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

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

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

Date of Report (Date of earliest event reported): January 7, 2021

LANDSEA HOMES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**001-38545**	**82-2196021**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

660 Newport Center Drive, Suite 300 **Newport Beach, California**	**92660**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (949) 345-8080

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 $0.0001 per share	LSEA	The Nasdaq Capital Market
Warrants exercisable for Common Stock	LSEAW	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

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. ☐

Explanatory Note

This Amendment No. 1 on Form 8-K/A ("Amendment No. 1") amends Item 2.01 and Item 9.01 of the Current Report on Form 8-K filed by Landsea Homes Corporation (formerly known as LF Capital Acquisition Corp.) (the "Company") on January 13, 2021 and the second Form 8-K filed by the Company on January 13, 2021 due to the large number of events to be reported under the specified items of Form 8-K (together, the "Original Report"), in which the Company reported, among other events, the completion of the Business Combination (as defined in the Original Report).

This Amendment No. 1 (i) amends certain disclosures under Item 2.01 of the Original Report to provide an update of developments at the Company or its subsidiaries, subsequent to the filing date of the Original Report; (ii) amends the financial statements provided under Item 9.01(a) in the Original Report to include the audited financial statements of Landsea Homes US Corporation (formerly known as Landsea Homes Incorporated) ("Landsea Homes") as of and for the year ended December 31, 2020, the Management's Discussion and Analysis of Financial Condition and Results of Operations of Landsea Homes for the year ended December 31, 2020. and the unaudited financial statements of Boston Point LLC as of and for the year ended December 31, 2020; (iii) amends the pro forma financial information provided under Item 9.01(b) in the Original Report to include the unaudited pro forma condensed combined statement of operations of the Company for the year ended December 31, 2020 and the unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2020 and (iv) adds the exhibits included below under Item 9.01(d).

This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries, including Landsea Homes, subsequent to the filing date of the Original Report. The information previously reported in or filed with the Original Report is hereby incorporated by reference to this Form 8-K/A.

Item 2.01 Completion of Acquisition or Disposition of Assets.

Business and Properties

The information set forth in the section of the Company's Annual Report on Form 10-K filed on March 12, 2021 ("Form 10-K") entitled "Business" beginning on page 1 and entitled "Properties" beginning on page 48 is incorporated herein by reference.

Risk Factors

The information set forth in the section of the Form 10-K entitled "Risk Factors" beginning on page 17 is incorporated herein by reference.

Selected Historical Financial and Other Information

The information set forth in the section of the Post-Effective Amendment No. 1 to the Registration Statement on Form S-1 filed on March 12, 2021 ("Form S-1") entitled "Summary Historical Consolidated Financial Information of Landsea Homes" beginning on page 14 is incorporated herein by reference.

Unaudited Pro Forma Condensed Combined Financial Information

The information set forth in Exhibit 99.4 to this Amendment No. 1 is incorporated herein by reference.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The information set forth in Exhibit 99.2 to this Amendment No. 1 is incorporated herein by reference.

Quantitative and Qualitative Disclosures About Market Risk

The information set forth in the section of Exhibit 99.2 to this Amendment No. 1 entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*" beginning on page 24 is incorporated herein by reference.

Security Ownership of Certain Beneficial Owners and Management

The information set forth in the section of the Form S-1 entitled "Beneficial Ownership of Securities" beginning on page 129 is incorporated herein by reference.

Directors and Executive Officers, Director Independence, Committees of the Board of Directors

The information set forth in the section of the Form S-1 entitled "Management" beginning on page 109 is incorporated herein by reference.

Executive Compensation and Director Compensation

The information set forth in the section of the Form S-1 entitled "Executive Compensation" beginning on page 102 is incorporated herein by reference.

Legal Proceedings

The information set forth in the section of the Form 10-K entitled "Legal Proceedings" beginning on page 48 is incorporated herein by reference.

Financial Statements, Supplementary Data and Exhibits

The information set forth in sections (a), (b) and (d) of Item 9.01 of this Amendment No. 1 is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(a) *Financial statements of business acquired*

1. The audited consolidated financial statements of Landsea Homes as of the years ended December 31, 2020 and December 31, 2019 and for each of the three years in the period ended December 31, 2020 are filed herewith as Exhibit 99.1 and incorporated by reference herein.

2. The Management's Discussion and Analysis of Financial Condition and Results of Operations of Landsea Homes for the year ended December 31, 2020 is filed herewith as Exhibit 99.2 and incorporated by reference herein.

3. The unaudited financial statements of LS-Boston Point LLC as of and for the years ended December 31, 2020 and December 31, 2019 are filed herewith as Exhibit 99.3 and incorporated by reference herein.

(b) *Pro Forma Financial Information*

The unaudited pro forma condensed combined statement of operations of the Company for the year ended December 31, 2020 and the unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2020, is attached hereto as Exhibit 99.4 and is incorporated by reference herein.

(d) *Exhibits*

EXHIBIT INDEX

Exhibit Number	Description
2.1+	Merger Agreement, dated August 31, 2020, by and among LF Capital Acquisition Corp., LFCA Merger Sub, Inc., Landsea Homes Incorporated and Landsea Holdings Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2020)
3.1	Second Amended and Restated Certificate of Incorporation of Landsea Homes Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)

3.2	Second Amended and Restated Bylaws of Landsea Homes Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2020)
4.2	Specimen Warrant Certificate (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2020)
4.3	Warrant Agreement, dated June 19, 2018, by and between the Company and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K filed with the SEC on February 24, 2020)
4.4	First Amendment to the Warrant Agreement, dated January 7, 2021, by and between the Company and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
10.1	Stockholder's Agreement, by and between Landsea Homes Corporation and Landsea Holdings Corporation, dated January 7, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
10.2^	Landsea Homes Corporation 2020 Stock Incentive Plan (incorporated by reference to Annex F to the Company's Definitive Proxy Statement on Form DEF 14A filed with the SEC on November 23, 2020)
10.3	Seller Lock-Up Agreement, by and between Landsea Holdings Corporation and Landsea Homes Corporation, dated January 7, 2021 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
10.4	Sponsor Lock-Up Agreement, by and between Level Field Capital, LLC, Bandouin Prot, Scott Reed, Elias Farhat, Djemi Traboulsi, James Erwin, Gregory Wilson and Landsea Homes Corporation, dated January 7, 2021 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
10.5	Sponsor Lock-Up Agreement, by and among Level Field Capital, LLC, Karen Wendel and Landsea Homes Corporation, dated January 7, 2021 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)
10.6^	Employment Agreement of John Ho, by and between Landsea Holdings Corporation and John Ho, dated August 31, 2020, and assigned to and assumed by Landsea Homes Corporation on January 7, 2021 (incorporated by reference to Annex O-1-1 to the Company's Definitive Proxy Statement on Form DEF 14A filed with the SEC on November 23, 2020)
10.7^	Employment Agreement of Michael Forsum, by and between Landsea Holdings Corporation and Michael Forsum, dated August 31, 2020, and assigned to and assumed by Landsea Homes Corporation on January 7, 2021 (incorporated by reference to Annex O-2-1 to the Company's Definitive Proxy Statement on Form DEF 14A filed with the SEC on November 23, 2020)
10.8^	Employment Agreement of Franco Tenerelli, by and between Landsea Holdings Corporation and Franco Tenerelli, dated August 31, 2020, and assigned to and assumed by Landsea Homes Corporation on January 7, 2021 (incorporated by reference to Annex O-3-1 to the Company's Definitive Proxy Statement on Form DEF 14A filed with the SEC on November 23, 2020)
10.9	Trademark License Agreement, by and among Landsea Homes Corporation and certain of its subsidiaries set forth on Exhibit A thereto and Landsea Group Co., Ltd., dated January 7, 2021 (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on January 13, 2021)

10.10^	Form of Landsea Homes Corporation Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.11+	Second Modification Agreement to Senior Secured Credit Agreement (Revolving/Borrowing Base), effective as of May 28, 2019, by and among Landsea Homes- WAB LLC, Western Alliance Bank, and lenders (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.12	Third Amendment to Credit Agreement, dated as of August 28, 2019, by and among Landsea Homes- WAB LLC, Western Alliance Bank, Flagstar Bank, FSB, the lenders and other loan parties (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.13	Fourth Amendment to Credit Agreement, dated as of August 27, 2020, by and among Landsea Homes- WAB LLC, Western Alliance Bank, the lenders and other loan parties (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.14	Fifth Amendment to Credit Agreement, dated as of December 14, 2020, by and among Landsea Homes- WAB LLC, Western Alliance Bank, the lenders and other loan parties (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.15	Sixth Amendment to Credit Agreement, dated as of December 31, 2020, by and among Landsea Homes- WAB LLC, Western Alliance Bank, the lenders and other loan parties (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.16+	Credit Agreement, dated January 15, 2020, by and among Landsea Homes- WAB 2 LLC and Western Alliance Bank, and the lenders (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.17+	First Amendment to Credit Agreement, dated May 15, 2020, by and among Landsea Homes- WAB 2 LLC and Western Alliance Bank, the lenders and other loan parties (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.18+	Second Amendment to Credit Agreement, dated October 27, 2020, by and among Landsea Homes- WAB 2 LLC, Western Alliance Bank, the lenders and loan parties (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.19	Third Amendment to Credit Agreement, dated December 30, 2020, by and among Landsea Homes- WAB 2 LLC, Western Alliance Bank, the lenders and other loan parties (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.20+	Fourth Amendment to Credit Agreement, dated as of February 26, 2021, by and among Landsea Homes- WAB 2 LLC, Western Alliance Bank, the lenders and the other loan parties (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.21	Letter Agreement, dated June 19, 2018, by and among the Company, each of its officers, directors, and Level Field Capital, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018)
10.22	Investor Representation Letter, dated January 7, 2021, by Landsea Holdings Corporation (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.23	Registration Rights Agreement, dated June 19, 2018, by and between the Company and Level Field Capital, LLC, James Erwin, Karen Wendel, Gregory P. Wilson, Multi-Strategy Master Fund Limited, BlackRock Credit Alpha Master Fund L.P and HC NCBR Fund (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 25, 2018)

10.24	Form of LF Capital Acquisition Corp. Director and Officer Indemnity Agreement (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Company's registration statement on Form S-1 filed with the SEC on June 13, 2018)
10.25	Sponsor Waiver, Forfeiture and Deferral Agreement, dated August 31, 2020, by and between Level Field Capital, LLC, LF Capital Acquisition Corp., Landsea Holdings Corporation and Landsea Homes Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2020)
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

99.1*	Audited consolidated financial statements of Landsea Homes as of the years ended December 31, 2020 and December 31, 2019 and for each of the three years in the period ended December 31, 2020
99.2*	Management's Discussion and Analysis of Financial Condition and Results of Operations for Landsea Homes for the year ended December 31, 2020
99.3*	Unaudited financial statements of LS-Boston Point LLC as of and for the years ended December 31, 2020 end December 31, 2019
99.4*	Unaudited pro forma condensed combined statement of operations of the Company for the year ended December 31, 2020 and the unaudited pro forma condensed combined balance sheet of the Company as of December 31, 2020
104	The Cover page from the Company's Amendment No. 1 to the Current Report on Form 8-K filed on January 13, 2021 and second Form 8-K filed on January 13, 2021, formatted in Inline XBRL (included as Exhibit 101).

