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 September 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	**46-3088013**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1450 Lake Robbins Drive, Suite 430, The Woodlands, Texas	**77380**
(Address of principal executive offices)	**(Zip code)**

(281) 362-8998

(Registrant's Telephone Number, Including Area Code)

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.

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

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

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

As of November 1, 2019, there were 22,949,956 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)

	September 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 37,030	$ 46,624
Accounts receivable	45,431	42,836
Real estate inventory	1,480,629	1,228,256
Pre-acquisition costs and deposits	40,137	45,752
Property and equipment, net	1,631	1,432
Other assets	16,528	15,765
Deferred tax assets, net	2,789	2,790
Goodwill and intangible assets, net	12,018	12,018
Total assets	$ 1,636,193	$ 1,395,473
LIABILITIES AND EQUITY		
Accounts payable	$ 29,004	$ 9,241
Accrued expenses and other liabilities	78,778	76,555
Notes payable	751,364	653,734
Total liabilities	859,146	739,530
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value $0.01, 250,000,000 shares authorized, 23,988,956 shares issued and 22,949,956 shares outstanding as of September 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	249,351	241,988
Retained earnings	545,512	431,774
Treasury stock, at cost, 1,039,000 shares	(18,056)	(18,056)
Total equity	777,047	655,943
Total liabilities and equity	$ 1,636,193	$ 1,395,473

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240
Cost of sales	366,431	283,035	938,240	802,882
Selling expenses	33,485	27,890	94,166	80,140
General and administrative	19,140	17,794	56,558	51,536
Operating income	64,025	51,650	143,541	144,682
Loss on extinguishment of debt	—	3,058	169	3,599
Other income, net	(707)	(399)	(3,589)	(1,806)
Net income before income taxes	64,732	48,991	146,961	142,889
Income tax provision	15,383	11,268	33,223	30,256
Net income	$ 49,349	$ 37,723	$ 113,738	$ 112,633
Earnings per share:				
Basic	$ 2.15	$ 1.66	$ 4.97	$ 5.07
Diluted	$ 1.93	$ 1.52	$ 4.49	$ 4.57
Weighted average shares outstanding:				
Basic	22,939,907	22,658,457	22,870,948	22,236,018
Diluted	25,521,946	24,896,569	25,329,461	24,642,882

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				
BALANCE—December 31, 2018	**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
BALANCE— March 31, 2019	**23,964,730**	**$ 239**	**$ 244,635**	**$ 450,108**	**$ (18,056)**	**$ 676,926**
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
BALANCE— June 30, 2019	**23,978,883**	**$ 240**	**$ 246,888**	**$ 496,163**	**$ (18,056)**	**$ 725,235**
Net income	—	—	—	49,349	—	49,349
Compensation expense for equity awards	—	—	1,759	—	—	1,759
Stock issued under employee incentive plans	10,073	—	704	—	—	704
BALANCE— September 30, 2019	**23,988,956**	**$ 240**	**$ 249,351**	**$ 545,512**	**$ (18,056)**	**$ 777,047**

See accompanying notes to the consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Equity
BALANCE—December 31, 2017	**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
BALANCE— March 31, 2018	**23,615,146**	**$ 236**	**$ 231,434**	**$ 303,790**	**$ (16,550)**	**$ 518,910**
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
BALANCE— June 30, 2018	**23,632,991**	**$ 236**	**$ 233,598**	**$ 351,398**	**$ (16,550)**	**$ 568,682**
Net income	—	—	—	37,723	—	37,723
Issuance of shares, Wynn Homes Acquisition	70,746	1	3,999	—	—	4,000
Compensation expense for equity awards	—	—	1,402	—	—	1,402
Stock issued under employee incentive plans	13,416	—	612	—	—	612
BALANCE— September 30, 2018	**23,717,153**	**$ 237**	**$ 239,611**	**$ 389,121**	**$ (16,550)**	**$ 612,419**

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net income	$ 113,738	$ 112,633
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	487	543
Loss on extinguishment of debt	169	3,588
Loss on disposal of assets	—	6
Compensation expense for equity awards	5,181	4,172
Deferred income taxes	2	(1,784)
Changes in assets and liabilities:		
Accounts receivable	(2,594)	13,327
Real estate inventory	(249,921)	(194,387)
Pre-acquisition costs and deposits	5,615	(19,938)
Other assets	5,655	3,347
Accounts payable	19,763	5,871
Accrued expenses and other liabilities	(2,254)	(29,394)
Net cash used in operating activities	(104,159)	(102,016)
Cash flows from investing activities:		
Purchases of property and equipment	(541)	(395)
Investment in unconsolidated entity	(1,059)	—
Payment for business acquisition	—	(73,829)
Net cash used in investing activities	(1,600)	(74,224)
Cash flows from financing activities:		
Proceeds from notes payable	180,067	537,717
Payments on notes payable	(83,800)	(386,238)
Loan issuance costs	(2,067)	(6,690)
Proceeds from sale of stock, net of offering expenses	1,965	2,057
Payment for offering costs	—	(76)
Payment for earnout obligation	—	(132)
Net cash provided by financing activities	96,165	146,638
Net decrease in cash and cash equivalents	(9,594)	(29,602)
Cash and cash equivalents, beginning of period	46,624	67,571
Cash and cash equivalents, end of period	$ 37,030	$ 37,969

