

LGI Homes, Inc.
Form 10-Q
May 15, 2014

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014.

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, 77380
Texas (Address of principal executive offices) (Zip code)
(281) 362-8998
(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

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

(Do not check if a smaller reporting company)

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

Yes " No ý

As of May 12, 2014, there were 20,763,449 shares of the registrant's common stock, par value \$.01 per share, issued and outstanding.

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$25,658	\$54,069
Accounts receivable	5,541	5,402
Real estate inventory	177,538	141,983
Pre-acquisition costs and deposits	14,056	3,703
Deferred taxes, net	386	288
Property and equipment, net	1,049	845
Other assets	2,674	1,992
Goodwill and intangible assets, net	12,666	12,728
Total assets	\$239,568	\$221,010
LIABILITIES AND EQUITY		
Accounts payable	\$13,369	\$14,001
Accrued expenses and other liabilities	7,644	7,100
Notes payable	48,820	35,535
Total liabilities	69,833	56,636
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 20,763,449 issued and outstanding	208	208
Additional paid-in capital	157,823	157,056
Retained earnings	11,704	7,110
Total equity	169,735	164,374
Total liabilities and equity	\$239,568	\$221,010

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Home sales	\$75,919	\$21,479
Management and warranty fees	—	481
Total revenues	75,919	21,960
Cost of sales	56,389	15,817
Selling expenses	7,362	2,248
General and administrative	5,105	1,759
Income from unconsolidated LGI/GTIS Joint Ventures	—	(292)
Operating income	7,063	2,428
Interest expense, net	—	(4)
Other income, net	4	73
Net income before income taxes	7,067	2,497
Income tax provision	(2,473	) (47)
Net income	4,594	2,450
Income attributable to non-controlling interests	—	—
Net income attributable to owners	\$4,594	\$2,450
Basic and diluted earnings per share data:		
Basic	\$0.22	
Diluted	\$0.22	
Weighted average number of shares of common stock:		
Basic	20,763,449	
Diluted	20,862,701	

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Equity
	Shares	Amount			
BALANCE—December 31, 2013	20,763,449	\$208	\$157,056	\$7,110	\$164,374
Net income	—	—	—	4,594	4,594
Issuance of restricted stock units in settlement of accrued bonuses	—	—	642	—	642
Compensation expense for equity awards	—	—	125	—	125
BALANCE—March 31, 2014	20,763,449	\$208	\$157,823	\$11,704	\$169,735

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$4,594	\$2,450
Adjustments to reconcile net income to net cash used in operating activities:		
Income from unconsolidated LGI/GTIS Joint Ventures	—	(292)
Distributions from unconsolidated LGI/GTIS Joint Ventures	—	160
Depreciation and amortization	144	64
Loss on disposal of assets	10	—
Compensation expense for equity awards	125	—
Deferred income taxes	(98) —
Changes in assets and liabilities:		
Accounts receivable	(139	) (13)
Real estate inventory	(35,556	) (6,530)
Pre-acquisition costs and deposits	(10,353	) (1,343)
Other assets	(681	) (80)
Accounts payable	(631	) 989
Accrued expenses and other liabilities	1,187	(397)
Net cash used in operating activities	(41,398	) (4,992)
Cash flows from investing activities:		
Capital investments in unconsolidated LGI/GTIS Joint Ventures	—	(658)
Capital distributions from unconsolidated LGI/GTIS Joint Ventures	—	156
Proceeds from disposal of assets	—	29
Purchases of property and equipment	(298	) (62)
Net cash used in investing activities	(298	) (535)
Cash flows from financing activities:		
Proceeds from notes payable	15,000	27,119
Payments on notes payable	(1,715	) (25,102)
Contributions from owners	—	35
Distributions to owners	—	(1,000)
Contributions from non-controlling interests	—	5,100
Net cash provided by financing activities	13,285	6,152
Net increase (decrease) in cash and cash equivalents	(28,411	) 625
Cash and cash equivalents, beginning of period	54,069	7,069
Cash and cash equivalents, end of period	\$25,658	\$7,694

See accompanying notes to the consolidated financial statements.

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LGI HOMES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BUSINESS

Organization and Description of the Business

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

The Company's principal business is the development of communities and the design and construction of homes. At March 31, 2014, the Company had operations in Texas, Arizona, Florida, Georgia and New Mexico.

