30, 2019 to \$350.5 million, an increase of \$40.4 million, or 13.0%, from \$310.1 million for the three months ended June 30, 2018. This overall increase is primarily due to an increase in homes closed, higher capitalized interest costs recognized, purchase accounting, and to a lesser extent, increased construction costs for homes closed during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. Gross margin for the three months ended June 30, 2019 was \$111.3 million, an increase of \$1.5 million, or 1.4%, from \$109.8 million for the three months ended June 30, 2018. Gross margin as a percentage of home sales revenues was 24.1% for the three months ended June 30, 2019 and 26.1% for the three months ended June 30, 2018. This decrease in gross margin as a percentage of home sales revenues is primarily due to higher capitalized interest costs recognized, purchase accounting related to our acquisition of Wynn Homes, and to a lesser extent, increased construction costs, offset by an increase in homes closed for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018.

*Selling Expenses.* Selling expenses for the three months ended June 30, 2019 were \$33.9 million, an increase of \$4.6 million, or 15.7%, from \$29.3 million for the three months ended June 30, 2018. Sales commissions increased to \$18.0 million for the three months ended June 30, 2019 from \$16.3 million for the three months ended June 30, 2018, partially due to a 10.0% increase in home sales revenues during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. Selling expenses as a percentage of home sales revenues were 7.3% and 7.0% for the three months ended June 30, 2019 and 2018, respectively. The increase in selling expenses as a percentage of home sales revenues reflects additional operating expenses associated with increased personnel, advertising, and selling expenses primarily associated with new communities during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018.

*General and Administrative.* General and administrative expenses for the three months ended June 30, 2019 were \$19.0 million, an increase of \$0.7 million, or 3.7%, from \$18.3 million for the three months ended June 30, 2018. The increase in the amount of general and administrative expenses is primarily due to increased personnel associated with an increase of active communities during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018. General and administrative expenses as a percentage of home sales revenues were 4.1% and 4.4% for the three months ended June 30, 2019 and 2018, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects operating leverage realized from the increase in home sales revenues during the three months ended June 30, 2019 as compared to the three months ended June 30, 2018.

*Other Income.* Other income, net of other expenses was \$2.3 million for the three months ended June 30, 2019, an increase of \$1.4 million, from \$0.9 million for the three months ended June 30, 2018. The increase in other income primarily reflects the gain realized from the sale of land not directly associated with our core homebuilding operations.

*Operating Income, Net Income before Taxes and Net Income.* Operating income for the three months ended June 30, 2019 was \$58.4 million, a decrease of \$3.7 million, or 6.0%, from \$62.2 million for the three months ended June 30, 2018. Net income before income taxes for the three months ended June 30, 2019 was \$60.5 million, a decrease of \$2.1 million, or 3.4%, from \$62.7 million for the three months ended June 30, 2018. The following reportable segments contributed to net income before income taxes during the three months ended June 30, 2019: Central - \$32.6 million or 53.8%; Northwest - \$11.9 million or 19.6%; Southeast - \$5.7 million or 9.5%; Florida - \$4.6 million or 7.5%; and West - \$7.2 million or 11.9%. Net income for the three months ended June 30, 2019 was \$46.1 million, a decrease of \$1.5 million, or 3.3%, from \$47.6 million for the three months ended June 30, 2018. The decreases in operating income, net income before income taxes and net income are primarily attributed to lower gross margin percentage, increased advertising and additional costs realized from the increase of personnel associated with the increase of community count, higher capitalized interest costs recognized and purchase accounting, partially offset by a higher average sales price realized for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018.