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 September 30, 2019, and for the three and nine months ended September 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. 2018-15, *"Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract"* ("ASU 2018-15"), which requires entities that are customers in cloud computing arrangements to defer implementation costs if they would be capitalized by the entity in software licensing arrangements under the internal-use software guidance. The guidance may be applied retrospectively or prospectively to implementation costs incurred after the date of adoption. ASU 2018-15 is effective for us beginning January 1, 2020. We are currently evaluating the impact that this standard will have on our financial statements.

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 do not expect ASU 2018-13 to have a material impact on our financial statements.

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.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* ("ASU 2016-13"), which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. ASU 2016-13 is effective for us beginning January 1, 2020, with early adoption permitted. We are currently evaluating the impact that this standard will have 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Retail home sales revenues	$ 457,124	$ 353,594	$ 1,182,039	$ 1,017,952
Other	25,957	26,775	50,466	61,288
Total home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Central	$ 193,860	$ 151,673	$ 507,951	$ 441,138
Northwest	92,242	72,485	207,492	214,891
Southeast	91,452	73,507	221,686	178,984
Florida	44,084	38,750	121,183	136,211
West	61,443	43,954	174,193	108,016
Total home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240

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.

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):

	September 30, 2019	December 31, 2018
Land, land under development and finished lots	$ 831,448	$ 736,402
Information centers	26,857	21,179
Homes in progress	371,838	149,506
Completed homes	250,486	321,169
Total real estate inventory	$ 1,480,629	$ 1,228,256

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.

4. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2019	December 31, 2018
Retentions and development payable	$ 23,334	$ 18,899
Accrued compensation, bonuses and benefits	14,933	14,263
Accrued interest	7,039	12,339
Taxes payable	7,803	10,773
Inventory related obligations	6,377	7,041
Lease Liability	5,360	—
Warranty reserve	3,200	2,950
Other	10,732	10,290
Total accrued expenses and other liabilities	$ 78,778	$ 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Warranty reserves, beginning of period	$ 3,050	$ 2,800	$ 2,950	$ 2,450
Warranty provision	1,602	1,240	3,576	2,923
Warranty expenditures	(1,452)	(1,190)	(3,326)	(2,523)
Warranty reserves, end of period	$ 3,200	$ 2,850	$ 3,200	$ 2,850

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 September 30, 2019, the borrowing base under the Credit Agreement was $920.0 million, of which borrowings, including the Convertible Notes (as defined below) and the Senior Notes (as defined below), of $760.3 million were outstanding, $13.2 million of letters of credit were outstanding and $145.1 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 2.50%. The Credit Agreement applicable margin for LIBOR loans ranges from 2.35% to 2.75% based on our leverage ratio. At September 30, 2019, LIBOR was 2.04%.

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 September 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 September 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. With respect to the conversion of the Convertible Notes (i) between the date of this Quarterly Report on Form 10-Q and the maturity date of the Convertible Notes and (ii) on such maturity date, we have elected to settle the conversion of the Convertible Notes using a combination of cash (to pay the principal amount) and shares of our common stock. The initial conversion rate of the Convertible Notes is 46.4792 shares of our common stock for each $1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately $21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events.

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.

Notes payable consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Notes payable under the Credit Agreement ($550.0 million revolving credit facility at September 30, 2019) maturing on May 31, 2022; interest paid monthly at LIBOR plus 2.50%; net of debt issuance costs of approximately $4.6 million and $3.7 million at September 30, 2019 and December 31, 2018, respectively	$ 385,735	$ 290,131
4.25% Convertible Notes due November 15, 2019; interest paid semi-annually at 4.25%; net of debt issuance costs of approximately $0.1 million and $0.4 million at September 30, 2019 and December 31, 2018, respectively; and approximately $0.2 million and $1.3 million in unamortized discount at September 30, 2019 and December 31, 2018, respectively	69,768	68,251
6.875% Senior Notes due July 15, 2026; interest paid semi-annually at 6.875%; net of debt issuance costs of approximately $2.3 million and $2.5 at September 30, 2019 and December 31, 2018, respectively; and approximately $1.8 million and $2.1 million in unamortized discount at September 30, 2019 and December 31, 2018, respectively	295,861	295,352
Total notes payable	$ 751,364	$ 653,734

Capitalized Interest

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest incurred	$ 10,600	$ 10,823	$ 34,125	$ 26,803
Less: Amounts capitalized	(10,600)	(10,823)	(34,125)	(26,803)
Interest expense	$ —	$ —	$ —	$ —
Cash paid for interest	$ 14,673	$ 4,517	$ 35,705	$ 17,786

Included in interest incurred was amortization of deferred financing costs for notes payable and amortization of Convertible Notes and Senior Notes discounts of $1.1 million and $1.3 million for the three months ended September 30, 2019 and 2018, respectively, and $3.2 million and $3.5 million for the nine months ended September 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 nine months ended September 30, 2019, our effective tax rate of 22.6% 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, 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 $14.7 million and $12.8 million for the three months ended September 30, 2019 and 2018, respectively. Income taxes paid were $36.3 million and $76.5 million for the nine months ended September 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, 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.

8. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator (in thousands):				
Net Income (Numerator for basic and dilutive earnings per share)	$ 49,349	$ 37,723	$ 113,738	$ 112,633
Denominator:				
Basic weighted average shares outstanding	22,939,907	22,658,457	22,870,948	22,236,018
Effect of dilutive securities:				
Convertible Notes - treasury stock method	2,336,017	1,978,770	2,223,443	2,128,854
Stock-based compensation units	246,022	259,342	235,070	278,010
Diluted weighted average shares outstanding	25,521,946	24,896,569	25,329,461	24,642,882
Basic earnings per share	$ 2.15	$ 1.66	$ 4.97	$ 5.07
Diluted earnings per share	$ 1.93	$ 1.52	$ 4.49	$ 4.57
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	926	2,245	3,013	9,744

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 elected 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 nine months ended September 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"):

	Nine Months Ended September 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	49,836	$ 57.49	40,844	$ 63.30
Vested	(42,823)	$ 22.27	(36,486)	$ 15.70
Forfeited	(12,733)	$ 47.21	(5,941)	$ 34.31
Ending balance	165,335	$ 48.35	173,517	$ 38.34

We recognized $0.5 million of stock-based compensation expense related to outstanding RSUs for each of the three months ended September 30, 2019 and 2018. We recognized $1.6 million and $1.5 million of stock-based compensation expense related to outstanding RSUs for the nine months ended September 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 September 30, 2019, we had unrecognized compensation cost of $4.1 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.0 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 nine months ended September 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 September 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 September 30, 2019, management estimates that the recipients will receive approximately 100%, 116% and 185% 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 $1.1 million and $0.9 million of total stock-based compensation expense related to outstanding PSUs for the three months ended September 30, 2019 and 2018, respectively. We recognized $3.2 million and $2.7 million of total stock-based compensation expense related to outstanding PSUs for the nine months ended September 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 September 30, 2019, we had unrecognized compensation cost of $6.6 million, based on the probable amount, related to unvested PSUs, which is expected to be recognized over a weighted average period of 1.9 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 September 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 September 30, 2019 and December 31, 2018 (in thousands):

		September 30, 2019		December 31, 2018	
	Fair Value Hierarchy	Carrying Value	Estimated Fair Value (1)	Carrying Value	Estimated Fair Value (1)
Convertible Notes	Level 2	$ 69,768	$ 69,908	$ 68,251	$ 67,787
Senior Notes	Level 2	$ 295,861	$ 333,960	$ 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 September 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 $0.5 million non-refundable deposit at September 30, 2019 related to these land purchase contracts. We purchased our first takedown of 58 lots on the Pasco County contract during the three months ended September 30, 2019 for a base purchase price of approximately $2.1 million. We anticipate the first closing on the Manatee County contract to occur in 2020.

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):

	September 30, 2019	December 31, 2018
Land deposits and option payments	$ 37,677	$ 40,015
Commitments under the land purchase contracts if the purchases are consummated	$ 550,412	$ 776,224
Lots under land purchase contracts	17,044	22,820

As of September 30, 2019 and December 31, 2018, approximately $28.5 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 September 30, 2019. Lease obligations, as included in accrued expenses and other liabilities on the consolidated balance sheets, were $5.4 million as of September 30, 2019.

Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, for the three and nine months ended September 30, 2019 was $0.3 million and $0.9 million, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating leases during the three and nine months ended September 30, 2019 was $0.3 million and $0.9 million, respectively. As of September 30, 2019, the weighted-average discount rate was 5.84% and our weighted-average remaining life was 7.6 years. The Company does not have any significant lease contracts that have not yet commenced at September 30, 2019.

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

Year Ending December 31,	Operating leases
2019	$ 251
2020	1,004
2021	1,003
2022	851
2023	722
Thereafter	2,838
Total	6,669
Lease amount representing interest	(1,309)
Present value of lease liabilities	$ 5,360

Bonding and Letters of Credit

We have outstanding letters of credit and performance and surety bonds totaling $100.8 million (including $13.2 million of letters of credit issued under the Credit Agreement) and $77.5 million at September 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.

Investment in Unconsolidated Entity

During the three months ended September 30, 2019, we became a limited partner in a real estate investment fund with a maximum $30.0 million commitment, commencing July 24, 2019. The term of the commitment is eight years and includes renewals of up to two additional years. As of September 30, 2019, we have contributed a total of $1.1 million into the unconsolidated entity for the use of investing in certain real estate transactions.