Initial Public Offering and Reorganization Transactions

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

Immediate family members, a father and son (the "Family Principals"), individually or jointly owned more than 50% of the voting ownership interest of each entity comprising the Predecessor. The Predecessor entities and the Company were under common management, operated in the same business, and were controlled by the Family Principals immediately before and after the Reorganization Transactions. Following the Reorganization Transactions, the entities that comprised the Predecessor are wholly-owned subsidiaries of the Company. The Reorganization Transactions were accounted for at the transaction date as a consolidation of entities under common control. In addition, since the Predecessor controlled LGI Fund III Holdings, LLC before and after the IPO, the Company accounted for the acquisition of the non-controlling interests as an equity transaction. The accompanying unaudited statement of operations and cash flows for the three months ended March 31, 2013 present the historical combined financial statements of the Predecessor.

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

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

In connection with the purchase accounting, the Company recorded a gain of \$6.4 million on the re-measurement of the Predecessor's equity interest in the LGI/GTIS Joint Ventures and \$12.7 million of goodwill and other intangibles. In addition, there was a \$7.4 million step-up adjustment to record the acquisition date real estate inventory at fair value. Approximately \$1.1 million of the \$7.4 million fair value step-up adjustment is included in cost of sales for the three months ended March 31, 2014 related to real estate inventory at November 13, 2013 that was sold during the quarter. As of March 31, 2014, a total of \$4.6 million of the step-up adjustment has been amortized to cost of sales.

Supplemental Pro-Forma Information

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

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Pro Forma Financial Information	Three Months Ended March 31, 2013 (in thousands)
Home sales revenues	\$35,736
Cost of sales	\$26,222
Net income before income taxes	\$3,535

The pro forma results have been adjusted to reflect the elimination of the Predecessor's equity in earnings of the LGI/GTIS Joint Ventures. The pro forma results also reflect \$0.1 million each quarter for the amortization expense related to the marketing intangible asset. The pro forma financial information excludes the impact of the gain on re-measurement and the incremental impact of the fair value step-up adjustment of real estate inventory as these are considered to be non-recurring items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of the Company's results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited financial statements as of and for the three months ended March 31, 2014 include the accounts of LGI Homes, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited financial statements for the three months ended March 31, 2013 include the Predecessor's historical combined accounts and results of operations. All intercompany and intracompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements. The significant accounting estimates include real estate inventory and cost of sales, impairment of real estate inventory and property and equipment, warranty reserves and loss contingencies.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents are defined as cash on hand, demand deposits with financial institutions, and short-term liquid investments with an initial maturity date of less than three months. The Company's cash in demand deposit accounts may exceed federally insured limits.

Management monitors the cash balances in the Company's operating accounts and adjusts the cash balances as appropriate; however, these cash balances could be negatively impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. To date, the Company has experienced no loss or diminished access to cash in their operating accounts.

Accounts Receivable

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

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Real Estate Inventory

Inventory consists of land, land under development, finished lots, sales offices, homes in progress, and completed homes. Inventory is stated at cost unless the carrying amount is determined not to be recoverable, in which case the affected inventory is written down to fair value.

Land, development and other project costs, including interest and property taxes incurred during development and home construction, are capitalized to real estate inventory. Land development and other common costs that benefit the entire community, including field construction supervision and related direct overhead, are allocated to individual lots or homes, as appropriate. The costs of lots are transferred to homes in progress when home construction begins. Home construction costs and related carrying charges (principally capitalized interest and property taxes) are allocated to the cost of individual homes using the specific identification method. Costs that are not specifically identifiable to a home are allocated on a pro rata basis using the total number of lots in the community. Management believes the allocation of land development costs on a pro rata basis approximates an allocation using a relative sales value method.

Inventory costs for completed homes are expensed to cost of sales as homes are sold. Changes to estimated total development costs subsequent to initial home closings in a community are generally allocated to the remaining unsold lots and homes in the community on a pro rata basis.

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

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

Capitalized Interest

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

Pre-Acquisition Costs and Deposits

Amounts paid for land options, deposits on land purchase contracts, and other pre-acquisition costs are capitalized and classified as deposits to purchase. Upon execution of the purchase, these deposits are applied to the acquisition price of the land and recorded as a cost component of the land in real estate inventory. To the extent that any deposits are

nonrefundable and the associated land acquisition process is terminated or no longer determined probable, the related deposits are charged to general and administrative expense. Management reviews the likelihood of the acquisition of contracted lots in conjunction with its periodic real estate impairment analysis.