* Filed herewith.

^ Management contract or compensatory plan or arrangement.

\+ Certain schedules to or portions of this Exhibit have been omitted in accordance with Item 601(b)(10) of Regulation S-K. The Company hereby agrees to furnish supplementally a copy of all omitted schedules to the SEC upon request.

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 hereunto duly authorized.

LANDSEA HOMES CORPORATION

Date: March 12, 2021

By: /s/ John Ho

Name: John Ho

Title: Chief Executive Officer

Landsea Homes Incorporated
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Report of Independent Registered Public Accounting Firm

To the Board of Directors of Landsea Homes Corporation and Shareholder of Landsea Homes US Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Landsea Homes Incorporated and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, of equity, and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
March 12, 2021

We have served as the Company's auditor since 2019.

Landsea Homes Incorporated
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 105,778	$ 154,043
Cash held in escrow	11,618	8,836
Restricted cash	4,270	2,335
Real estate inventories (including related party interest of $18,721 and $24,405, respectively)	687,819	598,179
Due from affiliates	2,663	432
Investment in and advances to unconsolidated joint ventures (including related party interest of $1,320 and $2,466, respectively)	21,342	42,956
Notes receivable from lot sales	—	25
Goodwill	20,705	5,315
Other assets	41,569	27,096
Total assets	$ 895,764	$ 839,217
Liabilities		
Accounts payable	$ 36,243	$ 16,490
Accrued expenses and other liabilities	62,869	48,046

Due to affiliates	2,357	1,347
Notes and other debts payable, net	264,809	189,964
Total liabilities	366,278	255,847
Commitments and contingencies		
Equity		
Stockholders’ equity:		
Common stock, $0.0001 par value, 1,000 shares authorized and outstanding as of December 31, 2020 and December 31, 2019	—	—
Additional paid-in capital	496,174	524,516
Retained earnings	32,011	40,962
Total stockholders’ equity	528,185	565,478
Noncontrolling interests	1,301	17,892
Total equity	529,486	583,370
Total liabilities and equity	$ 895,764	$ 839,217

See accompanying notes to the consolidated financial statements.

Landsea Homes Incorporated
Consolidated Statements of Operations
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2020	2019	2018
Revenue			
Home sales	$ 734,608	$ 568,872	$ 347,828
Lot sales	—	62,116	30,789
Total revenue	734,608	630,988	378,617
Cost of sales			
Home sales (including related party interest of $14,110, $15,526, and $8,978, respectively)	636,324	478,054	278,976
Inventory impairments	3,413	—	—
Lot sales (including related party interest of $0, $120, and $186, respectively)	—	53,475	27,328
Total cost of sales	639,737	531,529	306,304
Gross margin			
Home sales	94,871	90,818	68,852
Lot sales	—	8,641	3,461
Total gross margin	94,871	99,459	72,313
Sales and marketing expenses	48,100	26,522	16,266
General and administrative expenses	42,598	34,884	26,313
Total operating expenses	90,698	61,406	42,579
Income from operations	4,173	38,053	29,734
Other income (expense), net	80	(1,602)	(993)
Equity in net (loss) income of unconsolidated joint ventures (including related party interest of $1,146, $1,908, and $4,095, respectively)	(16,418)	(7,901)	13,018
Impairment of real estate held for sale	—	—	(440)
Pretax (loss) income	(12,165)	28,550	41,319
(Benefit) provision for income taxes	(3,081)	6,159	4,613
Net (loss) income	(9,084)	22,391	36,706
Net (loss) income attributable to noncontrolling interests	(133)	5,191	7,522
Net (loss) income attributable to Landsea Homes Incorporated	$ (8,951)	$ 17,200	$ 29,184
Earnings (loss) per share:			
Basic and diluted	$ (8,951)	$ 17,200	$ 29,184
Weighted average shares outstanding:			
Basic and diluted	1,000	1,000	1,000

See accompanying notes to the consolidated financial statements.

Landsea Homes Incorporated
Consolidated Statements of Equity
(in thousands)

	Additional paid-in capital	Retained earnings (deficit)	Noncontrolling Interests	Total Equity
Balance at December 31, 2017	$ 483,065	$ (3,313)	$ 3,165	$ 482,917

Net impact from adoption of ASC 606	—	(2,109)	(152)	(2,261)
Contributions from noncontrolling interests	—	—	2,036	2,036
Net income	—	29,184	7,522	36,706
Net transfers from parent	25,758	—	—	25,758
Balance at December 31, 2018	$ 508,823	$ 23,762	$ 12,571	$ 545,156
Contributions from noncontrolling interests	—	—	130	130
Net income	—	17,200	5,191	22,391
Net transfers from parent	15,693	—	—	15,693
Balance at December 31, 2019	$ 524,516	$ 40,962	$ 17,892	$ 583,370
Contributions from noncontrolling interests	—	—	198	198
Distributions to noncontrolling interests	—	—	(15,414)	(15,414)
Net loss	—	(8,951)	(133)	(9,084)
Net transfers to parent	(28,342)	—	(1,242)	(29,584)
Balance at December 31, 2020	$ 496,174	$ 32,011	$ 1,301	$ 529,486

See accompanying notes to the consolidated financial statements.

Landsea Homes Incorporated
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net (loss) income	$ (9,084)	$ 22,391	$ 36,706
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,580	2,960	1,556
Impairment of real estate held for sale	—	—	440
Inventory impairments	3,413	—	—
Abandoned project costs	380	696	211
Distributions of earnings from unconsolidated joint ventures	—	3,561	13,582
Equity in net loss (earnings) of unconsolidated joint ventures	16,418	7,901	(13,018)
Deferred taxes	(5,024)	(1,345)	(6,880)
Changes in operating assets and liabilities:			
Cash held in escrow	(2,782)	(7,132)	(1,704)
Real estate inventories and inventories not owned	(19,895)	94,382	(77,488)
Due from affiliates	(174)	1,445	(1,045)
Notes receivable from lot sales	—	17,450	17,000
Other assets	(756)	(3,605)	(3,999)
Accounts payable	15,744	(20,601)	17,733
Accrued expenses and other liabilities	10,779	(11,908)	794
Due to affiliates	1,010	(153)	1,499
Net cash provided by (used in) operating activities	13,609	106,042	(14,613)
Cash flows from investing activities:			
Purchases of property and equipment	(1,794)	(5,585)	(3,408)
Distributions of capital from unconsolidated joint ventures	5,196	1,681	17,055
Contributions and advances to unconsolidated joint ventures	—	—	(90)
Repayments of advances from unconsolidated joint ventures	—	5,000	5,000
Payments for business acquisition, net of cash acquired	(128,528)	(23,562)	—
Proceeds from sale of real estate held for sale	—	—	2,325
Additions to real estate held for sale	—	—	(28)
Net cash (used in) provided by investing activities	(125,126)	(22,466)	20,854
Cash flows from financing activities:			
Borrowings from notes and other debts payable	600,391	276,559	340,382
Repayments of notes and other debts payable	(505,942)	(296,203)	(274,477)
Borrowings from land bank financing	—	—	38,924
Repayments of land bank financing	—	(41,667)	(38,631)
Contributions from noncontrolling interests	198	130	2,036
Distributions to noncontrolling interests	(15,414)	—	—
Deferred offering costs paid	(7,466)	—	—
Debt issuance costs paid	(5,532)	(1,299)	(9,710)
Cash (distributed to) provided by parent, net	(1,048)	15,693	25,758
Net cash provided by (used in) financing activities	65,187	(46,787)	84,282
Net (decrease) increase in cash, cash equivalents, and restricted cash	(46,330)	36,789	90,523
Cash, cash equivalents, and restricted cash at beginning of year	156,378	119,589	29,066
Cash, cash equivalents, and restricted cash at end of year	$ 110,048	$ 156,378	$ 119,589

See accompanying notes to the consolidated financial statements.

Landsea Homes Incorporated

Notes to Consolidated Financial Statements

1. Company

Landsea Homes Incorporated ("LHI" or the "Company"), together with its subsidiaries, is engaged in the acquisition, development and building of lots, homes, and condominiums in California, Arizona and Metro New York. The Company's operations are organized into the following three reportable segments: Arizona, California, and Metro New York.

On August 31, 2020, LHI and its parent, Landsea Holdings Corporation ("Landsea Holdings"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), with LF Capital Acquisition Corp. ("LF Capital") and LFCA Merger Sub, Inc. (the "Merger Sub"), a direct, wholly-owned subsidiary of LF Capital, which provides for, among other things the merger of Merger Sub with and into LHI, with LHI continuing as the surviving corporation.