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 September 30, 2019: our Central, Northwest, Southeast, Florida, and West divisions. The Central division is our largest division and comprised approximately 41% of total home sales revenues for each of the nine months ended September 30, 2019 and 2018.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Central	$ 193,860	$ 151,673	$ 507,951	$ 441,138
Northwest	92,242	72,485	207,492	214,891
Southeast	91,452	73,507	221,686	178,984
Florida	44,084	38,750	121,183	136,211
West	61,443	43,954	174,193	108,016
Total home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240
Net income (loss) before income taxes:				
Central	$ 33,134	$ 24,971	$ 80,374	$ 73,814
Northwest	15,064	11,161	30,293	30,291
Southeast	8,710	7,511	14,870	19,437
Florida	3,161	4,522	8,928	16,079
West	6,542	4,715	16,879	9,610
Corporate (1)	(1,879)	(3,889)	(4,383)	(6,342)
Total net income (loss) before income taxes	$ 64,732	$ 48,991	$ 146,961	$ 142,889

(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.

	September 30, 2019	December 31, 2018
Assets:		
Central	$ 588,216	$ 569,409
Northwest	234,968	200,443
Southeast	407,231	300,758
Florida	147,474	106,398
West	210,355	161,514
Corporate (1)	47,949	56,951
Total assets	$ 1,636,193	$ 1,395,473

(1) As of September 30, 2019, the Corporate balance consists primarily of cash, prepaid insurance, ROU assets and prepaid expenses. As of December 31, 2018, the Corporate balance consists primarily of cash, prepaid insurance and prepaid expenses.

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	Columbia, SC	
Las Vegas, NV	Colorado Springs, CO	Austin, TX		Jacksonville, FL	Raleigh, NC	
Sacramento, CA		Oklahoma City, OK		Fort Pierce, FL	Wilmington, NC	
Riverside, CA					Winston-Salem, NC	
					Birmingham, AL	
					Nashville, TN	

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 34,000 homes. During the nine months ended September 30, 2019, we had 5,175 home closings, compared to 4,660 home closings during the nine months ended September 30, 2018.

We sell homes under the LGI Homes and Terrata Homes brands. Our 103 active communities at September 30, 2019 included three Terrata Homes communities.

Recent Developments

During the three months ended September 30, 2019, we expanded our geographic presence in the West and Southeast with the addition of the Riverside, California and Columbia, South Carolina markets.

In September 2019, we elected to settle the repayment of the Convertible Notes using a combination of cash (to pay the principal amount) and shares of our common stock at the maturity date.

Key Results

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

- Home sales revenues increased 27.0% to $483.1 million from $380.4 million.
- Homes closed increased 25.1% to 2,003 homes from 1,601 homes.
- Average sales price of our homes increased 1.5% to $241,179 from $237,582.
- Gross margin as a percentage of home sales revenues decreased to 24.1% from 25.6%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 26.3% from 27.4%.
- Net income before income taxes increased 32.1% to $64.7 million from $49.0 million.
- Net income increased 30.8% to $49.3 million from $37.7 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues increased to 15.4% from 14.6%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 15.4% from 15.5%.
- Total owned and controlled lots decreased 9.9% to 48,803 lots at September 30, 2019 from 54,191 lots at June 30, 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 nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, were as follows:

- Home sales revenues increased 14.2% to $1.2 billion from $1.1 billion.
- Homes closed increased 11.1% to 5,175 homes from 4,660 homes.
- Average sales price of our homes increased 2.8% to $238,165 from $231,597.
- Gross margin as a percentage of home sales revenues decreased to 23.9% from 25.6%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues decreased to 26.0% from 27.3%.
- Net income before income taxes increased 2.8% to $147.0 million from $142.9 million.
- Net income increased 1.0% to $113.7 million from $112.6 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 13.9% from 14.9%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 13.8% from 15.1%.
- Total owned and controlled lots decreased 5.1% to 48,803 lots at September 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."