Deferred Loan Costs

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

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Property and Equipment

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

Impairments of long-lived assets are determined periodically when indicators of impairment are present. If such indicators are present, the determination of the amount of impairment is based on judgments as to the future undiscounted operating cash flows to be generated from these assets throughout their remaining estimated useful lives. If these undiscounted cash flows are less than the carrying amount of the related asset, impairment is recognized for the excess of the carrying value over its fair value. There were no indicators or impairments noted for property, equipment and leasehold improvements for the three months ended March 31, 2014 and 2013.

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

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

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

The Predecessor had investments in four joint ventures where the Predecessor and the other joint venture members were deemed to have joint control and the Predecessor was not the primary beneficiary since all major decisions required both parties' consent. Accordingly, the Predecessor's interests in these joint ventures have been accounted for using the equity method and its share of the joint ventures' net earnings was included in income from unconsolidated joint ventures and investments in unconsolidated joint ventures. Distributions received were credited against the related investment in the joint venture.

During the quarter ended March 31, 2013, the Predecessor formed one VIE, LGI Fund III Holdings, LLC, where it had been determined that the Predecessor was the primary beneficiary. In addition to the Predecessor serving as the managing member of this entity, a Family Principal of the Predecessor also held the general partner controlling interest in the non-managing member of the VIE. As a result, the Predecessor combined with the Family Principal's related party interest had the power to direct all significant activities of the VIE, and had exposure to the risks and rewards of the VIE, based on the division of income and loss pursuant to the joint venture agreement and the Predecessor's ownership in the joint venture. This VIE is consolidated in the accompanying unaudited financial statements for the three months ended March 31, 2013.

Management evaluated the Company's investments in unconsolidated entities for indicators of impairment during each reporting period. No impairment charges were recorded related to investments in unconsolidated entities as of March 31, 2013.

Insurance Costs and Reserves

The Company has deductible limits under workers' compensation, automobile and general liability insurance policies, and records expense and liabilities for the estimated costs of potential claims for construction defects. The excess liability limits at March 31, 2014 are \$3 million per occurrence and in the aggregate annually and apply in excess of automobile liability, employer's liability under worker's compensation, and general liability policies. The Company generally requires subcontractors and design professionals to indemnify the Company for liabilities arising from their work, subject to certain limitations.

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Goodwill and Intangible Assets

The excess of the purchase price of a business acquisition over the net fair value of assets acquired and liabilities assumed is capitalized as goodwill in accordance with ASC Topic 805. ASC Topic 805 requires that goodwill and intangible assets that do not have finite lives are not amortized, but are assessed for impairment at least annually or more frequently if certain impairment indicators are present. The Company recorded \$12.0 million of goodwill related to the GTIS Acquisitions. No goodwill impairment indicators were noted for the three months ended March 31, 2014.

The cost of an intangible asset acquired valued at \$0.7 million related to the GTIS Acquisitions is being amortized over its estimated useful life of 3 years. When certain events or changes in operating conditions occur, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. For intangible assets that are amortized, a review is performed of their estimated useful lives to evaluate whether events and circumstances warrant a revision to the remaining useful life. No impairment indicators were present during the three months ended March 31, 2014 and 2013 associated with intangible assets.

Warranty Reserves

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

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

Customer Deposits

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

Home Sales

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

Cost of Sales

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

Selling and Commission Costs

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

Advertising Costs

Advertising and direct mail costs are expensed as incurred. Advertising and direct mail costs were \$1.7 million and \$0.5 million for the three months ended March 31, 2014 and 2013, respectively.

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Income Taxes

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

The Company's effective tax rate of 35% is the same as the statutory rate; however, it includes an increase in the rate for state income taxes, net of the federal benefit, offset by a decrease in the rate for the federal Domestic Production Activity Deduction. The current year rate of 35% is greater than the prior year rate of 2% because prior to the Reorganization Transactions, the Predecessor consisted of limited liability companies and limited partnerships, all of which were treated as partnerships for income tax purposes and as such, the federal income taxes were the obligation of the individual members or partners. Federal and state income taxes of approximately \$1.0 million and \$0 were paid during the three months ended March 31, 2014 and 2013, respectively.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding. Diluted earnings per share is based on the weighted average number of shares of common stock and dilutive securities outstanding. Non-vested grants of restricted stock awards were the only potentially dilutive share equivalents the Company had outstanding at March 31, 2014.