Subject to the terms of the Merger Agreement, Landsea Holdings will receive approximately $344 million of stock consideration, consisting of 32,557,303 newly issued shares of LF Capital Acquisition Corp.'s publicly-traded Class A common stock. The shares will be valued at $10.56 per share for purposes of determining the aggregate number of shares payable to LHC (the "Stock Consideration"). The number of shares of Class A common stock issued to Landsea Holdings as Stock Consideration is not subject to adjustment. Landsea Holdings has registration rights under the Merger Agreement in respect to the Stock Consideration. Costs incurred as part of the transaction are capitalized to deferred offering costs until the merger is finalized, at which time they will be classified as part of additional paid-in capital or expensed if the merger is terminated prior to becoming effective.

Subsequent to year-end, on January 7, 2021, the previously announced business combination was consummated pursuant to the Merger Agreement. The name of the surviving company, LF Capital Acquisition Corp., was changed at that time to Landsea Homes Corporation ("LHC"). The name of LHI was also changed at that time to Landsea Homes US Corporation, which became a wholly owned subsidiary of LHC.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company as well as all subsidiaries in which we have a controlling interest and any variable interest entities for which the Company is determined to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements include certain assets and liabilities recorded on the books of Landsea Holdings that are related to assets and liabilities directly attributable to the Company.

The Company was historically funded as part of Landsea Holdings' treasury program. Cash and cash equivalents were primarily centrally managed through bank accounts legally owned by Landsea Holdings. Accordingly, cash and cash equivalents held by Landsea Holdings at the corporate level were not attributed to the Company for any of the periods presented. Only cash amounts legally owned by entities dedicated to the Company are reflected in the consolidated balance sheets. Transfers of cash, both to and from Landsea Holdings' treasury program, are reflected as a component of additional paid-in capital in the consolidated balance sheets and as a financing activity on the accompanying consolidated statements of cash flows.

As the functional departments that make up the Company were not held by a single legal entity, balances between the Company and Landsea Holdings that were not historically cash settled are included in additional paid-in capital. Additional paid-in capital represents Landsea Holdings' interest in the recorded assets of the Company and represents the cumulative investment by Landsea Holdings in the Company through the dates presented.

Landsea Holdings holds a series of notes payable to affiliated entities of its parent. The cash Landsea Holdings received from this debt was partially utilized to fund operations of the Company. Related party interest incurred by Landsea Holdings (the "Related Party Interest") was historically pushed down to the Company and reflected on the consolidated balance sheets of the Company, primarily in real estate inventories, and on the consolidated statements of operations in cost of sales. Similarly, Landsea Holdings holds a note payable with a third party, the interest of which was also historically pushed down to the Company. Refer to *Note 5 - Capitalized Interest* for further detail. As the Company did not guarantee the notes payable nor have any obligations to repay the notes payable, and as the notes payable will not be assigned to the Company, the notes payable do not represent the liability of the Company and accordingly have not been reflected in the consolidated balance sheets.

During the periods presented in the consolidated financial statements, the Company was included in the consolidated U.S. federal, and certain state and local income tax returns filed by Landsea Holdings, where applicable. Income tax expense and other income tax related information contained in these consolidated financial statements are presented on a separate return basis as if the Company had filed its own tax returns. Additionally, certain tax attributes such as net operating losses or credit carryforwards are presented on a separate return basis, and accordingly, may differ in the future. In jurisdictions where the Company has been included in the tax returns filed by Landsea Holdings, any income tax payables or receivables resulting from the related income tax provisions have been reflected in the consolidated balance sheets and the effect of the push down is reflected within additional paid-in capital.

The management of the Company believes that the assumptions underlying the consolidated financial statements, including the assumptions regarding the allocated expenses, reasonably reflect the utilization of services provided, or the benefit received by the Company during the periods presented. Nevertheless, the statements may not be indicative of the Company's future performance, do not necessarily include all of the actual expenses that would have been incurred had the Company been an independent entity during the historical periods, and may not reflect the results of operations, financial position, and cash flows had the Company been a stand-alone company during the periods presented.

Business Combinations—Acquisitions are accounted for in accordance with Accounting Standards Codification ("ASC") Topic 805, "Business Combinations." In connection with both the 2020 acquisition of Garrett Walker Homes ("Garrett Walker") and 2019 acquisition of Pinnacle West Homes Holding Corp. ("Pinnacle West"), management determined that the Company obtained control of a business and inputs, processes and outputs in exchange for cash consideration. All material assets and liabilities, including contingent consideration, were measured and recognized at fair value as of the date of the acquisition to reflect the purchase price paid, which resulted in goodwill. Refer to *Note 3 - Business Combinations* for further information regarding the purchase price allocation and related acquisition accounting.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ materially from these estimates.

Reclassifications—Certain amounts in the Company's prior period financial statements and disclosures have been reclassified to conform to the current period presentation. These reclassifications have not changed the results of operations of prior periods.

Cash and Cash Equivalents—The Company defines cash and cash equivalents as cash on hand, demand deposits with financial institutions, and short-term liquid investments with a maturity date of less than three months from the date of purchase.

Cash Held in Escrow—Cash held in escrow consists of amounts related to the proceeds from home closings held for the Company's benefit in escrow, which are typically held for less than a few days.

Restricted Cash—Restricted cash consists of cash, cash equivalents, and certificates of deposit held as collateral related to development obligations or held in escrow by the

Company's loan service providers on behalf of the lenders and disbursed in accordance with agreements between the transacting parties.

Real Estate Inventories and Cost of Sales—The Company capitalizes pre-acquisition costs, land deposits, land, development, and other allocated costs, including interest, property taxes, and indirect construction costs to real estate inventories. Pre-acquisition costs, including non-refundable land deposits, are expensed to other (expense) income, net, if the Company determines continuation of the prospective project is not probable.

Land, development, and other common costs are typically allocated to real estate inventories using a methodology that approximates the relative-sales-value method. If the relative-sales-value-method is impracticable, costs are allocated based on area methods (such as square footage or lot size) or other value methods as appropriate under the circumstances. Home construction costs per production phase are recorded using the specific identification method. Cost of sales for homes closed includes the estimated total construction costs of each home at completion and an allocation of all applicable land acquisition, land development, and related common costs (both incurred and estimated to be incurred) within each project. Changes in estimated development and common costs are allocated prospectively to remaining homes in the project.

In accordance with ASC 360, *Property, Plant and Equipment,* inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. The Company reviews each real estate asset on a periodic basis or whenever indicators of impairment exist. Real estate assets include projects actively selling and projects under development or held for future development. Indicators of impairment include, but are not limited to, significant decreases in local housing market values and selling prices of comparable homes, significant decreases in gross margins and sales absorption rates, costs significantly in excess of budget, and actual or projected cash flow losses.

If there are indicators of impairment, the Company performs a detailed budget and cash flow review of the applicable real estate inventories to determine whether the estimated remaining undiscounted future cash flows of the project are more or less than the asset's carrying value. If the undiscounted estimated future cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the undiscounted estimated future cash flows are less than the asset's carrying value, the asset is deemed impaired and is written down to fair value. Fair value is measured in accordance with ASC 820, *Fair Value Measurements and Disclosures.*

When estimating undiscounted estimated future cash flows of a project, the Company makes various assumptions, including: (i) expected sales prices and sales incentives to be offered, including the number of homes available, pricing and incentives being offered by the Company or other builders in other projects, and future sales price adjustments based on market and economic trends; (ii) expected sales absorption and cancellation rates based on local housing market conditions, competition and historical trends; (iii) costs expended to date and expected to be incurred including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction and overhead costs, and selling and marketing costs; (iv) alternative product offerings that may be offered that could have an impact on sales pace, sales price and/or building costs; and (v) alternative uses for the property.

Many assumptions are interdependent and a change in one may require a corresponding change to other assumptions. For example, increasing or decreasing sales absorption rates has a direct impact on the estimated per unit sales price of a home, the level of time sensitive costs (such as indirect construction, overhead and carrying costs), and selling and marketing costs (such as model maintenance costs and advertising costs). Depending on the underlying objective of the project, assumptions could have a significant impact on the projected cash flow analysis. For example, if the Company's objective is to preserve operating margins, its cash flow analysis will be different than if the objective is to increase the velocity of sales. These objectives may vary significantly from project to project and over time.

If real estate assets are considered impaired, the impairment adjustments are calculated by determining the amount the asset's carrying value exceeds its fair value, as measured in accordance with ASC 820. The Company calculates the fair value of real estate projects by using either a land residual value analysis or a discounted cash flow analysis. Under the land residual value analysis, the Company estimates what a willing buyer would pay and what a willing seller would sell a parcel of land for (other than in a forced liquidation) in order to generate a market rate operating margin and return. Under the discounted cash flow method, the fair value is determined by calculating the present value of future cash flows using a risk adjusted discount rate. Critical assumptions that are included as part of these analyses include estimating future housing revenues, sales absorption rates, land development, construction and

related carrying costs (including future capitalized interest), and all direct selling and marketing costs. This evaluation and the assumptions used by management to determine future estimated cash flows and fair value require a substantial degree of judgment, especially with respect to real estate projects that have a substantial amount of development to be completed, have not started selling or are in the early stages of sales, or are longer in duration. Actual revenues, costs and time to complete and sell a community could vary from these estimates, which could impact the calculation of fair value of the asset and the corresponding amount of impairment that is recorded in the Company's results of operations.

Real Estate Inventories Not Owned—The Company had land banking arrangements, whereby it sold land parcels to a land banker and the land banker provided an option to repurchase finished lots on a predetermined schedule. Because of the Company's options to repurchase these parcels and in accordance with ASC 360-20-40-38, these transactions were considered a financing transaction rather than a sale. All remaining lots were repurchased during 2019 and therefore, there is no balance on the December 31, 2020 or 2019 consolidated balance sheets.