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(dollars in thousands, except per share data and average home sales price)			
Statement of Income Data:				
Home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240
Expenses:				
Cost of sales	366,431	283,035	938,240	802,882
Selling expenses	33,485	27,890	94,166	80,140
General and administrative	19,140	17,794	56,558	51,536
Operating income	64,025	51,650	143,541	144,682
Loss on extinguishment of debt	—	3,058	169	3,599
Other income, net	(707)	(399)	(3,589)	(1,806)
Net income before income taxes	64,732	48,991	146,961	142,889
Income tax provision	15,383	11,268	33,223	30,256
Net income	$ 49,349	$ 37,723	$ 113,738	$ 112,633
Basic earnings per share	$ 2.15	$ 1.66	$ 4.97	$ 5.07
Diluted earnings per share	$ 1.93	$ 1.52	$ 4.49	$ 4.57
Other Financial and Operating Data:				
Active communities at end of period	103	81	103	81
Home closings	2,003	1,601	5,175	4,660
Average sales price of homes closed	$ 241,179	$ 237,582	$ 238,165	$ 231,597
Gross margin (1)	$ 116,650	$ 97,334	$ 294,265	$ 276,358
Gross margin % (2)	24.1%	25.6%	23.9%	25.6%
Adjusted gross margin (3)	$ 126,832	$ 104,369	$ 320,416	$ 294,290
Adjusted gross margin % (2)(3)	26.3%	27.4%	26.0%	27.3%
EBITDA (4)	$ 74,404	$ 55,353	$ 171,342	$ 160,517
EBITDA margin % (2)(4)	15.4%	14.6%	13.9%	14.9%
Adjusted EBITDA (4)	$ 74,368	$ 58,862	$ 170,179	$ 163,157
Adjusted EBITDA margin % (2)(4)	15.4%	15.5%	13.8%	15.1%

(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

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.

Three Months Ended September 30, 2019 Compared to Three Months Ended September 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 September 30, 2019 and 2018 were as follows (revenues in thousands):

	Three Months Ended September 30, 2019				
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate
Central	$ 193,860	876	$ 221,301	34.0	8.6
Northwest	92,242	254	363,157	14.0	6.0
Southeast	91,452	420	217,743	26.3	5.3
Florida	44,084	213	206,967	14.0	5.1
West	61,443	240	256,013	13.0	6.2
Total	$ 483,081	2,003	$ 241,179	101.3	6.6

	Three Months Ended September 30, 2018				
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate
Central	$ 151,673	698	$ 217,297	31.3	7.4
Northwest	72,485	195	371,718	10.3	6.3
Southeast	73,507	352	208,827	19.7	6.0
Florida	38,750	183	211,749	10.7	5.7
West	43,954	173	254,069	10.0	5.8
Total	$ 380,369	1,601	$ 237,582	82.0	6.5

	As of September 30,	
Community count	**2019**	**2018**
Central	34	30
Northwest	14	10
Southeast	27	21
Florida	15	10
West	13	10
Total community count	103	81

Home sales revenues for the three months ended September 30, 2019 were $483.1 million, an increase of $102.7 million, or 27.0%, from $380.4 million for the three months ended September 30, 2018. The increase in home sales revenues is primarily due to a 25.1% increase in homes closed and an increase in the average sales price per home during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. The average sales price per home closed during the three months ended September 30, 2019 was $241,179, an increase of $3,597, or 1.5%, from the average sales price per home of $237,582 for the three months ended September 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 homes closed was largely due to our geographic expansion in the West reportable segment and by deepening our presence within certain markets in the Northwest, Southeast, and Central reportable segments during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

Home sales revenues in our West reportable segment increased by $17.5 million, or 39.8%, primarily due to an increase in community count associated with our geographic expansion into our California and Nevada markets. Home sales revenues in our Northwest reportable segment increased by $19.8 million or 27.3%, primarily due to an increase in the number of homes closed and an increase in community count for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Home sales revenues in our Central reportable segment increased by $42.2 million, or 27.8%, during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, primarily due to a 25.5% increase in the number of homes closed in this segment. Home sales revenues in our Southeast reportable segment increased by $17.9 million, or 24.4%, during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, primarily due to a 19.3% increase in the number of homes closed in this segment and partially due to the Wynn Homes acquisition. Home sales revenues in our Florida reportable segment increased by $5.3 million, or 13.8%, largely due to an increase in the number of homes closed and an increase in community count for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Our active selling communities at September 30, 2019 increased to 103 from 81 at September 30, 2018. All reportable segments added communities by expanding into new markets or deepening existing markets during the three months ended September 30, 2019.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the three months ended September 30, 2019 to $366.4 million, an increase of $83.4 million, or 29.5%, from $283.0 million for the three months ended September 30, 2018. This overall increase is primarily due to an increase in homes closed, higher lot costs recognized and to a lesser extent, increased capitalized interest costs for homes closed during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Gross margin for the three months ended September 30, 2019 was $116.7 million, an increase of $19.3 million, or 19.8%, from $97.3 million for the three months ended September 30, 2018. Gross margin as a percentage of home sales revenues was 24.1% for the three months ended September 30, 2019 and 25.6% for the three months ended September 30, 2018. This decrease in gross margin as a percentage of home sales revenues is primarily due to higher lot costs and higher capitalized interest costs recognized for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

Selling Expenses. Selling expenses for the three months ended September 30, 2019 were $33.5 million, an increase of $5.6 million, or 20.1%, from $27.9 million for the three months ended September 30, 2018. Sales commissions increased to $17.7 million for the three months ended September 30, 2019 from $14.7 million for the three months ended September 30, 2018, partially due to a 27.0% increase in home sales revenues during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Selling expenses as a percentage of home sales revenues were 6.9% and 7.3% for the three months ended September 30, 2019 and 2018, respectively. The decrease in selling expenses as a percentage of home sales revenues reflects operating leverage realized from the increase in home sales revenues during the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

General and Administrative. General and administrative expenses for the three months ended September 30, 2019 were $19.1 million, an increase of $1.3 million, or 7.6%, from $17.8 million for the three months ended September 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 September 30, 2019 as compared to the three months ended September 30, 2018. General and administrative expenses as a percentage of home sales revenues were 4.0% and 4.7% for the three months ended September 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 September 30, 2019 as compared to the three months ended September 30, 2018.