Stock-Based Compensation

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

Fair Value Measurement of Financial Instruments

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

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

hierarchy are summarized as follows:

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

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

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

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

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

Recently Issued Accounting Pronouncement

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"), which changes the threshold for disclosing discontinued operations and the related disclosure requirements. Pursuant to ASU 2014-08, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as a discontinued operation. If the disposal does qualify as a discontinued operation under ASU 2014-08, the entity will be required to provide expanded disclosures. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. ASU 2014-08 is effective for the Company on January 1, 2015, with early adoption permitted but only for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. Management does not anticipate the adoption of ASU 2014-08 will have a material effect on the Company's consolidated financial statements or disclosures.

4. REAL ESTATE INVENTORY

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

	March 31, 2014	December 31, 2013
Land, land under development, and finished lots	\$ 101,309	\$ 82,006
Sales offices	4,266	3,784
Homes in progress	41,487	27,723
Completed homes	30,476	28,470
Total real estate inventory	\$ 177,538	\$ 141,983

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

5. PROPERTY AND EQUIPMENT

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

	Asset Life (years)	March 31, 2014	December 31, 2013
Computer equipment	3-5	\$ 550	\$ 499
Machinery and equipment	4-5	169	169
Furniture and fixtures	5-7	963	745
Leasehold improvements	various	121	108
Total property and equipment		1,803	1,521
Less: Accumulated depreciation		(754	) (676
Property and equipment, net		\$ 1,049	\$ 845

Depreciation expense incurred during the three months ended March 31, 2014 and 2013 was \$0.1 million and \$0.1 million, respectively. Equipment was sold to the LGI/GTIS Joint Ventures at net book value of approximately \$0.03 million during the three months ended March 31, 2013.

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

Unconsolidated Joint Ventures

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

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

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

As of March 31, 2013, three of the four joint ventures had yet to achieve the First-Tier Return; the fourth joint venture was paying a 20% priority allocation to the Predecessor's member. During the three months ended March 31, 2013, the Predecessor recognized \$0.1 million in priority distributions from the LGI/GTIS Joint Ventures. The LGI/GTIS Joint Ventures were acquired on November 13, 2013, becoming wholly-owned subsidiaries of the Company.

Summarized condensed combined financial information of the LGI/GTIS Joint Ventures accounted for using the equity method is presented below for the three months ended March 31, 2013 (in thousands):

	Three Months Ended March 31, 2013
Home sales	\$14,257
Cost of sales	\$10,449
Net earnings of unconsolidated entities	\$1,346
Predecessor's share in net earnings of unconsolidated entities	\$292

Consolidated Joint Venture

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

Reorganization Transactions (See Note 1). The joint venture had no operating activity during the three months ended March 31, 2013.

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7. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	March 31, 2014	December 31, 2013
Accrued compensation and benefits	\$953	\$1,637
Taxes payable	3,216	1,554
Accrued bonuses	544	1,055
Warranty reserve	700	630
Customer deposits	559	330
Other	1,672	1,894
Total accrued expenses and other liabilities	\$7,644	\$7,100

Estimated Warranty Reserve—The Company typically provides homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems, and a one-year limited warranty on other construction components. The Predecessor provided similar warranty services for homes sold by the LGI/GTIS Joint Ventures prior to the GTIS Acquisitions (see Note 11).

Changes to the Company's warranty accrual are as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
Warranty reserves, beginning of period	\$630	\$450
Warranty provision	172	79
Warranty expenditures	(102	) (54
Warranty reserves, end of period	\$700	\$475

8. NOTES PAYABLE

Second Amended and Restated Loan Agreement

On January 30, 2014, certain subsidiaries (the "Borrowers") of the Company entered into a Second Amended and Restated Loan Agreement with Texas Capital Bank, N.A. (the "Amended Credit Agreement"). The Amended Credit Agreement provides for a \$50.0 million senior secured revolving credit facility, guaranteed by the Company. The revolving credit facility matures on June 30, 2016. Borrowings under the revolving credit facility are limited to the borrowing base, which is determined based on the loan value of the pool of collateral in which the lender has a security interest. The Company may add vacant lots, houses, land and acquisition and development projects to its pool of collateral through June 30, 2015. Pre-sold houses may remain in the borrowing base for up to nine months while model homes, speculative homes and vacant lots may remain in the borrowing base for up to one year. Interest on amounts borrowed is paid monthly at a rate based on LIBOR or the interest rate floor, whichever is greater.