Capitalization of Interest—The Company follows the practice of capitalizing interest to real estate inventories during the period of development and to investments in unconsolidated joint ventures, when applicable, in accordance with ASC 835, *Interest*. Interest capitalized as a component of real estate inventories is included in cost of sales as related homes or lots are sold. To the extent interest is capitalized to investment in unconsolidated joint ventures, it is included as a reduction of income from unconsolidated joint ventures when the related homes or lots are sold to third parties. To the extent the Company's debt exceeds its qualified assets as defined in ASC 835, the Company expenses a portion of the interest incurred. Qualified assets represent projects that are actively selling or under development as well as investments in unconsolidated joint ventures accounted for under the equity method until such equity method investees begin their principal operations.

Investment in and Advances to Unconsolidated Joint Ventures—The Company uses the equity method to account for investments in joint ventures that qualify as variable interest entities ("VIEs") where the Company is not the primary beneficiary and other entities that it does not control but has the ability to exercise significant influence over the operating and financial policies of the investee. The Company also uses the equity method when it functions as the managing member or general partner and its venture partner has substantive participating rights or where the Company can be replaced by its venture partner as managing member without cause.

As of December 31, 2020 and 2019, the Company concluded that some of its joint ventures were VIEs. The Company concluded that it was not the primary beneficiary of the variable interest entities and, accordingly, accounted for these entities under the equity method of accounting.

Under the equity method, the Company recognizes its proportionate share of earnings and losses generated by the joint venture upon the delivery of lots or homes to third parties. The Company's proportionate share of intra-entity profits and losses, to the extent they exist, are eliminated until the related asset has been sold by the unconsolidated joint venture to third parties. The Company classifies cash distributions received from equity method investees using the cumulative earnings approach consistent with ASU

2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. Under the cumulative earnings approach, distributions received are considered returns on investment and shall be classified as cash inflows from operating activities unless the cumulative distributions received less distributions received in prior periods that were determined to be returns on investment exceed cumulative equity in earnings. When such an excess occurs, the current-period distribution up to this excess is considered a return of investment and shall be classified as cash inflows from investing activities. The Company's ownership interests in its unconsolidated joint ventures vary but are generally less than or equal to 51%. The accounting policies of the Company's joint ventures are consistent with those of the Company.

The Company also reviews its investments in and advances to unconsolidated joint ventures for evidence of other-than-temporary declines in value. To the extent the Company deems any portion of its investment in and advances to unconsolidated joint ventures as not recoverable, the Company would impair its investment accordingly. For the years ended December 31, 2020, and 2019, no impairments related to investment in and advances to unconsolidated joint ventures were recorded.

Notes Receivable from Lot Sales—In the ordinary course of land sale activities, the full purchase price may not be received upon the close of escrow. When this situation arises, the Company will enter into a promissory note agreement with the buyer stating repayment terms. These agreements typically do not bear interest and have floating maturity dates that are based upon performance conditions set forth in each agreement. The Company assesses the collectability of these receivables on a periodic basis and the balance, net of allowance for losses, is disclosed as notes receivable from lot sales on the consolidated balance sheets. As of December 31, 2020, there is no remaining balance outstanding related to notes receivable from lot sales and therefore no need for an associated allowance. As of December 31, 2019, no allowance was recorded related to notes receivable from lot sales.

Goodwill—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 350, *Intangibles–Goodwill and Other*. ASC 350 requires that goodwill and intangible assets that do not have finite lives not be amortized, but rather assessed for impairment at least annually or more frequently if certain impairment indicators are present. The Company performs an annual impairment test during the fourth quarter or whenever impairment indicators are present. There was no impairment of goodwill for the years ended December 31, 2020, and 2019.

For the year ended December 31, 2020 there was an addition of $15.4 million of goodwill related to the acquisition of Garrett Walker. For the year ended December 31, 2019, there was an addition of $5.3 million to goodwill as a result of the Pinnacle West acquisition. Refer to *Note 3 - Business Combinations* for further information on these acquisitions.

Variable Interest Entities—The Company accounts for variable interest entities in accordance with ASC 810,*Consolidation*. Under ASC 810, a variable interest entity ("VIE") is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity's equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity's equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE.

Under ASC 810, a non-refundable deposit paid to an entity may be deemed to be a variable interest that will absorb some or all of the entity's expected losses if they occur. The Company's land purchase and lot option deposits generally represent its maximum exposure to the land seller if it elects not to purchase the optioned property. In some instances, the Company may also expend funds for due diligence, development and construction activities with respect to optioned land prior to takedown. Such costs are classified as real estate inventories, which the Company would have to write off should it not exercise the option. Therefore, whenever the Company enters into a land option or purchase contract with an entity and makes a non-refundable deposit, a VIE may have been created.

As of December 31, 2020 and 2019, the Company was not required to consolidate any VIEs. In accordance with ASC 810, the Company performs ongoing reassessments of whether it is the primary beneficiary of a VIE.

Property and Equipment—Property and equipment are recorded at cost and depreciated to general and administrative expense using the straight-line method over their estimated useful lives ranging from two to five years. Leasehold improvements are stated at cost and amortized to general and administrative expense using the straight-line method over the shorter of either their estimated useful lives or the term of the lease. For the years ended December 31, 2020, 2019, and 2018 the Company incurred depreciation expense of $1.4 million, $1.1 million, and $0.5 million, respectively.

Capitalized Selling and Marketing Costs—Capitalized selling and marketing costs were reclassified from real estate inventories to other assets in accordance with the Company's adoption of ASU 2014-09, *Revenue from*

Contracts with Customers (Topic 606) in 2018. Effective January 1, 2018, costs incurred for tangible assets directly used in the sales process such as the Company's sales offices, and model landscaping and furnishings are capitalized to other assets in the accompanying consolidated balance sheets under ASC 340, *Other Assets and Deferred Costs*. These costs are amortized to selling and marketing expenses generally over the estimated life of the selling community. For the years ended December 31, 2020, 2019, and 2018 the Company incurred amortization expense of $1.6 million, $1.9 million, and $1.1 million, respectively. All other selling and marketing costs, such as commissions and advertising, are expensed as incurred.

Warranty Accrual—Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts are accrued based upon the Company's historical rates of warranty claims. Historical experience of the Company's peers is also considered due to the limited internal history of homebuilding sales. The adequacy of the warranty accrual is assessed on a quarterly basis and the amounts recorded are adjusted if necessary. The warranty accrual is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets and adjustments to its warranty accrual are recorded through cost of sales.

Revenue Recognition—Effective January 1, 2018, the Company adopted the requirements of ASC 606 under the modified retrospective method. The Company recognized the cumulative effect of initially applying the new standard as a $2.3 million decrease to the opening balance of total equity as of January 1, 2018. Under ASC 606, the Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To do this, the Company performs the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

Home Sales and Profit Recognition

Home sales revenue is recognized when the Company's performance obligations within the underlying sales contracts are fulfilled. The Company considers its obligations fulfilled when closing conditions are complete, title has transferred to the homebuyer, and collection of the purchase price is reasonably assured. Sales incentives are recorded as a reduction of revenues when the respective home is closed. The profit recorded is based on the calculation of cost of sales, which is dependent on the Company's estimate of total cost, as described in more detail above in the section "Real Estate Inventories and Cost of Sales". When it is determined that the earnings process is not complete, the related revenue and profit are deferred for recognition in future periods.

Lot Sales and Profit Recognition

Revenues from lot sales are recorded and a profit is recognized when performance obligations are satisfied, which includes transferring a promised good or service to a customer. Lot sales are recognized when all conditions of escrow are met, including delivery of the real estate asset in the agreed-upon condition, passage of title, receipt of appropriate consideration, and collection of associated receivables, if any, is probable, and other applicable criteria are met. Based upon the terms of the agreement, when it is determined that the performance obligation is not satisfied, the sale and the related profit are deferred for recognition in future periods.

Under the terms of certain lot sale contracts, the Company is obligated to perform certain development activities after the close of escrow. Due to this continuing involvement, the Company recognizes lot sales under the percentage-of-completion method, whereby revenue is recognized in proportion to total costs incurred divided by total costs expected to be incurred. As of December 31, 2020 and 2019, the Company had no deferred revenue from lot sales. The Company recognizes these amounts as development progresses. During 2019, the Company recognized \$15.9 million of deferred revenue from its lot sales in prior years.

Income Taxes—The Company records income taxes in accordance with ASC 740, *Income Taxes*, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid.

Each year the Company assesses its deferred tax asset to determine whether all or any portion of the asset is more likely than not (defined as a likelihood of more than 50%) unrealizable under ASC 740. The Company is required to establish a valuation allowance for any portion of the tax asset determined to be more likely than not unrealizable. The Company's assessment considers, among other things, the nature, frequency and severity of prior cumulative losses, forecasts of future taxable income, the duration of statutory carryforward periods, utilization experience with net operating losses and tax credit carryforwards and the planning alternatives, to the extent these items are applicable. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. The value of the Company's deferred tax assets will depend on applicable income tax rates. Judgment is required in determining the future tax consequences of events that have been recognized in the Company's consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated financial statements.

Long-term Incentive Plan—During 2018, Landsea Holdings created a long-term incentive compensation program designed to align the interests of Landsea Holdings, the Company and its executives by enabling key employees to participate in the Company's future growth through the issuance of phantom equity awards. Landsea Holdings' phantom equity awards issued on or after January 1, 2018 are accounted for pursuant to ASC 710, *Compensation*, as the value is not based on the shares of comparable public entities or other equity instruments, but is based on the book value of equity of Landsea Holdings. Landsea Holdings measures the value of phantom equity awards on a quarterly basis using the intrinsic value method and pushes down the expense to the Company as the employees participating in the long-term incentive compensation program primarily benefit the Company. This expense is recorded in general and administrative expenses on the consolidated statements of operations and was \$1.2 million, \$1.6 million, and \$0.3 million for the years ended December 31, 2020, 2019, and 2018 respectively. The Company has \$2.2 million and \$1.9 million accrued for payment under the long-term incentive plan in accrued expenses and other liabilities on the consolidated balance sheets as of December 31, 2020 and 2019, respectively.