Loss on extinguishment of debt. There was no loss on extinguishment of debt for the three months ended September 30, 2019. Loss on extinguishment of debt for the three months ended September 30, 2018 was $3.1 million, due to debt issuance costs previously capitalized that were associated with the Credit Agreement (as defined herein).

Operating Income, Net Income before Taxes and Net Income. Operating income for the three months ended September 30, 2019 was $64.0 million, an increase of $12.4 million, or 24.0%, from $51.7 million for the three months ended September 30, 2018. Net income before income taxes for the three months ended September 30, 2019 was $64.7 million, an increase of $15.7 million, or 32.1%, from $49.0 million for the three months ended September 30, 2018. All reportable segments contributed to net income before income taxes during the three months ended September 30, 2019 as follows: Central - $33.1 million or 51.2%; Northwest - $15.1 million or 23.3%; Southeast - $8.7 million or 13.5%; West - $6.5 million or 10.1%; and Florida - $3.2 million or 4.9%. Net income for the three months ended September 30, 2019 was $49.3 million, an increase of $11.6 million, or 30.8%, from $37.7 million for the three months ended September 30, 2018. The increases in operating income, net income before income taxes and net income are primarily attributed to operating leverage realized from the increase in home sales revenues and higher average sales price, partially offset by lower gross margin percentage and higher capitalized interest costs recognized for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 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 nine months ended September 30, 2019 and 2018 were as follows (revenues in thousands):

	Nine Months Ended September 30, 2019				
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate
Central	$ 507,951	2,342	$ 216,888	33.1	7.9
Northwest	207,492	567	365,947	12.0	5.3
Southeast	221,686	1,010	219,491	23.1	4.9
Florida	121,183	589	205,744	12.2	5.4
West	174,193	667	261,159	12.4	6.0
Total	$ 1,232,505	5,175	$ 238,165	92.8	6.2

	Nine Months Ended September 30, 2018				
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate
Central	$ 441,138	2,072	$ 212,904	30.5	7.5
Northwest	214,891	589	364,840	10.0	6.5
Southeast	178,984	879	203,622	17.9	5.5
Florida	136,211	649	209,878	11.2	6.4
West	108,016	471	229,333	9.4	5.6
Total	$ 1,079,240	4,660	$ 231,597	79.0	6.6

Home sales revenues for the nine months ended September 30, 2019 were $1,232.5 million, an increase of $153.3 million, or 14.2%, from $1,079.2 million for the nine months ended September 30, 2018. The increase in home sales revenues is primarily due to an 11.1% increase in homes closed, and an increase in the average sales price per home during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. The average sales price per home closed during the nine months ended September 30, 2019 was $238,165, an increase of $6,568, or 2.8%, from the average sales price per home of $231,597 for the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 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 $66.2 million, or 61.3%, primarily due to an increase in community count associated with our geographic expansion into our California and Nevada markets. Home sales revenues in our Southeast reportable segment increased by $42.7 million, or 23.9%, primarily due to an increase in community count associated with the Wynn Homes acquisition. Home sales revenues in our Central reportable segment increased by $66.8 million, or 15.1%, during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018, primarily due to a 13.0% increase in the number of homes closed in this reportable segment. Home sales revenues in our Northwest and Florida reportable segments decreased by $7.4 million and $15.0 million, or 3.4% and 11.0%, respectively, largely due to close out or transition between certain of their respective active communities. Our active selling communities at September 30, 2019 increased to 103 from 81 at September 30, 2018. All reportable segments added communities by expanding into new markets or deepening existing markets during the nine months ended September 30, 2019.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the nine months ended September 30, 2019 to $938.2 million, an increase of $135.4 million, or 16.9%, from $802.9 million for the nine months ended September 30, 2018. This overall increase is primarily due to an increase in homes closed, higher lot costs recognized, product mix, increased capitalized interest costs, purchase accounting and higher construction costs, during the nine months ended

September 30, 2019 as compared to the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. Gross margin for the nine months ended September 30, 2019 was $294.3 million, an increase of $17.9 million, or 6.5%, from $276.4 million for the nine months ended September 30, 2018. Gross margin as a percentage of home sales revenues was 23.9% for the nine months ended September 30, 2019 and 25.6% for the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

Selling Expenses. Selling expenses for the nine months ended September 30, 2019 were $94.2 million, an increase of $14.0 million, or 17.5%, from $80.1 million for the nine months ended September 30, 2018. Sales commissions increased to $47.4 million for the nine months ended September 30, 2019 from $42.2 million for the nine months ended September 30, 2018, partially due to a 14.2% increase in home sales revenues during the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. Other increases include advertising and other personnel costs. Selling expenses as a percentage of home sales revenues were 7.6% and 7.4% for the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

General and Administrative. General and administrative expenses for the nine months ended September 30, 2019 were $56.6 million, an increase of $5.1 million, or 9.7%, from $51.5 million for the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. General and administrative expenses as a percentage of home sales revenues were 4.6% and 4.8% for the nine months ended September 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018.