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**Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018**

*Homes Sales.* Our home sales revenues, home closings, average sales price (ASP), average community count and average monthly absorption rate by reportable segment for the six months ended June 30, 2019 and 2018 were as follows (revenues in thousands):

<b>Six Months Ended June 30, 2019</b>					
	<b>Revenues</b>	<b>Home Closings</b>	<b>ASP</b>	<b>Average Community Count</b>	<b>Average Monthly Absorption Rate</b>
Central	\$ 314,091	1,466	\$ 214,250	32.7	7.5
Northwest	115,250	313	368,211	11.0	4.7
Southeast	130,234	590	220,736	21.5	4.6
Florida	77,099	376	205,051	11.3	5.5
West	112,750	427	264,052	12.2	5.8
Total	<u>\$ 749,424</u>	<u>3,172</u>	<u>\$ 236,262</u>	<u>88.7</u>	<u>6.0</u>

  

<b>Six Months Ended June 30, 2018</b>					
	<b>Revenues</b>	<b>Home Closings</b>	<b>ASP</b>	<b>Average Community Count</b>	<b>Average Monthly Absorption Rate</b>
Central	\$ 289,465	1,374	\$ 210,673	30.0	7.6
Northwest	142,406	394	361,437	9.8	6.7
Southeast	105,477	527	200,146	17.0	5.2
Florida	97,461	466	209,144	11.5	6.8
West	64,062	298	214,973	9.2	5.4
Total	<u>\$ 698,871</u>	<u>3,059</u>	<u>\$ 228,464</u>	<u>77.5</u>	<u>6.6</u>

Home sales revenues for the six months ended June 30, 2019 were \$749.4 million, an increase of \$50.6 million, or 7.2%, from \$698.9 million for the six months ended June 30, 2018. The increase in home sales revenues is primarily due to a 3.7% increase in homes closed, and an increase in the average sales price per home during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. The average sales price per home closed during the six months ended June 30, 2019 was \$236,262, an increase of \$7,798, or 3.4%, from the average sales price per home of \$228,464 for the six months ended June 30, 2018. This increase in the average sales price per home was primarily due to changes in product mix, higher price points in certain new markets and increases in sales prices in existing communities. The increase in home closings was largely due to increased home closings in our West, Central and Southeast reportable segments, partially offset by decreased home closings in our Northwest and Florida reportable segments during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. The decreased home closings in our Northwest and Florida reportable segments were largely due to close out of or transition between, and to a lesser extent available inventory in, certain of their respective active communities.

Home sales revenues in our West reportable segment increased by \$48.7 million, or 76.0%, primarily due to community count associated with our geographic expansion into our California and Nevada markets. Home sales revenues in our Central reportable segment increased by \$24.6 million, or 8.5%, during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, primarily due to a 6.7% increase in the number of homes closed in this reportable segment. Home sales revenues in our Southeast reportable segment increased by \$24.8 million, or 23.5%, primarily due to increased community count associated with the Wynn Homes acquisition. Home sales revenues in our Northwest and Florida reportable segments decreased by \$27.2 million and \$20.4 million, or 19.1% and 20.9%, respectively, largely due to close out or transition between certain of their respective active communities. Our active selling communities at June 30, 2019 increased to 93 from 79 at June 30, 2018. All reportable segments added communities by expanding into new markets or deepening existing markets with the exception of the Florida reportable segment, which maintained the same active community count due to close out or transition between certain of its active communities for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

*Cost of Sales and Gross Margin (home sales revenues less cost of sales).* Cost of sales increased for the six months ended June 30, 2019 to \$571.8 million, an increase of \$52.0 million, or 10.0%, from \$519.8 million for the six months ended June 30, 2018. This overall increase is primarily due to an increase in homes closed, higher capitalized interest costs recognized, purchase accounting, higher construction costs, product mix and lot costs during the six months ended June 30, 2019 as compared to the

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six months ended June 30, 2018. In addition, there was an increase in construction overhead due to additional personnel and costs associated with geographic and community count expansion during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. Gross margin for the six months ended June 30, 2019 was \$177.6 million, a decrease of \$1.4 million, or 0.8%, from \$179.0 million for the six months ended June 30, 2018. Gross margin as a percentage of home sales revenues was 23.7% for the six months ended June 30, 2019 and 25.6% for the six months ended June 30, 2018. This decrease in gross margin as a percentage of home sales revenues is primarily due to a combination of higher construction costs, construction overhead, lot costs, capitalized interest and to a lesser degree purchase accounting, partially offset by higher average home sales price for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