The Amended Credit Agreement includes the following financial covenants: (i) the Borrowers must maintain a net worth of not less than \$35.0 million and the Company, as guarantor, must maintain a tangible net worth of not less than \$125.0 million; (ii) the Borrowers must maintain a leverage ratio of not more than 1.25 to 1.0; and the Company, as guarantor, must maintain a leverage ratio of not more than 1.0 to 1.0; (iii) the Borrowers must maintain liquidity in excess of \$10.0 million and unrestricted cash of not less than \$5.0 million; (iv) the Borrowers must not suffer net losses in more than two consecutive calendar quarters; and (v) other covenants that, among other restrictions, limit the amount of additional debt and related party transactions.

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	March 31, 2014 (in thousands)	December 31, 2013
LGI Homes Group, LLC—Notes payable to Texas Capital Bank, N.A. under amended credit facilities (\$50 and \$35 million line at March 31, 2014 and December 31, 2013, respectively) expiring June 30, 2015; interest at LIBOR plus 3.0%, with a 4.0% floor; collateralized by borrower's land, development and home construction costs (carrying value of \$106.1 at December 31, 2013); guaranteed by the Company at March 31, 2014 and a family Principal, the managing member, and non-managing members as joint and several guarantors at December 31, 2013	\$48,820	\$34,078
LGI Homes—Sunrise Meadow, LLC—Notes payable to Texas Capital Bank, N.A. under an amended credit facility (\$2 million at December 31, 2013) expiring December 31, 2013; interest at LIBOR plus 3.9%, with a 4.0% floor, collateralized by borrower's land, development and home construction costs (carrying value of \$5.1 at December 31, 2013); guaranteed by a Family Principal	—	1,457
Total notes payable	\$48,820	\$35,535

At March 31, 2014, the Company's outstanding debt is secured by the pool of collateral which may remain in the borrowing base for up to one year; consequently, the outstanding balance matures in 2015. As of March 31, 2014, the borrowing base amounts under the Amended Credit Agreement totaled \$50.0 million, of which \$48.8 million was outstanding and \$1.2 million was available to borrow.

As of March 31, 2014 and December 31, 2013, LIBOR was 0.23% and 0.24%, respectively. Based on the terms of the variable rate notes payable, the interest rates for the three months ended March 31, 2014 and the year ended December 31, 2013, were based on the interest rate floor terms.

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Capitalized Interest

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

	Three Months Ended March 31,	
	2014	2013
Interest incurred	\$599	\$284
Less: Amounts capitalized	(599	) (280
Interest expense	\$—	\$4
Cash paid for interest	\$665	\$229

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2014. Earnings per share is not computed for the three months ended March 31, 2013 because the Predecessor consisted of limited liability companies and limited partnerships.

	Three Months Ended March 31, 2014
Net income (in thousands)	\$4,594
Basic weighted average shares outstanding	20,763,449
Add: Dilutive effect of restricted stock units	99,252
Diluted weighted average shares outstanding	20,862,701
Basic earnings per share	\$0.22
Diluted earnings per share	\$0.22

10. STOCK-BASED COMPENSATION

Non-performance Based Restricted Stock Units

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

In addition, during March 2014, the Company issued 24,089 RSUs to certain employees and executives which vest over periods ranging from one to three years. The RSUs will be settled in shares of the Company's common stock. The fair value of the RSUs was determined to be equal to the number of shares of the Company's common stock to be issued pursuant to the RSUs, multiplied by the closing price of the Company's common stock on the date the RSUs were awarded. The weighted average fair value on the grant dates was \$17.20 for the quarter ended March 31, 2014. The Company recognized \$0.1 million of total stock-based compensation expense related to outstanding RSUs grants for the three months ended March 31, 2014. At March 31, 2014, the Company had unrecognized compensation cost of \$0.8 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 1.4 years.