Subsequent to year-end, in connection with the Merger Agreement, all of the remaining phantom equity awards vested and were paid out or converted to shares of LHC.

Recent Accounting Pronouncements—

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASC 842 requires organizations that lease assets (referred to as "lessees") to present lease assets and lease liabilities on the balance sheet at their gross value based on the rights and obligations created by those leases. ASC 842 requires a lessee recognize assets and liabilities for leases with greater than 12-month terms. Lessor accounting remains substantially similar to current GAAP. Additional disclosures including qualitative and quantitative information regarding leasing activities are also required. ASC 842 is effective for annual reporting periods beginning after December 15, 2018 and mandates a modified retrospective transition method, early adoption was permitted. In July 2018, the FASB issued ASU 2018-11 which provides for an additional transition method that allows companies to apply the new lease standard at the adoption date, eliminating the requirement to apply the standard to the earliest period presented in the financial statements. The Company adopted ASC 842 beginning on January 1, 2019 and recorded a right-of-use asset and lease liability of \$4.6 million on the consolidated balance sheet as of January 1, 2019. The Company's lease agreements impacted by ASC 842 primarily relate to the Company's office locations and office equipment where the Company is the lessee. The Company determined all applicable agreements would be considered operating leases. The Company elected the package of practical expedients permitted under the transition guidance which allows the Company to not reassess: (i) whether any existing or expired contracts are or contain leases; (ii) lease classification of any expired or existing leases; or (iii) initial direct costs for any existing leases. The Company also elected the practical expedient permitted under the transition guidance which allows the Company to not separate non-lease components from lease components, and made an accounting policy election to not record leases on the balance sheet with an initial term of 12 months or less.

In June 2016, the FASB issued ASU 2016-13, which changes the methodology for recognizing credit losses and is effective for annual reporting periods beginning after December 15, 2019. Early adoption was permitted. The Company adopted ASU 2016-13 on January 1, 2020, which did not have a material impact to the consolidated financial statements as a result of adoption.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ASU 2017-04 eliminates Step 2 from the goodwill impairment test. This change allows an entity to avoid performing a hypothetical purchase price allocation to measure goodwill impairment and therefore reduces the cost and complexity of evaluating goodwill for impairment. This amendment is effective for annual reporting periods beginning after December 15, 2019. Early adoption was permitted. The Company adopted the amendments in this update on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework Changes to the Disclosure Requirements for Fair Value*

Measurements. The amendments in ASU 2018-13 modify certain disclosure requirements of fair value measurements and are effective for annual reporting periods beginning after December 15, 2019. Early adoption was permitted for any removed or modified disclosures. The Company adopted the amendments in this update on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 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 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption was permitted. The Company adopted the amendments in this update on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of ASU 2019-12 and does not expect a material impact to the consolidated financial statements as a result of adoption.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815)*. ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The standard is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of ASU 2020-01 and does not expect a material impact to the consolidated financial statements as a result of adoption.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform, particularly the cessation of the London Interbank Offered Rate ("LIBOR"), on financial reporting. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

3. Business Combinations

On January 15, 2020, the Company acquired 100% of the membership interest of Garrett Walker for cash consideration of approximately $133.4 million. Garrett Walker is a residential homebuilder located in Phoenix, Arizona focused on building entry-level, single-family detached homes in the Northwest Valley and Phoenix metropolitan. The total assets of Garrett Walker included approximately 20 projects (unaudited) and 1,750 lots (unaudited) in various stages of development.

In accordance with ASC Topic 805, Business Combinations, the assets acquired and liabilities assumed from our acquisition of Garrett Walker were measured and recognized at fair value as of the date of the acquisition to reflect the purchase price paid.

Acquired inventories consist of land, land deposits, and work in process inventories. The Company determined the estimate of fair value for acquired land inventory using a forecasted cash flow approach for the development, marketing, and sale of each community acquired. Significant assumptions included in our estimate were future development costs, construction and overhead costs, mix of products, as well as average selling price, and absorption rates. The Company estimated the fair value of acquired work in process inventories based upon the stage of production of each unit and a profit margin that a market participant would require to complete the remaining production and requisite selling efforts. On the acquisition date, the stage of production for each lot ranged from recently started lots to fully completed homes. The intangible asset acquired relates to the Garrett Walker trade name, which is estimated to have a fair value of $1.6 million and is being amortized over 3 years. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. Goodwill of $15.4 million was recorded on the consolidated balance sheets as a result of this transaction and is expected to be deductible for tax purposes over 15 years. The acquired goodwill is included in the Arizona reporting segment, refer to *Note 13, Segment Information* for additional information. The Company incurred transaction related costs of $0.7 million related to the Garrett Walker acquisition during the year ended December 31, 2020.

From the acquisition date, the Company's results of operations include homebuilding revenues of $214.9 million, and income before tax inclusive of purchase price accounting and corporate G&A allocation, of $10.5 million, from the Garrett Walker acquisition in the accompanying consolidated statement of operations for the year ended December 31, 2020.

The following is a summary of the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed *(dollars in thousands)*.

Assets Acquired	
Cash	$ 2,905
Real estate inventories	119,466
Goodwill	15,392
Trade name	1,600
Other assets	532
Total assets	$ 139,895
Liabilities Assumed	
Accounts payable	$ 5,425
Accrued expenses	1,037
Total liabilities	6,462
Net assets acquired	$ 133,433

On June 20, 2019, the Company acquired 100% of the stock of Pinnacle West for cash consideration of $25.8 million. Pinnacle West is a residential homebuilder located in Phoenix, Arizona and was comprised of fifteen projects (unaudited) in various stages of development at the time of acquisition. Goodwill of $5.3 million was recorded on the consolidated balance sheets and is expected to be deductible for tax purposes over 15 years. The acquired goodwill is included in the Arizona reporting segment. The Company incurred transaction related costs of $1.1 million related to the Pinnacle West acquisition during the year ended December 31, 2019. The following is a summary of the allocation of the purchase price based on the fair value of assets acquired and liabilities assumed *(dollars in thousands).*

Assets	
Cash	$ 2,208
Real estate inventories	39,584
Goodwill	5,315
Other assets	60
Total assets	$ 47,167
Liabilities	
Accounts payable	$ 2,626
Notes payable	16,228
Accrued expenses and other liabilities	2,543
Total liabilities	21,397
Net assets acquired	$ 25,770

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and net income for the years ended December 31, 2020, 2019, and 2018 give effect to the results of the acquisition of Garrett Walker and Pinnacle West. The effect of the Garrett Walker and Pinnacle West acquisitions are reflected as though the acquisition date was as of January 1, 2019 and January 1, 2018, respectively. Unaudited pro forma net (loss) income adjusts the operating results of Garrett Walker and Pinnacle West to reflect the additional costs that would have been recorded assuming the fair value adjustments had been applied as of the beginning of the year preceding the year of acquisition including the tax-effected amortization of the acquired trade name and transaction related costs. The Pinnacle West financial information is derived from internal financial information that is unaudited.

	Year Ended December 31,		
	2020	2019	2018
		(dollars in thousands)	
Revenue	$ 737,060	$ 799,559	$ 428,089
Pretax (loss) income	$ (12,051)	$ 35,336	$ 36,161
Benefit (provision) for income taxes	3,052	(7,625)	(4,035)
Net (loss) income	$ (8,999)	$ 27,711	$ 32,126

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	December 31,	
	2020	2019
	(dollars in thousands)	
Deposits and pre-acquisition costs	$ 34,102	$ 24,794
Land held and land under development	221,055	178,183
Homes completed or under construction	395,926	369,364
Model homes	36,736	25,838
Total real estate inventory	$ 687,819	$ 598,179

Deposits and pre-acquisition costs include land deposits and other due diligence costs related to potential land acquisitions. Land held and land under development includes costs incurred during site development such as development, indirect costs, and permits. Homes completed or under construction and model homes include all costs associated with home construction, including land, development, indirect costs, permits, materials and labor.

In accordance with ASC 360, inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. The Company reviews each real estate asset at the community-level, on a quarterly basis or whenever indicators of impairment exist. We generally determine the estimated fair value of each community by using a discounted cash flow approach based on the estimated future cash flows at discount rates that reflect the risk of the community being evaluated. The discounted cash flow approach can be impacted significantly by our estimates of future home sales revenue, home construction costs, and the applicable discount rate, all of which are Level 3 inputs.

For the year ended December 31, 2020 the Company recognized real estate inventory impairments of $3.4 million related to two communities in the California segment. In both instances, the Company determined that additional incentives were required to sell the remaining homes at estimated aggregate sales prices below the communities previous carrying values. The fair values for the communities impaired were calculated using discounted cash flow models using discount rates ranging from 7%-10%. For the year ended December 31, 2019 the Company did not recognize any real estate inventory impairments.