*Selling Expenses.* Selling expenses for the six months ended June 30, 2019 were \$60.7 million, an increase of \$8.4 million, or 16.1%, from \$52.3 million for the six months ended June 30, 2018. Sales commissions increased to \$29.7 million for the six months ended June 30, 2019 from \$27.4 million for the six months ended June 30, 2018, partially due to a 7.2% increase in home sales revenues during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. Other increases include advertising and other personnel costs. Selling expenses as a percentage of home sales revenues were 8.1% and 7.5% for the six months ended June 30, 2019 and 2018, respectively. The increase in selling expenses as a percentage of home sales revenues reflects increased personnel, advertising, and selling expenses primarily associated with new communities during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

*General and Administrative.* General and administrative expenses for the six months ended June 30, 2019 were \$37.4 million, an increase of \$3.7 million, or 10.9%, from \$33.7 million for the six months ended June 30, 2018. The increase in the amount of general and administrative expenses is primarily due to increased personnel associated with an increase of active communities during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. General and administrative expenses as a percentage of home sales revenues were 5.0% and 4.8% for the six months ended June 30, 2019 and 2018, respectively. The increase in general and administrative expenses as a percentage of home sales revenues reflects additional costs realized from the increase of personnel associated with the increase of community count during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

*Other Income.* Other income, net of other expenses was \$2.9 million for the six months ended June 30, 2019, an increase of \$1.5 million from \$1.4 million for the six months ended June 30, 2018. The increase in other income primarily reflects the gain realized from the sale of land not directly associated with our core homebuilding operations.

*Operating Income, Net Income before Income Taxes and Net Income.* Operating income for the six months ended June 30, 2019 was \$79.5 million, a decrease of \$13.5 million, or 14.5%, from \$93.0 million for the six months ended June 30, 2018. Net income before income taxes for the six months ended June 30, 2019 was \$82.2 million, a decrease of \$11.7 million, or 12.4%, from \$93.9 million for the six months ended June 30, 2018. The following reportable segments contributed to net income before income taxes during the six months ended June 30, 2019: Central - \$47.2 million or 57.4%; Northwest - \$15.2 million or 18.5%; Southeast - \$6.2 million or 7.5%; Florida - \$5.8 million or 7.0%; and West - \$10.3 million or 12.6%. Net income for the six months ended June 30, 2019 was \$64.4 million, a decrease of \$10.5 million, or 14.0%, from \$74.9 million for the six months ended June 30, 2018. The decreases in operating income, net income before income taxes and net income are primarily attributed to lower gross margin percentage, increased advertising and additional costs realized from the increase of personnel associated with the increase of community count, higher capitalized interest costs recognized, purchase accounting and start-up costs in the Southeast reportable segment, partially offset by a higher average sales price realized during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018.

### **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, EBITDA 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 adjustments, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance.

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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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Home sales revenues	\$ 461,830	\$ 419,847	\$ 749,424	\$ 698,871
Cost of sales	350,519	310,082	571,809	519,847
Gross margin	111,311	109,765	177,615	179,024
Capitalized interest charged to cost of sales	8,989	6,588	14,383	10,900
Purchase accounting adjustments <sup>(1)</sup>	956	—	1,586	(3)
Adjusted gross margin	\$ 121,256	\$ 116,353	\$ 193,584	\$ 189,921
Gross margin % <sup>(2)</sup>	24.1%	26.1%	23.7%	25.6%
Adjusted gross margin % <sup>(2)</sup>	26.3%	27.7%	25.8%	27.2%

(1) Adjustments result from the application of purchase accounting for acquisitions and represent the amount of the fair value step-up adjustments included in cost of sales for real estate inventory sold after the acquisition dates.