Loss on extinguishment of debt. Loss on extinguishment of debt for the nine months ended September 30, 2019 was $0.2 million. Loss on extinguishment of debt for the nine months ended September 30, 2018 was $3.6 million, due to debt issuance costs previously capitalized that were associated with the Credit Agreement.

Other Income. Other income, net of other expenses was $3.6 million for the nine months ended September 30, 2019, an increase of $1.8 million from $1.8 million for the nine months ended September 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 nine months ended September 30, 2019 was $143.5 million, a decrease of $1.1 million, or 0.8%, from $144.7 million for the nine months ended September 30, 2018. Net income before income taxes for the nine months ended September 30, 2019 was $147.0 million, an increase of $4.1 million, or 2.8%, from $142.9 million for the nine months ended September 30, 2018. All reportable segments contributed to net income before income taxes during the nine months ended September 30, 2019 as follows: Central - $80.4 million or 54.7%; Northwest - $30.3 million or 20.6%; West - $16.9 million or 11.5%; Southeast - $14.9 million or 10.1%; and Florida - $8.9 million or 6.1%. Net income for the nine months ended September 30, 2019 was $113.7 million, an increase of $1.1 million, or 1.0%, from $112.6 million for the nine months ended September 30, 2018. The decrease in operating income is 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 nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018. The increases in net income before income taxes and net income are primarily attributed to an increase in other income, net of loss on debt extinguishment, during the nine months ended September 30, 2019 as compared to the nine months ended September 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Home sales revenues	$ 483,081	$ 380,369	$ 1,232,505	$ 1,079,240
Cost of sales	366,431	283,035	938,240	802,882
Gross margin	116,650	97,334	294,265	276,358
Capitalized interest charged to cost of sales	9,511	6,185	23,894	17,085
Purchase accounting adjustments [1]	671	850	2,257	847
Adjusted gross margin	$ 126,832	$ 104,369	$ 320,416	$ 294,290
Gross margin % [2]	24.1%	25.6%	23.9%	25.6%
Adjusted gross margin % [2]	26.3%	27.4%	26.0%	27.3%

(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 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 49,349	$ 37,723	$ 113,738	$ 112,633
Income taxes	15,383	11,268	33,223	30,256
Depreciation and amortization	161	177	487	543
Capitalized interest charged to cost of sales	9,511	6,185	23,894	17,085
EBITDA	74,404	55,353	171,342	160,517
Purchase accounting adjustments[1]	671	850	2,257	847
Loss on extinguishment of debt	—	3,058	169	3,599
Other income, net	(707)	(399)	(3,589)	(1,806)
Adjusted EBITDA	$ 74,368	$ 58,862	$ 170,179	$ 163,157
EBITDA margin %[2]	15.4%	14.6%	13.9%	14.9%
Adjusted EBITDA margin %[2]	15.4%	15.5%	13.8%	15.1%

(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.

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

Backlog Data	Nine Months Ended September 30, 2019 [(4)]	2018 [(5)]
Net orders [(1)]	6,186	5,056
Cancellation rate [(2)]	20.0%	23.1%
Ending backlog – homes [(3)]	1,635	1,212
Ending backlog – value [(3)]	$ 410,524	$ 292,594

(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) 16 units and values related to bulk sales agreements are not included in the table above.

(5) Two 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 103 as of September 30, 2019 from 88 as of December 31, 2018. However, our lot inventory decreased to 48,803 owned or controlled lots as of September 30, 2019 from 51,442 owned or controlled lots as of December 31, 2018. This decrease is primarily related to controlled lots that were purchased or terminated during the acquisition process within our Southeast and West reportable segments.

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

	Nine Months Ended September 30, 2019	As of September 30, 2019		
Reportable Segment	Home Closings	Owned [(1)]	Controlled	Total
Central	2,342	14,692	8,507	23,199
Northwest	567	2,425	1,263	3,688
Southeast	1,010	9,769	5,122	14,891
Florida	589	2,779	1,341	4,120
West	667	2,094	811	2,905
Total	5,175	31,759	17,044	48,803

(1) Of the 31,759 owned lots as of September 30, 2019, 20,156 were raw/under development lots and 11,603 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 September 30, 2019, we had a total of 1,518 completed homes, including information centers, and 3,111 homes in progress.