5. Capitalized Interest

Interest is capitalized to real estate inventories and investment in unconsolidated joint ventures during development and other qualifying activities. Interest capitalized as a cost of real estate inventories is included in cost of sales as related inventories are delivered. Interest capitalized to investments in unconsolidated joint ventures is relieved to equity in net (loss) income of unconsolidated joint ventures as related joint venture homes close. For the periods reported, interest incurred, capitalized, and expensed was as follows:

	Year Ended December 31,		
	2020	2019	2018
		(dollars in thousands)	
Related party interest pushed down	$ 10,112	$ 11,115	$ 16,534
Other interest incurred	21,425	24,906	24,364
Total interest incurred	31,537	36,021	40,898
Related party interest capitalized	10,112	11,115	16,534
Other interest capitalized	21,410	24,906	24,253

Total interest capitalized		31,522		36,021		40,787
Interest expensed	$	15	$	—		111
Previously capitalized related party interest included in cost of sales	$	14,110	$	15,646	$	9,164
Previously capitalized other interest included in cost of sales		23,816		24,747		7,135
Related party interest relieved to equity in net (loss) income of unconsolidated joint ventures		1,146		1,908		4,095
Other interest relieved to equity in net (loss) income from unconsolidated joint ventures		16		26		58
Other interest expensed		15		—		111
Total interest expense included in pretax (loss) income	$	39,103	$	42,327	$	20,563

6. Investment in and Advances to Unconsolidated Joint Ventures

As of December 31, 2020 and 2019, the Company had two unconsolidated joint ventures with ownership interests of 51% and 25% in LS-NJ Port Imperial JV LLC and LS-Boston Point LLC, respectively, and concluded that these joint ventures were VIEs. The Company concluded that it was not the primary beneficiary of the variable interest entities and, accordingly, accounted for these entities under the equity method of accounting. The Company's maximum exposure to loss is limited to the investment in the unconsolidated joint venture amounts included on the consolidated balance sheets. The condensed combined balance sheets for the Company's unconsolidated joint ventures accounted for under the equity method are as follows:

	December 31,			
		2020		2019
	(dollars in thousands)			
Cash and cash equivalents	$	2,740	$	6,159
Restricted cash		4,870		—
Real estate inventories		41,214		98,811
Investment in unconsolidated joint venture		—		225
Other assets		123		339
Total assets	$	48,947	$	105,534
Accounts payable	$	188	$	1,892
Accrued expenses and other liabilities		3,928		2,957
Due to affiliates		5,735		482
EB-5 notes payable		—		21,000
Total liabilities		9,851		26,331
Members' capital		39,096		79,203
Total liabilities and members' capital	$	48,947	$	105,534

The condensed combined statements of operations for the Company's unconsolidated joint ventures accounted for under the equity method are as follows:

	Year Ended December 31,					
		2020		2019		2018
	(dollars in thousands)					
Revenues	$	37,403	$	54,633	$	73,587
Cost of sales and expenses		(40,230)		(62,145)		(71,286)
Impairment of real estate inventories		(27,094)		(5,800)		—
Equity in net income from unconsolidated joint ventures		—		1,087		33,314
Net (loss) income of unconsolidated joint ventures	$	(29,921)	$	(12,225)	$	35,615
Equity in net (loss) income from investment in unconsolidated joint ventures(1)	$	(16,418)	$	(7,901)	$	13,018

(1) The equity in net (loss) income of unconsolidated joint ventures consists of the allocation of the Company's proportionate share of income or loss from the unconsolidated joint ventures of $15.2 million loss, $5.9 million loss, and $17.8 million income as well as $1.2 million, $2.0 million, and $4.8 million of expense related to capitalized interest and other costs for the years ended December 31, 2020, 2019, and 2018, respectively.

For the years ended December 31, 2020 and 2019, one of the Company's unconsolidated joint ventures recorded impairment charges of $27.1 million and $5.8 million, respectively, related to slowing absorption and weaker pricing than expected. The impairment charges, based on the ownership percentage of 51%, are $13.8 million and $3.0 million are reflected in the equity in net (loss) income of unconsolidated joint ventures line in the consolidated statements of operations. For the year ended December 31, 2018, the unconsolidated joint ventures did not recognize any real estate inventory impairments.

7. Other Assets

Other assets consist of the following:

	December 31,			
		2020		2019
	(dollars in thousands)			
Deferred tax asset, net	$	13,248	$	8,224
Property, equipment and capitalized selling and marketing costs, net		6,386		7,746
Right-of-use asset		5,973		6,326
Deferred offering costs		7,617		—
Prepaid income taxes		1,003		—

Intangible asset, net	1,046	—
Prepaid expenses	3,029	2,919
Other	3,267	1,881
Total other assets	$ 41,569	$ 27,096

8. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31, 2020	December 31, 2019
	(dollars in thousands)	
Land development and home construction accrual	$ 25,910	$ 15,353
Warranty accrual	11,730	8,693
Accrued compensation and benefits	10,966	9,198
Lease liabilities	6,396	6,711
Sales tax payable	1,867	201
Income tax payable	1,355	5,741
Interest payable	1,134	425
Other deposits and liabilities	3,511	1,724
Total accrued expenses and other liabilities	$ 62,869	$ 48,046

Changes in the Company's warranty accrual are detailed in the table below:

	December 31, 2020	December 31, 2019
	(dollars in thousands)	
Beginning warranty accrual	$ 8,693	$ 3,616
Warranty provision	3,843	5,381
Warranty payments	(806)	(304)
Ending warranty accrual	$ 11,730	$ 8,693

9. Notes and Other Debts Payable, net

Amounts outstanding under Notes and other debts payable, net consist of the following:

	December 31, 2020	December 31, 2019
	(dollars in thousands)	
Construction loans	$ 67,757	$ 92,640
Line of credit facilities	140,142	8,680
EB-5 notes payable	59,216	95,010
Loans payable	5,144	—
Notes and other debts payable	272,259	196,330
Debt issuance costs	(7,450)	(6,366)
Notes and other debts payable, net	$ 264,809	$ 189,964

The Company has various construction loan agreements secured by various real estate developments ("Construction Loans") with maturity dates extending from June 2022 through December 2023. The Construction Loans have variable interest rates based on Prime or LIBOR plus a fixed spread, subject to customary terms. As of December 31, 2020, the interest rates on the Construction Loans ranged from 4.00% to 5.50%. In 2018, the Company assumed two loans from a third-party land seller in connection with the acquisition of real estate inventories. Both loans have a variable interest rate of LIBOR plus 6.50% with a floor of 8.25%. As of December 31, 2020, the interest rate on both loans was 8.25%.

In 2018, the Company entered into a secured line of credit ("LOC") with a bank. In 2020, the Company extended the loan resulting in a new maturity date of February 2024. As of December 31, 2020 the total commitment on the LOC was $195.0 million and it had an outstanding balance of $65.5 million. The LOC has a variable interest rate of Prime plus 1.25% with a floor of 5.50%. As of December 31, 2020, the interest rate was 5.50%.

In connection with the acquisition of Garrett Walker, the Company entered into an additional line of credit ("LOC2") with a bank as part of the transaction. On the date of acquisition, the Company drew $70.0 million from the LOC2. As of December 31, 2020 the total commitment on the LOC2 was $100.0 million and it had an outstanding balance of $74.6 million. The LOC2 has an interest rate of Prime plus 1.00% with a floor of 5.25%. In 2020, the Company extended the loan resulting in a new maturity date of January 2024. As of December 31, 2020, the interest rate was 5.25%.

The Company has various EB-5 notes payable with maturity dates ranging from February 2021 through June 2023. As of December 31, 2020 the loans have fixed interest rates of 4.00% to 6.00%.

On April 15, 2020, Landsea Holdings entered into a Paycheck Protection Program ("PPP") Note evidencing an unsecured loan in the amount of $4.3 million made to the Company under the PPP. The PPP was established under the CARES Act and is administered by the U.S. Small Business Association. The PPP Note matures on April 15, 2022 and bears interest at a rate of 1.00% per annum. The proceeds from the PPP Note may only be used for payroll costs (including benefits), interest on mortgage obligations, rent, utilities and interest on certain other debt obligations. The proceeds from the PPP Note were used in the operation of the Company and therefore the debt was included in the consolidated balance sheets of the Company. We fully utilized the proceeds from this loan to satisfy certain payroll and benefit obligations and have applied for relief of the full amount of the loan under the PPP.

The Company's loans have certain financial covenants, such as requirements for the Company to maintain a minimum liquidity balance, minimum tangible net worth, gross profit margin, leverage and interest coverage ratios. The Company's loans are secured by the assets of the Company and contain various representations, warranties, and covenants that are customary for these types of agreements. As of December 31, 2020, the Company was in compliance with all financial loan agreement covenants.

Landsea Homes Incorporated
Notes to Consolidated Financial Statements

The aggregate maturities of the principal balances of the notes and other debts payable during the five years subsequent to December 31, 2020 are as follows *(dollars in thousands)*:

2021	$	19,542
2022		91,247
2023		20,583
2024		140,188
2025		699
Thereafter		—
	$	272,259

10. Commitments and Contingencies

Legal—The Company is subject to the usual obligations associated with entering into contracts for the development and sale of real estate inventories and other potential liabilities incidental to its business.

Certain of the Company's subsidiaries are a party to various claims, legal actions and complaints arising in the ordinary course of business. In management's opinion, the disposition of these matters will not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Performance Obligations—In the ordinary course of business, and as part of the entitlement and development process, the Company's subsidiaries are required to provide performance bonds to assure completion of certain public facilities. The Company had $78.0 million and $61.0 million of performance bonds outstanding at December 31, 2020 and 2019, respectively.

Operating Leases—The Company has various operating leases, most of which relate to office facilities. Future minimum payments under the noncancelable operating leases in effect at December 31, 2020 were as follows *(dollars in thousands)*:

2021	$	1,601
2022		1,624
2023		1,397
2024		1,182
2025		855
Thereafter		762
Total lease payments		7,421
Less: Discount		(1,025)
Present value of lease liabilities	$	6,396

Operating lease expense for the years ended December 31, 2020, 2019, and 2018 was $2.0 million, $1.8 million, and $1.3 million, respectively, and is included in general and administrative expense on the consolidated statements of operations.

The Company primarily enters into operating leases for the right to use office space and computer and office equipment, which have lease terms that generally range from 2 to 7 years and often include one or more options to renew. The weighted average remaining lease term as of December 31, 2020 and 2019 was 4.4 years and 5.2 years, respectively. Renewal terms are included in the lease term when it is reasonably certain the option will be exercised.

The Company established a right-of-use asset and a lease liability based on the present value of future minimum lease payments at the later of January 1, 2019, the commencement date of the lease or, if subsequently modified, the date of modification for active leases. As the rate implicit in each lease is not readily determinable, the Company's incremental borrowing rate is used in determining the present value of future minimum payments as of the commencement date. The weighted average rate for the year ended December 31, 2020 and 2019 was 5.9% and 7.1%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of December 31, 2020, the Company had $6.0 million and $6.4 million recognized as a right-of-use asset and lease liability, respectively, which are presented on the consolidated balance sheet within other assets and accrued expenses and other liabilities, respectively. As of December 31, 2019, the Company had $6.3 million and $6.7 million recognized as a right-of-use asset and lease liability, respectively.