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

### **EBITDA and Adjusted EBITDA**

EBITDA and adjusted EBITDA are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. We define EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization and (iv) capitalized interest charged to the cost of sales. 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) loss on extinguishment of debt, (vi) other income, net and (vii) adjustments resulting from the application of purchase accounting included in the cost of sales. Our management believes that the presentation of EBITDA and 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. EBITDA and adjusted EBITDA provide indicators of general economic performance that are not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization and items considered to be unusual or non-recurring. Accordingly, our management believes that these measures are useful for comparing general operating performance from period to period. Other companies may define these measures differently and, as a result, our measures of EBITDA and adjusted EBITDA may not be directly comparable to the measures of other companies. Although we use EBITDA and adjusted EBITDA as financial measures to assess the performance of our business, the use of these measures is limited because they do not include certain material costs, such as interest and taxes, necessary to operate our business. EBITDA and 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 EBITDA and adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or non-recurring items. Our use of EBITDA and adjusted EBITDA is limited as an analytical tool, and you should not consider these measures in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- (i) they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments, including for purchase of land;
- (ii) they do not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- (iii) 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 EBITDA and adjusted EBITDA do not reflect any cash requirements for such replacements or improvements;
- (iv) they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- (v) they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and
- (vi) other companies in our industry may calculate them differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, our EBITDA and adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. We compensate for these limitations by using our EBITDA and adjusted EBITDA along with other comparative tools, together with

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GAAP measures, to assist in the evaluation of operating performance. These GAAP measures 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 EBITDA or adjusted EBITDA. EBITDA and adjusted EBITDA are not intended as alternatives to net income as indicators of our operating performance, as alternatives to any other measure of performance in conformity with GAAP or as alternatives to cash flows as a measure of liquidity. You should therefore not place undue reliance on our EBITDA or adjusted EBITDA calculated using these measures.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	\$ 46,055	\$ 47,608	\$ 64,389	\$ 74,910
Income taxes	14,480	15,063	17,840	18,988
Depreciation and amortization	161	186	326	366
Capitalized interest charged to cost of sales	8,989	6,588	14,383	10,900
EBITDA	69,685	69,445	96,938	105,164
Purchase accounting adjustments <sup>(1)</sup>	956	—	1,586	(3)
Loss on extinguishment of debt	169	365	169	540
Other income, net	(2,263)	(874)	(2,882)	(1,406)
Adjusted EBITDA	\$ 68,547	\$ 68,936	\$ 95,811	\$ 104,295
EBITDA margin <sup>%(2)</sup>	15.1%	16.5%	12.9%	15.0%
Adjusted EBITDA margin <sup>%(2)</sup>	14.8%	16.4%	12.8%	14.9%

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

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

## Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer to pay a deposit at the time of signing the purchase contract. The amount of the required deposit is minimal (generally \$1,000). The deposits are refundable if the retail homebuyer is unable to obtain mortgage financing. We permit our retail 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 retail 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 has been signed by homebuyers who have met the preliminary criteria to obtain mortgage financing but have not yet closed and wholesale contracts for which the required deposit has been made. Since our business model is generally based on building move-in ready homes before a purchase contract is signed, the majority of our homes in backlog are currently under construction or complete. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less cancellations) generated during the current period minus the number of homes closed during the current period. Our backlog at any given time will be affected by cancellations, the number of our active communities and the timing of home closings. 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.

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

<b>Backlog Data</b>	<b>Six Months Ended June 30,</b>	
	<b>2019</b> <sup>(4)</sup>	<b>2018</b> <sup>(5)</sup>
Net orders <sup>(1)</sup>	4,196	3,427
Cancellation rate <sup>(2)</sup>	17.8%	22.5%
Ending backlog – homes <sup>(3)</sup>	1,648	1,184
Ending backlog – value <sup>(3)</sup>	\$ 410,006	\$ 296,904

- (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 has been signed by homebuyers who have met our preliminary financing criteria but have not yet closed and wholesale contracts for which the required deposit has been made. Ending backlog is valued at the contract amount.
- (4) 79 units and values related to bulk sales agreements are not included in the table above.
- (5) 41 units and values related to bulk sales agreements are not included in the table above.

### **Land Acquisition Policies and Development**

We increased our active communities to 93 as of June 30, 2019 from 88 as of December 31, 2018. We also increased our lot inventory to 54,191 owned or controlled lots as of June 30, 2019 from 51,442 owned or controlled lots as of December 31, 2018.