Performance Based Restricted Stock Units

In February 2014, the Compensation Committee approved a target of 62,906 performance-based restricted stock units (“Performance-Based RSUs”) for certain of its senior management. The Performance-Based RSUs may result in shares of the Company's common stock being issued based on the attainment of certain performance metrics of the Company over the three

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year period, January 1, 2014 to December 31, 2016. The number of shares of the Company's common stock that may be issued to the recipients for the Performance-Based RSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The Performance-Based RSUs vest upon the determination date for the actual results at the end of the three-year period and require the recipients continue to be employed by the Company through the determination date as specified in the award document. The Performance-Based RSUs will be settled in shares of the Company's common stock.

The fair value of the Performance-Based RSU's was determined to be equal to the number of shares of the Company's common stock to be issued based on the target amount multiplied by the closing price of the Company's common stock of \$17.09 on the date the Performance-Based RSU awards were approved by the Compensation Committee. As of March 31, 2014, the target amount represents management's best estimate of the number of shares of the Company's common stock expected to be issued at the end of the three-year performance cycle. The Company recognized \$0.1 million of total stock-based compensation expense related to outstanding Performance-Based RSUs grants for the three months ended March 31, 2014. At March 31, 2014, the Company had unrecognized compensation cost of \$1.0 million related to unvested Performance-Based RSUs, which is expected to be recognized over a weighted average period of 1.9 years.

11. RELATED PARTY TRANSACTIONS

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

Consulting Fees

Concurrent with the IPO, the Company entered into a three-year consulting agreement with a Family Principal for \$100,000 per year payable on a monthly basis. Consulting fees were approximately \$0.03 million for the three months ended March 31, 2014.

Management and Warranty Fees

The Predecessor had a Management Services Agreement with each of the LGI/GTIS Joint Ventures. The Predecessor provided administration, supervision, marketing, and various other services for the joint ventures. The Predecessor charged the joint ventures a management fee of approximately 3% of home sale revenues and 3% of construction costs for the development of land, as applicable. The management and construction fees were in addition to direct costs charged to the joint ventures. Management fees earned under the agreements were \$0.5 million for the three months ended March 31, 2013.

The Predecessor collected a warranty fee of \$250 from the LGI/GTIS Joint Ventures upon the closing of the sale of each home. The Predecessor provided a Home Builder's Limited Warranty to the buyer of each home. The Predecessor was responsible for the performance and discharge of any warranty claims asserted against the joint ventures or the GTIS member. Warranty fees earned were \$0.03 million for the three months ended March 31, 2013.

12. COMMITMENTS AND CONTINGENCIES

Contingencies

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

The Company has provided unsecured environmental indemnities to certain lenders. In each case, the Company has performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company to reimburse the guaranteed parties for damages related to environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, the Company may have recourse against other previous owners.

Management is not aware of any environmental claims or occurrences and has recorded no reserves for environmental matters at March 31, 2014 and December 31, 2013.

Land Deposits

The Company has land purchase option contracts, generally through cash deposits, for the right to purchase land or lots at a future point in time with predetermined terms. The Company does not have title to the property and obligations with respect to the option contracts are generally limited to the forfeiture of any related nonrefundable cash deposits. The following is a

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summary of the Company's land purchase deposits and option contracts included in pre-acquisition costs and deposits (in thousands, except for lot count):

	March 31, 2014	December 31, 2013
Land deposits and option payments	\$ 13,380	\$ 2,977
Commitments under the land purchase option and deposit agreements if the purchases are consummated	\$ 137,934	\$ 111,115
Lots under land options and land purchase contracts	8,776	8,214

As of March 31, 2014, approximately \$8.7 million of the deposits are related to purchase contracts to deliver finished lots and these deposits are refundable under certain circumstances and secured by mortgages on the related property.