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 September 30, 2019, we had $37.0 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.

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 September 30, 2019, the borrowing base under the Credit Agreement was $920.0 million, of which borrowings, including the Convertible Notes (as defined below) and the Senior Notes (as defined below), of $760.3 million were outstanding, $13.2 million of letters of credit were outstanding and $145.1 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 2.50%. The Credit Agreement applicable margin for LIBOR loans ranges from 2.35% to 2.75% based on our leverage ratio. At September 30, 2019, LIBOR was 2.04%.

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 September 30, 2019, we were in compliance with all of the covenants contained in the Credit Agreement.

In July 2017, the U.K.'s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR as a benchmark by the end of 2021. At the present time, our revolving credit facility has a term that extends beyond 2021, and borrowings under the Credit Agreement bear interest at LIBOR plus an applicable margin. The Credit Agreement provides for a mechanism to amend the facility to reflect the establishment of an alternate rate of interest upon the occurrence of certain events related to the phase-out of any applicable interest rate. However, we have not yet pursued any technical amendment or other contractual alternative to address this matter. We are currently evaluating the potential impact of the eventual replacement of the LIBOR interest rate on 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 September 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. With respect to the conversion of the Convertible Notes (i) between the date of this Quarterly Report on Form 10-Q and the maturity date of the Convertible Notes and (ii) on such maturity date, we have elected to settle the conversion of the Convertible Notes using a combination of cash (to pay the principal amount) and shares of our common stock. The initial conversion rate of the Convertible Notes is 46.4792 shares of our common stock for each $1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately $21.52 per share of our common stock. The conversion rate is subject to adjustments upon the occurrence of certain specified events. We expect to use a combination of cash received from operations and from borrowings under the Credit Agreement to satisfy the Convertible Notes at maturity.

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.

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 $100.8 million as of September 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 September 30, 2019 will be drawn upon.

Cash Flows

Operating Activities

Net cash used in operating activities was $104.2 million for the nine months ended September 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 nine months ended September 30, 2019 was primarily driven by net income of $113.7 million, and included cash outlays for the $249.9 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 balances of $32.0 million.

Net cash used in operating activities was $102.0 million for the nine months ended September 30, 2018, primarily driven by net income of $112.6 million, and included cash outlays for the $194.4 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 balances of $20.3 million.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2019 and September 30, 2018 was $1.6 million and $74.2 million, respectively, primarily due to the acquisition of Wynn Homes in 2018.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2019 and September 30, 2018, was $96.2 million and $146.6 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 September 30, 2019, we had $37.7 million of cash deposits pertaining to land purchase contracts for 17,044 lots with an aggregate purchase price of $550.4 million. Approximately $28.5 million of the cash deposits as of September 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

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 September 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 nine months ended September 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 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;
- 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. With respect to the conversion of the Convertible Notes (i) between the date of this Quarterly Report on Form 10-Q and the maturity date of the Convertible Notes and (ii) on such maturity date, we have elected to settle the conversion of the Convertible Notes using combination of cash (to pay the principal amount) 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 nine months ended September 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 September 30, 2019, we had $390.3 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 September 30, 2019 was LIBOR plus 2.50%. At September 30, 2019, LIBOR was 2.04%. A hypothetical 100 basis point increase in the average interest rate on our variable rate indebtedness would increase our annual interest cost by approximately $3.9 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 September 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 September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1**	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).
3.2**	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).
31.1*	CEO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS†	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH†	Inline XBRL Taxonomy Extension Schema Document.
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104†	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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.

SIGNATURES

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

		LGI Homes, Inc.
Date:	November 5, 2019	/s/ Eric Lipar
		Eric Lipar
		Chief Executive Officer and Chairman of the Board
	November 5, 2019	/s/ Charles Merdian
		Charles Merdian
		Chief Financial Officer and Treasurer

EXHIBIT 31.1

CEO CERTIFICATION
PURSUANT TO SECTION 302 OF THE
SARBANES - OXLEY ACT OF 2002

I, Eric Lipar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LGI Homes, Inc. (the “Registrant”);

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

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

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

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

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

c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and

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

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

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

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

Date: November 5, 2019

By: /s/ Eric Lipar

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

EXHIBIT 31.2

CFO CERTIFICATION
PURSUANT TO SECTION 302 OF THE
SARBANES - OXLEY ACT OF 2002

I, Charles Merdian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LGI Homes, Inc. (the “Registrant”);

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

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

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

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

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

c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and

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

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

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

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

Date: November 5, 2019

By: /s/ Charles Merdian

Charles Merdian
Chief Financial Officer and Treasurer
LGI Homes, Inc.

EXHIBIT 32.1

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 September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “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.

November 5, 2019

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

EXHIBIT 32.2

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 September 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.

November 5, 2019

/s/ Charles Merdian

Charles Merdian
Chief Financial Officer and Treasurer
LGI Homes, Inc.