The table below shows (i) home closings by reportable segment for the six months ended June 30, 2019 and (ii) our owned or controlled lots by reportable segment as of June 30, 2019.

<b>Reportable Segment</b>	<b>Six Months Ended June 30, 2019</b>	<b>As of June 30, 2019</b>		
	<b>Home Closings</b>	<b>Owned</b> <sup>(1)</sup>	<b>Controlled</b>	<b>Total</b>
Central	1,466	14,798	9,459	24,257
Northwest	313	2,375	1,823	4,198
Southeast	590	9,302	7,751	17,053
Florida	376	2,613	1,516	4,129
West	427	1,888	2,666	4,554
Total	3,172	30,976	23,215	54,191

- (1) Of the 30,976 owned lots as of June 30, 2019, 19,489 were raw/under development lots and 11,487 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. As of June 30, 2019, we had a total of 1,360 completed homes, including information centers, and 2,487 homes in progress.

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### **Raw Materials and Labor**

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 subcontractors. 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 labor, commodities and lumber.

### **Seasonality**

In all of our reportable segments, 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 operations and financial position at the end of a particular quarter, especially the first quarter, are not necessarily representative of the results we expect at year end. We expect this seasonal pattern to continue in the long term.

### **Liquidity and Capital Resources**

#### *Overview*

As of June 30, 2019, we had \$37.6 million of cash and cash equivalents. Cash flows for each of our active communities depend on the status of the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, land development, plats, vertical development, construction of information centers, general landscaping and other amenities. Because these costs are a component of our inventory and are not recognized in our statement of operations until a home closes, we incur significant cash outflows prior to recognition of home sales revenues. In the later stages of an active community, cash inflows may exceed home sales revenues reported for financial statement purposes, as the costs associated with home and land construction were previously incurred.

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

We generally rely on our ability to finance our operations by generating operating cash flows, borrowing under our revolving credit facility or the issuance and sale of shares of our common stock. As needed, we will consider accessing the debt and equity capital markets as part of our ongoing financing 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 have an effective shelf registration statement on Form S-3 (Registration No. 333-227012), registering the offering and sale of an indeterminate amount of debt securities, guarantees of debt securities, preferred stock, common stock, warrants, depositary shares, purchase contracts and units that include any of these securities, that was filed on August 24, 2018 with the Securities and Exchange Commission. Under the shelf registration statement, we have the ability to access the debt and equity capital markets as needed as part of our ongoing financing strategy.

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 revolving credit facility or through accessing debt or equity capital, as needed.

#### *Revolving Credit Facility*

On May 6, 2019, we entered into that certain Fourth Amended and Restated Credit Agreement (the "Credit Agreement") with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent. The Credit Agreement has substantially similar terms and provisions to our third amended and restated credit agreement entered into in May 2018 with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "2018 Credit Agreement") but, among other things, provides for, a revolving credit facility of \$550.0 million, which can be increased at our request by up to \$100.0 million if the lenders make additional commitments, subject to the terms and conditions of the Credit Agreement.

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The Credit Agreement matures on May 31, 2022. Before each anniversary of the Credit Agreement, we may request a one-year extension of the maturity date. The Credit Agreement is guaranteed by each of our subsidiaries that have gross assets of \$0.5 million or more. As of June 30, 2019, the borrowing base under the Credit Agreement was \$852.7 million, of which borrowings, including the Convertible Notes (as defined below) and the Senior Notes (as defined below), of \$675.0 million were outstanding, \$9.2 million of letters of credit were outstanding and \$167.1 million was available to borrow under the 2018 Credit Agreement, net of deferred purchase price obligations.

Interest is paid monthly on borrowings under the Credit Agreement at LIBOR plus 2.75%. The Credit Agreement applicable margin for LIBOR loans ranges from 2.35% to 2.75% based on our leverage ratio. At June 30, 2019, LIBOR was 2.40%.