Bonding

The Company has outstanding performance and surety bonds of \$0.6 million and \$0.4 million at March 31, 2014 and December 31, 2013, respectively, related to the Company's obligations for site improvements at various projects. Certain surety bonds are guaranteed by one of the Family Principals. Management does not believe that draws upon these bonds, if any, will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

13. SEGMENT INFORMATION

The Company operates one principal homebuilding business which is organized and reports by division. The Company has four operating segments as of March 31, 2014; the Texas division, the Southwest division, the Southeast division and the Florida division. Initial operations were conducted in the Texas division, expanding into the Southwest division during 2011 and the Florida and Southeast divisions during 2012. During July and October 2013, the Florida and Southeast divisions had their first home closings, respectively. The Texas division is the largest division and it comprised greater than 70% and 85% of total home sales revenues for the three months ended March 31, 2014, and 2013, respectively.

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

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

14. SUBSEQUENT EVENT**Syndicated Credit Agreement**

On April 28, 2014, the Company entered into a credit agreement with Texas Capital Bank, N.A. and a syndication of lenders (the "Syndicated Credit Agreement") to provide a \$135.0 million senior secured revolving credit facility, which can be increased by request of the Company, to \$200.0 million, subject to the terms and provisions of the Syndicated Credit Agreement. The new credit facility matures on April 28, 2017. Borrowings under the new credit facility are limited to the borrowing base, which is determined based on the loan value of the pool of collateral in which the lenders have a security interest. The Company may add houses, vacant lots, land and acquisition and development projects to its pool of collateral through April 28, 2015. The loan value of speculative houses, pre-sold houses, model houses, vacant lots, land and acquisition and development projects is adjusted based on formulas with respect to each of those categories of collateral; the loan value of the collateral decreases based on the amount of time such collateral is in the borrowing base. Subsequent to this date and through April 28, 2016, advances will continue to be made for

assets previously included in the pool of collateral as they move into higher funding categories. Speculative homes may remain in the borrowing base for up to 18 months. Vacant lots, land and acquisition and development projects may remain in the borrowing base for up to three years. Interest on amounts borrowed is paid monthly at a rate based on LIBOR or the 3.75% interest rate floor, whichever is greater.

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

Riverchase Acquisition

On May 7, 2014, the Company entered into a Purchase and Sale Agreement (the "Purchase Agreement") to purchase, subject to the satisfaction or waiver of certain conditions, approximately 1,980 acres of land in Lancaster County, South Carolina (the "Property") from a related party for \$13.65 million. The Purchase Agreement provides for the transaction to close in July 2014. The seller is owned and managed by a Family Principal. Upon closing, certain contracts associated with the development of a portion of the Property will be assigned by the seller to the Company in exchange for reimbursement to the seller of the costs incurred under these contracts since June 2013, which is estimated to be between \$2.0 and \$2.75 million.

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

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

Business Overview

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

In 2003, we commenced homebuilding operations targeting the entry-level market. Since commencing operations in 2003, we have constructed and closed over 6,600 homes and during the three months ended March 31, 2014, we had 485 home closings, compared to 253 home closings, including in the LGI/GTIS Joint Ventures, during the three months ended March 31, 2013.

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

Prior to the completion of the IPO, our Predecessor owned a 15% equity interest in and managed the day-to-day operations of the LGI/GTIS Joint Ventures. Concurrent with the IPO, we acquired all of the equity interests in the LGI/GTIS Joint Ventures that we did not own immediately prior to the IPO. In our historical financial statements, our Predecessor's interest in the LGI/GTIS Joint Ventures have been accounted for using the equity method and our Predecessor's share of the LGI/GTIS Joint Ventures' net earnings are included in income from unconsolidated joint ventures. Effective November 13, 2013, we own all of the equity interests in the LGI/GTIS Joint Ventures and we began to account for them on a consolidated basis. For discussion of pro forma financial information for the three months ended March 31, 2013, please see "—Supplemental Management's Discussion and Analysis—Pro Forma Financial Information."

Recent Developments

On April 28, 2014, the Company entered into a credit agreement with Texas Capital Bank, N.A. and a syndication of lenders (the "Syndicated Credit Agreement") to provide a \$135.0 million senior secured revolving credit facility, which

can be increased by request of the Company, to \$200.0 million, subject to the terms and provisions of the Syndicated Credit Agreement. The new credit facility matures on April 28, 2017. Borrowings under the new credit facility are limited to the borrowing base, which is determined based on the loan value of the pool of collateral in which the lenders have a security interest. Please see "—Liquidity and Capital Resources—Secured Revolving Credit Facility" for a description of the Syndicated Credit Agreement.