The Credit Agreement requires us to maintain (i) a tangible net worth of not less than \$486.9 million plus 75% of the net proceeds of all equity issuances plus 50.0% of the amount of our positive net income in any fiscal quarter after December 31, 2018, (ii) a leverage ratio of not greater than 60.0%, (iii) liquidity of at least \$50.0 million and (iv) a ratio of EBITDA to interest expense for the most recent four quarters of at least 2.50 to 1.00. The Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At June 30, 2019, we were in compliance with all of the covenants contained in the Credit Agreement.

### *Convertible Notes*

We issued \$85.0 million aggregate principal amount of our 4.25% Convertible Notes due 2019 (the “Convertible Notes”) in November 2014 pursuant to an exemption from the registration requirements afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”). The Convertible Notes mature on November 15, 2019. Interest on the Convertible Notes is payable semi-annually in arrears on May 15 and November 15 of each year at a rate of 4.25%. When the Convertible Notes were issued, the fair value of \$76.5 million was recorded to notes payable. \$5.5 million of the remaining proceeds was recorded to additional paid in capital to reflect the equity component and the remaining \$3.0 million was recorded as a deferred tax liability. The carrying amount of the Convertible Notes is being accreted to face value over the term to maturity. As of June 30, 2019, we have \$70.0 million aggregate principal amount of Convertible Notes outstanding.

Prior to May 15, 2019, the Convertible Notes were convertible only upon satisfaction of any of the specified conversion events. On or after May 15, 2019 and until the close of business on November 14, 2019 (the business day immediately preceding the stated maturity date of the Convertible Notes), the holders of Convertible Notes can convert their Convertible Notes at any time at their option. Upon the election of a holder of Convertible Notes to convert their Convertible Notes, we may settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. It is our intent, and belief that we have the ability, to settle in cash the conversion of any Convertible Notes that the holders elect to convert. The initial conversion rate of the Convertible Notes is 46,4792 shares of our common stock for each \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events.

On July 6, 2018, concurrently with the offering of the Senior Notes, we entered into that certain First Supplemental Indenture, dated as of July 6, 2018, among us, our subsidiaries that guarantee our obligations under the 2018 Credit Agreement (the “Subsidiary Guarantors”) and Wilmington Trust, National Association, as trustee, which supplements the indenture governing the Convertible Notes, pursuant to which (i) the subordination provisions in the indenture governing the Convertible Notes were eliminated, (ii) each Subsidiary Guarantor agreed (A) to, concurrently with the issuance of the Senior Notes, fully and unconditionally guarantee the Convertible Notes to the same extent that such Subsidiary Guarantor is guaranteeing the Senior Notes and (B) that such Subsidiary Guarantor’s guarantee of the Convertible Notes ranks equally with such Subsidiary Guarantor’s guarantee of the Senior Notes and (iii) the Company agreed to not, directly or indirectly, incur any indebtedness in the form of, or otherwise become liable in respect of, any notes or other debt securities issued pursuant to an indenture or note purchase agreement (including the Senior Notes) unless such indebtedness is equal with or contractually subordinated to the Convertible Notes in right of payment.

### *Senior Notes Offering*

On July 6, 2018, we issued \$300.0 million aggregate principal amount of the Senior Notes in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S under the Securities Act. Interest on the Senior Notes accrues at a rate of 6.875% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2019, and the Senior Notes mature on July 15, 2026. Terms of the Senior Notes are governed by an indenture and supplemental indenture, each dated as of July 6, 2018, among us, the Subsidiary Guarantors and Wilmington Trust, National Association, as trustee.

We received net proceeds from the offering of the Senior Notes of approximately \$296.2 million, after deducting the initial purchasers’ discounts of \$2.3 million and commissions and offering expenses of \$1.5 million. The net proceeds from the offering were used to repay a portion of the borrowings under the 2018 Credit Agreement.



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### *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 \$91.5 million as of June 30, 2019. Although significant development and construction activities have been completed related to the improvements at these sites, the letters of credit and surety bonds are not generally released until all development and construction activities are completed. We do not believe that it is probable that any outstanding letters of credit, surety bonds or financial guarantees as of June 30, 2019 will be drawn upon.

### **Cash Flows**

#### *Operating Activities*

Net cash used in operating activities was \$18.9 million for the six months ended June 30, 2019. The primary drivers of operating cash flows are typically cash earnings and changes in inventory levels, including land acquisition and development. Net cash used in operating activities during the six months ended June 30, 2019 was primarily driven by net income of \$64.4 million, and included cash outlays for the \$99.7 million increase in the net change in real estate inventory, which was primarily related to our homes under construction and land acquisitions and development level of activity offset by changes in non-inventory working capital balances of \$16.4 million.

Net cash used in operating activities was \$95.7 million for the six months ended June 30, 2018, primarily driven by net income of \$74.9 million, and included cash outlays for the \$143.4 million increase in the net change in real estate inventory, which was primarily related to our homes under construction and land acquisitions and development level of activity and additional cash outlays due to changes in non-inventory working capital balances of \$27.2 million.

#### *Investing Activities*

Net cash used in investing activities for the six months ended June 30, 2019 and June 30, 2018, was \$0.3 million and \$0.4 million, respectively, primarily due to the purchase of property and equipment.

#### *Financing Activities*

Net cash provided by financing activities for the six months ended June 30, 2019 and June 30, 2018, was \$10.1 million and \$77.4 million, respectively, primarily driven by net borrowings under the Credit Agreement and to a lesser extent proceeds from the issuance of stock, partially offset by loan issuance costs.

### **Off-Balance Sheet Arrangements**

In the ordinary course of business, we enter into land purchase contracts in order to procure land and lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These contracts typically require cash deposits and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, which may include obtaining applicable property and development entitlements or the completion of development activities and the delivery of finished lots. We also utilize contracts with land sellers as a method of acquiring lots and land in staged takedowns, which helps us manage the financial and market risk associated with land holdings and minimize the use of funds from our corporate financing sources. Such contracts generally require a non-refundable deposit for the right to acquire land or lots over a specified period of time at pre-determined prices. We generally have the right at our discretion to terminate our obligations under purchase contracts during the initial feasibility period and receive a refund of our deposit, or we may terminate the contracts after the end of the feasibility period by forfeiting our cash deposit with no further financial obligations to the land seller. In addition, our deposit may also be refundable if the land seller does not satisfy all conditions precedent in the respective contract. As of June 30, 2019, we had \$42.7 million of cash deposits pertaining to land purchase contracts for 23,215 lots with an aggregate purchase price of \$745.5 million. Approximately \$30.3 million of the cash deposits as of June 30, 2019 are secured by third-party guarantees or indemnity mortgages on the related property.

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

### **Inflation**

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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 homebuyers.

### **Contractual Obligations**

As of June 30, 2019, 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, 2018.

### **Critical Accounting Policies**

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

We believe that there have been no significant changes to our critical accounting policies during the six months ended June 30, 2019 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, 2018.

### **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,” “intend,” “may,” “objective,” “plan,” “potential,” “predict,” “projection,” “should,” “will” or other similar words.

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

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

- adverse economic changes either nationally or in the markets in which we operate, including, among other things, increases in unemployment, volatility of mortgage interest rates and inflation and decreases in housing prices;
- a slowdown in the homebuilding industry;
- volatility and uncertainty in the credit markets and broader financial markets;
- the cyclical and seasonal nature of our business;
- our future operating results and financial condition;
- our business operations;
- changes in our business and investment strategy;
- the success of our operations in recently opened new markets and our ability to expand into additional new markets;
- our ability to successfully extend our business model to building homes with higher price points, developing larger communities and producing and selling multi-unit products, townhouses, wholesale products, and acreage home sites;
- our ability to develop our projects successfully or within expected timeframes;
- our ability to identify potential acquisition targets and close such acquisitions;
- our ability to successfully integrate any acquisitions, including the Wynn Homes acquisition, 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;

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- decline in the market value of our land portfolio;
- disruption in the terms or availability of mortgage financing or increase in the number of foreclosures in our markets;
- shortages of or increased prices for labor, land, or raw materials used in land development and housing construction;
- delays in land development or home construction resulting from natural disasters, adverse weather conditions or other events outside our control;
- uninsured losses in excess of insurance limits;
- the cost and availability of insurance and surety bonds;
- changes in, liabilities under, or the failure or inability to comply with, governmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- increases in taxes or government fees;
- poor relations with the residents of our projects;
- existing and future litigation, arbitration or other claims;
- availability of qualified personnel and third-party contractors and subcontractors;
- information system interruptions or breaches in security;
- our ability to retain our key personnel;
- our leverage and future debt service obligations;
- the impact on our business of any future government shutdown;
- other risks and uncertainties inherent in our business;
- other factors we discuss under the section entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”; and
- the risk factors set forth in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2018.