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In connection with the entry into the Syndicated Credit Agreement, the Company and certain of its subsidiaries terminated that certain Second Amended and Restated Loan Agreement with Texas Capital Bank, National Association, which was entered into in January 2014.

Key Results

Key financial results as of and for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013, were as follows:

Homes closed increased 221.2% to 485 homes from 151 homes with an increase in the average sales price of our homes of 10.0% to \$156,535. On a pro forma basis, homes closed increased 91.7% to 485 homes from 253 homes with an increase in the average sales price of our homes of 10.8%.

Home sales revenues increased 253.5% to \$75.9 million from \$21.5 million. On a pro forma basis, home sales revenues increased 112.4% from \$35.7 million.

Gross margin as a percentage of home sales revenues decreased to 25.7% from 26.4%. On a pro forma basis, gross margin as a percentage of home sales revenues decreased to 25.7% from 26.6%.

Adjusted gross margin as a percentage of home sales revenues increased to 27.5% from 26.9%. On a pro forma basis, adjusted gross margin as a percentage of home sales revenues increased to 27.5% from 26.9%.

Net income before income taxes increased 183.0% to \$7.1 million from \$2.5 million. On a pro forma basis, net income before income taxes increased 99.9% to \$7.1 million from \$3.5 million.

Adjusted EBITDA margin as a percentage of home sales revenues decreased to 11.3% from 12.1%. On a pro forma basis, adjusted EBITDA margin as a percentage of home sales revenues increased to 11.3% from 10.3%.

Active communities as of March 31, 2014 increased to 28 from 17, on a pro forma basis. Our expansion with our Florida and Southeast divisions is reflected in this increase.

Total owned and controlled lots increased 14.3% to 17,028 lots at March 31, 2014 from 14,895 lots at December 31, 2013.

Outlook

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

We also believe that we will grow our business by increasing the number of price points in our existing markets. We are seeing opportunities to develop properties with multiple price points and product lines in the same communities.

We intend to expand into new markets where we identify opportunities to build homes and develop communities that meet our profit and return objectives. We recently entered the Denver, Colorado market and we have signed an acquisition agreement related to property in the Charlotte, North Carolina market. In addition, we will continue to analyze other potential markets as we continue our efforts to expand into new geographical markets.

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Results of Operations

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

	Three Months Ended March 31,	
	2014	2013
	(dollars in thousands, except per share data and average home sales price)	
Statement of Income Data:		
Revenues:		
Home sales	\$75,919	\$21,479
Management and warranty fees	—	481
Total revenues	\$75,919	\$21,960
Expenses:		
Cost of sales	56,389	15,817
Selling expenses	7,362	2,248
General and administrative	5,105	1,759
Income from unconsolidated joint ventures	—	(292)
Operating income	\$7,063	\$2,428
Interest expense, net	—	(4)
Other income, net	4	73
Net income before income taxes	\$7,067	\$2,497
Income tax provision	(2,473)	(47)
Net income	\$4,594	\$2,450
(Income) loss attributable to non-controlling interests	—	—
Net income attributable to owners	\$4,594	\$2,450
Basic earnings per share	\$0.22	
Diluted earnings per share	\$0.22	
Other Financial and Operating Data:		
Active communities at end of period	28	10
Home closings	485	151
Average sales price of homes closed (in whole dollars)	\$156,535	\$142,243
Gross margin (1)	\$19,530	\$5,662
Gross margin % (2)	25.7	% 26.4
Adjusted gross margin (3)	\$20,898	\$5,773
Adjusted gross margin % (2)(3)	27.5	% 26.9
Adjusted EBITDA (4)	\$8,575	\$2,603
Adjusted EBITDA margin % (2)(4)	11.3	% 12.1

(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 in connection with the GTIS Acquisitions included in the cost of sales. Our management believes this information is useful because it isolates the impact that capitalized interest and purchase accounting adjustments have on gross margin. However, because adjusted gross margin information excludes capitalized interest and purchase accounting adjustment, which have real economic

effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance. Please see “—Non-GAAP Measures—Adjusted Gross Margin” for a reconciliation of adjusted gross margin to gross margin, which is the GAAP financial measure that our management believes to be most directly comparable.

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

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

Homes Sales. Our home sales revenues and closings by division for the three months ended March 31, 2014 and 2013 were as follows (dollars in thousands):

Three Months Ended March 31,