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.

**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 currently utilize both fixed-rate debt (\$70.0 million aggregate principal amount of the Convertible Notes, \$300.0 million aggregate principal amount of the Senior Notes and certain inventory related obligations) and variable-rate debt (our \$550.0 million revolving credit facility) as part of financing our operations. Upon the election of a holder of Convertible Notes to convert their Convertible Notes, we may settle the conversion of the Convertible Notes using any combination of cash and shares of our common stock. Other than as a result of an election of a holder of Convertible Notes to convert their Convertible Notes, we do not have the obligation to prepay the Convertible Notes, the Senior Notes or our fixed-rate inventory related obligations prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed-rate debt. The Convertible Notes mature on November 15, 2019.

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate indebtedness. We did not utilize swaps, forward or option contracts on interest rates or commodities, or other types of derivative financial instruments as of or during the six months ended June 30, 2019. We have not entered into and currently do not hold derivatives for trading or speculative purposes, but we may do so in the future. Many of the statements contained in this section are forward looking and should be read in conjunction with our disclosures under the heading "[Cautionary Statement about Forward-Looking Statements](#)" above.

As of June 30, 2019, we had \$305.0 million of variable rate indebtedness outstanding under the Credit Agreement. All of the outstanding borrowings under the Credit Agreement are at variable rates based on LIBOR. The interest rate for our variable rate indebtedness as of June 30, 2019 was LIBOR plus 2.75%. At June 30, 2019, LIBOR was 2.40%. A hypothetical 100 basis point increase in the average interest rate on our variable rate indebtedness would increase our annual interest cost by approximately \$3.1 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.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) as of June 30, 2019. 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's override of controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

##### **Changes in Internal Controls**

No change in our internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) occurred during the three months ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 6. EXHIBITS**

<u>Exhibit No.</u>	<u>Description</u>
3.1**	<a href="#">Certificate of Incorporation of LGI Homes, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 33-190853) of LGI Homes, Inc. filed with the SEC on August 28, 2013).</a>
3.2**	<a href="#">Bylaws of LGI Homes, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-190853) of LGI Homes, Inc. filed with the SEC on August 28, 2013).</a>
10.1**	<a href="#">Fourth Amended and Restated Credit Agreement, dated as of May 6, 2019, by and among LGI Homes, Inc., each of the financial institutions initially a signatory thereto, and Wells Fargo Bank, National Association, as administrative agent, with Wells Fargo Securities, LLC, as sole Lead Arranger and sole Bookrunner, and Fifth Third Bank and U.S. Bank, National Association, as Documentation Agents (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (File No. 001-36126) of LGI Homes, Inc. filed with the SEC on May 7, 2019).</a>
31.1*	<a href="#">CEO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2*	<a href="#">Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS†	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
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.
104†	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
*	Filed herewith.
**	Previously filed.
†	XBRL information is deemed not filed or a part of a registration statement or Annual Report for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under such sections.

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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: August 6, 2019

/s/ Eric Lipar

Eric Lipar

Chief Executive Officer and Chairman of the Board

August 6, 2019

/s/ Charles Merdian

Charles Merdian

Chief Financial Officer and Treasurer







**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LGI Homes, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), I, Eric Lipar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2019

/s/ Eric Lipar

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Eric Lipar  
Chief Executive Officer and Chairman of the Board  
LGI Homes, Inc.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LGI Homes, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Merdian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 6, 2019

/s/ Charles Merdian  
\_\_\_\_\_  
Charles Merdian  
Chief Financial Officer and Treasurer  
LGI Homes, Inc.