11. Related Party Transactions

The Company has entered into agreements with its unconsolidated joint ventures to provide management services related to underlying projects for a management fee and reimbursement of agreed upon out of pocket operating expenses. As of December 31, 2020 and 2019, the Company had a net due from affiliates of $0.3 million and a due to affiliates balance of $0.9 million, respectively. For the years ended December 31, 2020, 2019, and 2018 the Company recognized management fees in the amount of $0.0 million, $0.2 million and $1.1 million, respectively, recorded within other income.

On June 30, 2020, the Company transferred its interest in a consolidated real estate joint venture that was previously included in the Metro New York segment to Landsea Holdings. The interest was removed from the consolidated financial statements of the Company on a prospective basis. The real estate joint venture had net assets at the date of transfer of $28.9 million and a noncontrolling interest of $1.2 million as follows *(dollars in thousands)*:

Assets Transferred		
Cash	$	338
Real estate inventories		49,705
Other assets		174
Total assets	$	50,217
Liabilities Transferred		
Accounts payable	$	1,416

Construction loan	17,825
Accrued expenses and other liabilities	2,102
Total liabilities	21,343
Net assets transferred	28,874
Noncontrolling interest transferred	$ 1,242

12. Income Taxes

The Company reports income taxes on the consolidated income tax returns of Landsea Holdings since it has historically been a wholly owned subsidiary of Landsea Holdings. The income tax provision and related balances in these consolidated financial statements have been calculated as if the Company filed a separate tax return and was operating as a separate business from Landsea Holdings. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the Company's actual tax balances.

The (benefit) provision for income taxes are as follows:

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Current:			
Federal	$ 833	$ 4,766	$ 8,372
State	1,104	2,505	3,779
Current tax provision	1,937	7,271	12,151
Deferred:			
Federal	(3,602)	(705)	(5,442)
State	(1,416)	(407)	(2,096)
Deferred tax benefit	(5,018)	(1,112)	(7,538)
Total income tax (benefit) provision, net	$ (3,081)	$ 6,159	$ 4,613

The provision for income taxes varies from the U.S. federal statutory rate. The following reconciliation shows the significant differences in the tax at statutory and effective rates:

	Year Ended December 31,		
	2020	2019	2018
Federal income tax expense	21.0%	21.0%	21.0%
State income tax expense, net of federal tax effect	5.7	6.9	7.3
Permanent differences	(0.3)	0.1	—
Energy efficient home credit	5.6	(5.4)	—
Return to provision adjustment	(3.5)	(1.2)	(0.3)
Rate change	(3.2)	0.2	—
Change of valuation allowance	—	—	(16.8)
Effective tax rate	25.3%	21.6%	11.2%

The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2020 is primarily related to state income taxes net of federal income tax benefits, prior year true-ups, and the energy efficient home credit. The energy efficient home credit is an increase to our income tax benefit in 2020 compared to a decrease to our income tax expense in 2019. The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2019 is primarily related to state income taxes net of federal income tax benefits, partially offset by the energy efficient home credit. The difference between the statutory tax rate and the effective tax rate for the year ended December 31, 2018 is primarily related to the release of the valuation allowance and state income taxes, net of federal income tax benefits.

The Company recognizes the benefit of tax positions taken or expected to be taken in its tax returns in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by authorities. Recognized tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. At December 31, 2020 and 2019, the Company did not have any gross uncertain tax positions or unrecognized tax benefits.

The Company classifies interest expense and penalties related to the underpayment of income taxes in the consolidated financial statements as income tax expense. As of December 31, 2020 and 2019, the Company recorded no accrued interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and in the states of Arizona, California, Massachusetts, New Jersey, New York and Pennsylvania.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant temporary differences that give rise to the deferred tax assets, net of deferred tax liabilities, are as follows:

	December 31,	
	2020	2019
	(dollars in thousands)	
Deferred tax assets		
Accrued expenses	$ 15,208	$ 12,306
Lease liability	1,748	1,869
Allowance, reserves, and other	225	526

Net operating loss and credit carryforward	25	21
Deferred tax asset	17,206	14,722
Deferred tax liabilities		
Right-of-use asset	(1,635)	(1,762)
Basis difference in fixed assets and intangible assets	(1,457)	(274)
Basis difference in investments	(866)	(4,462)
Deferred tax liability	(3,958)	(6,498)
Net deferred tax asset	$ 13,248	$ 8,224

Based on the Company's policy on deferred tax valuation allowances as discussed in *Note 2 - Summary of Significant Accounting Policies* and its analysis of positive and negative evidence, management believed that there was enough evidence for the Company to conclude that it was likely to realize all of its deferred tax asset as of December 31, 2020.

At December 31, 2020, the Company had no federal NOL carryforwards, and various state NOL carryforwards totaling $0.4 million. The state NOLs may be carried forward up to 20 years to offset future taxable income and begin to expire in 2035.

The statute of limitations is three years for federal income tax purposes, four years for state income tax purposes. The Company's federal and state tax returns from 2013 and forward are open under statute due to losses claimed in those periods utilized in 2018 and 2017.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act, among other things, includes certain income tax provisions for individuals and corporations; however, these benefits do not impact the Company's current tax provision.

13. Segment Reporting

The Company is engaged in the development, design, construction, marketing and sale of single-family attached and detached homes in multiple states across the country. The Company is managed by geographic location and each of the three geographic regions targets a wide range of buyer profiles including: first time, move-up, and luxury homebuyers. The Company provides homebuyers with the ability to personalize their homes through certain option and upgrade selections.

The management of the three geographic regions reports to the Company's chief operating decision makers ("CODMs"), the Chief Executive Officer and Chief Operating Officer of the Company. The CODMs review the results of operations, including total revenue and pretax (loss) income to assess profitability and to allocate resources. Accordingly, the Company has presented operations as the following three reportable segments:

- Arizona
- California
- Metro New York

The Company has also identified the Corporate operations as a non-operating segment, as it serves to support the homebuilding operations through functional departments such as executive, finance, treasury, human resources, accounting and legal. The majority of the corporate personnel and resources are primarily dedicated to activities relating to the operations and are allocated accordingly.

The following table summarizes total revenue and pretax (loss) income by segment:

	Year Ended December 31,		
	2020	**2019**	**2018**
		(dollars in thousands)	
Revenue			
Arizona	$ 320,691	$ 40,024	$ —
California	413,917	590,964	378,617
Metro New York (1)	—	—	—
Total	$ 734,608	$ 630,988	$ 378,617
Pretax (loss) income			
Arizona	$ 9,325	$ (3,927)	$ (547)
California	10,131	53,019	38,840
Metro New York (1)	(19,764)	(13,225)	8,631
Corporate	(11,857)	(7,317)	(5,605)
Total	$ (12,165)	$ 28,550	$ 41,319

(1) The Metro New York reportable segment does not currently have any active selling communities. Included in pretax (loss) income is $16.4 million loss, $7.9 million loss, and $13.0 million income from unconsolidated joint ventures for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table summarizes total assets by segment:

	December 31,	
	2020	**2019**
	(dollars in thousands)	
Assets		
Arizona	$ 268,141	$ 100,086
California	409,705	542,774
Metro New York	120,168	153,123
Corporate	97,750	43,234
Total	$ 895,764	$ 839,217

As of December 31, 2020 and 2019, goodwill of $20.7 million and $5.3 million, respectively, was allocated to the Arizona segment and no other segment had goodwill.

14. Fair Value

ASC 820 defines fair value as the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and requires assets and liabilities carried at fair value to be classified and disclosed in the following three categories:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets at measurement date.

Level 3 — Valuations derived from techniques where one or more significant inputs or significant value drivers are unobservable in active markets at measurement date.

The following table presents carrying values and estimated fair values of financial instruments:

		December 31, 2020		December 31, 2019	
	Hierarchy	Carrying	Fair Value	Carrying	Fair Value
		(dollars in thousands)			
Liabilities:					
Construction loans (1)	Level 2	$ 67,757	$ 67,757	$ 92,640	$ 92,640
Revolving credit facility (1)	Level 2	$ 140,142	$ 140,142	$ 8,680	$ 8,680
EB-5 notes payable (2)	Level 2	$ 59,216	$ 59,216	$ 95,010	$ 95,010
Loans payable (2)	Level 2	$ 5,144	$ 5,144	$ —	$ —

(1) Carrying amount approximates fair value due to the variable interest rate terms of these loans.
(2) Carrying amount approximates fair value due to recent issuances of debt having similar characteristics, including interest rate.

The carrying values of accounts and other receivables, restricted cash, deposits and accounts payable and accrued liabilities approximate the fair value for these financial instruments based upon an evaluation of the underlying characteristics, market data and because of the short period of time between origination of the instruments and their expected realization. The fair value of cash and cash equivalents is classified in Level 1 of the fair value hierarchy.

Non-financial assets such as real estate inventories are measured at fair value on a nonrecurring basis using a discounted cash flow approach with Level 3 inputs within the fair value hierarchy. This measurement is performed when events and circumstances indicate the asset's carrying value is not recoverable. During the year ended December 31, 2020, we determined that real estate inventories with a carrying value before impairment of $33.0 million within two communities in our California segment were not recoverable. Accordingly, we recognized impairment charges of an aggregate $3.4 million to reflect the estimated fair value of the communities of $29.6 million.

15. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Year Ended December 31,		
	2020	2019	2018
	(dollars in thousands)		
Supplemental disclosures of cash flow information			
Interest paid, net of amounts capitalized	$ 15	$ —	$ 111
Income taxes paid	$ 7,309	$ 14,152	$ 3,945
Supplemental disclosures of non-cash investing and financing activities			
Distribution of real estate joint venture to Landsea Holdings, net of cash provided	$ 27,294	$ —	$ —
Amortization of deferred financing costs	$ 3,753	$ 3,524	$ 1,878
Business acquisition holdback	$ 2,000	$ —	$ —
Right-of-use assets obtained in exchange for operating lease liabilities for new or modified operating leases	$ 1,053	$ 3,208	$ —
Amortization of prepaid interest	$ —	$ 2,994	$ 1,097
Note payable assumed through acquisition of real estate inventories	$ —	$ —	$ 40,000
Contribution of capitalizable costs to unconsolidated joint ventures	$ —	$ —	$ 9,295
Cash, cash equivalents, and restricted cash reconciliation			
Cash and cash equivalents	$ 105,778	$ 154,043	$ 99,865
Restricted cash	4,270	2,335	19,724
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$ 110,048	$ 156,378	$ 119,589

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Landsea Homes' financial condition and results of operations for the fiscal years ended December 31, 2020, 2019 and 2018 should be read together with the consolidated financial statements and related notes of Landsea Homes' that are included elsewhere in this document.

Statements regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are based upon our current expectations and involve numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included in our Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements.

Consolidated Financial Data

The following table summarizes the results of operations for the years ended December 31, 2020, 2019, and 2018.

	Year Ended December 31,		
	2020	**2019**	**2018**
	(dollars in thousands, except per share amounts)		
Revenue			
Home sales	$ 734,608	$ 568,872	$ 347,828
Lot sales	—	62,116	30,789
Total revenue	734,608	630,988	378,617
Cost of sales			
Home sales (including related party interest of $14,110, $15,526, and $8,978, respectively)	636,324	478,054	278,976
Inventory impairments	3,413	—	—
Lot sales (including related party interest of $0, $120, and $186, respectively)	—	53,475	27,328
Total cost of sales	639,737	531,529	306,304
Gross margin			
Home sales	94,871	90,818	68,852
Lot sales	—	8,641	3,461
Total gross margin	94,871	99,459	72,313
Sales and marketing expenses	48,100	26,522	16,266
General and administrative expenses	42,598	34,884	26,313
Total operating expenses	90,698	61,406	42,579
Income from operations	4,173	38,053	29,734
Other income (expense), net	80	(1,602)	(993)
Interest expense	—	—	—
Equity in net (loss) income of unconsolidated joint ventures (including related party interest of $1,146, $1,908, and $4,095, respectively)	(16,418)	(7,901)	13,018
Impairment of real estate held for sale	—	—	(440)
Pretax (loss) income	(12,165)	28,550	41,319
(Benefit) provision for income taxes	(3,081)	6,159	4,613
Net (loss) income	(9,084)	22,391	36,706
Net (loss) income attributable to noncontrolling interests	(133)	5,191	7,522
Net (loss) income attributable to Landsea Homes Incorporated	$ (8,951)	$ 17,200	$ 29,184
Earnings (loss) per share:			
Basic and diluted	$ (8,951)	$ 17,200	$ 29,184
Weighted average shares outstanding:			
Basic and diluted	1,000	1,000	1,000

Business Overview

We are a rapidly growing homebuilder focused on providing High Performance Homes that deliver energy efficient living in highly attractive geographies. Headquartered in Newport Beach, California, we primarily engage in the

design, construction, marketing, and sale of suburban and urban single-family detached and attached homes in California, Arizona and Metro New York. While we offer a wide range of properties, we primarily focus on entry-level and first-time move-up homes. We maintain a conservative capital structure and we believe our markets are characterized by attractive long-term housing fundamentals.

Building on the global homebuilding experience and environmentally focused strategy of Landsea Green Properties Co., Ltd. ("Landsea Green"), who indirectly owns 100% of our largest stockholder Landsea Holdings Corporation ("Landsea Holdings"), we are driven by a pioneering commitment to sustainability. Drawing on new-home innovation and technology, including a partnership with a leading technology company, we are focused on sustainable, energy-efficient and environmentally friendly building practices that result in a lighter environmental impact, lower resource consumption and a reduced carbon footprint. The three pillars of our High Performance Homes platform are home automation, energy efficiency, and sustainability. These pillars are reflected in such features as WiFi mesh networking, smart light switches, smart door locks, smart thermostats, WiFi garage door openers, LED lighting and upgraded insulation. Our efficient home designs help reduce lumber, concrete, and building material waste on our jobsites.

Our communities are positioned in attractive markets like California and Arizona that, based on market conditions like low new home supply levels and high levels of employment relative to permits, are poised for growth. We are also prudently evaluating opportunities in new regional markets in which there is high demand and favorable population and employment growth as a result of proximity to job centers or primary transportation corridors. We are committed to achieving among the highest standards in design, quality, and customer satisfaction and are a leader among our peers on several key operating and homebuilding metrics.

Our operations are organized into three reportable segments: Arizona, California, and Metro New York. Our Corporate operations are a non-operating segment to support our homebuilding operations by providing executive, finance, treasury, human resources, accounting and legal services.

Landsea Homes Incorporated (“LHI”, “we”, or the “Company”) was a wholly owned subsidiary of Landsea Holdings. Subsequent to year-end, on January 7, 2021, Landsea Homes Corporation (formerly known as LF Capital Acquisition Corp. or “LF Capital”) consummated the previously announced business combination pursuant to that certain Agreement and Plan of Merger dated August 31, 2020 (the “Merger Agreement”), by and among LF Capital, LFCA Merger Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of LF Capital (“Merger Sub”), LHI, and Landsea Holdings. As contemplated by the Merger Agreement and as described in LF Capital’s definitive proxy statement filed with the United States Securities and Exchange Commission (the “SEC”) on November 23, 2020, Merger Sub was merged with and into LHI, with LHI continuing as the surviving corporation. The name of LF Capital was changed at that time to Landsea Homes Corporation. The name of LHI was also changed at that time to Landsea Homes US Corporation, which became a wholly owned subsidiary of Landsea Homes Corporation.

Results of Operations

During 2020, we continued our strategy of shifting our inventory and product to more affordable price points. During January 2020, we completed our second homebuilder acquisition in the Phoenix, Arizona market by purchasing 100% of the membership interests of Garrett Walker Homes (“Garrett Walker”). This acquisition adds to our strength in Arizona by virtue of an impressive management team of seasoned professionals with deep, local knowledge and a track record of impressive performance, coupled with an inventory of over 1,700 lots, primarily

focused on entry-level homebuyers. The combination of our investments in the Arizona market and strong activity in the existing California market during 2020 resulted in a 29% year-over-year increase in home sales revenue and a 156% increase in homes delivered from 597 units in 2019 to 1,527 units in 2020. For 2019, homes delivered increased 107% from 289 units in 2018 to 597 units in 2019. The increase in home deliveries as compared to home sales revenue reflects the investment in communities at more affordable price points for a lower average selling price (“ASP”).

During the months of March, April and May 2020, our California and Metro New York operations were negatively impacted by the COVID-19 mandatory stay at home orders, which caused meaningful delays in our operations and in some communities prohibited us from delivering homes to our customers. The most restrictive of these Government orders were lifted during the third quarter and we saw a meaningful recovery in both orders and deliveries within our California segment.

Subject to deteriorating market conditions due to the impact from COVID-19, or other unforeseen obstacles, we believe our operations are well positioned for future growth as a result of the current land positions, our focus on the entry-level homebuyer, and our current liquidity. As we have grown, we have focused on maintaining prudent leverage levels with debt to capital ratio increasing to 33.3% as of December 31, 2020 compared to 24.6% as of December 31, 2019. As a result, we believe the strength of our balance sheet and operating platform have positioned us to execute our growth strategy and optimize stockholder returns.

We anticipate the homebuilding markets in each of our reportable segments to continue to be tied to both the local economy and the macro-economic environment. Accordingly, net orders, home deliveries, and ASP’s in future years could be negatively affected by economic conditions, such as decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Additionally, results could be impacted by a decrease in home affordability as a result of price appreciation, increases in mortgage interest rates, or tightening of mortgage lending standards. The spread of COVID-19 around the world in the first quarter of 2020 and its effects throughout the year caused significant volatility in the U.S. market. There remains significant uncertainty around the breadth and duration of business disruptions related to COVID-19 even as vaccine distribution is implemented throughout the nation. Continuing impacts from COVID-19, including fiscal, political, and societal reactions to the effects of the virus, will continue to impact the U.S. economy and, as such, we are unable to determine whether it will continue to have a material impact on our operations.

Strategy

The Company’s strategy is focused on maximizing shareholder returns through profitability and efficiency, while balancing appropriate amounts of leverage. In general, we are focused on the following long-term strategic objectives:

- Expand community count in current markets and enhance operating returns
- Maintain an appropriate supply of lots
- Continue to focus on entry-level product offerings
- Continue geographic expansion and diversification into new markets
- Leverage our existing selling, general, and administrative base to enhance shareholder returns and profitability
- Become a top-ten homebuilder in the United States

Non-GAAP Financial Measures

Non-GAAP financial measures are defined as numerical measures of a company’s performance that exclude or include amounts so as to be different than the most comparable measures calculated and presented in accordance with accounting principles generally accepted in the United States (“GAAP”). The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for the Company’s related financial results prepared in accordance with GAAP.

We present non-GAAP financial measures to enhance an investor’s evaluation of the ongoing operating results and to facilitate meaningful comparisons of the results between periods. Management uses these non-GAAP measures to evaluate the ongoing operations and for internal planning and forecasting.

Results of Operations and Assets by Segment

	Year Ended December 31,		
	2020	2019	2018
Pretax (loss) income		*(dollars in thousands)*	
Arizona	$ 9,325	$ (3,927)	$ (547)
California	10,131	53,019	38,840

Metro New York	(19,764)	(13,225)	8,631
Corporate	(11,857)	(7,317)	(5,605)
Total	$ (12,165)	$ 28,550	$ 41,319

	December 31,	
	2020	2019
Assets	*(dollars in thousands)*	
Arizona	$ 268,141	$ 100,086
California	409,705	542,774
Metro New York	120,168	153,123
Corporate	97,750	43,234
Total	$ 895,764	$ 839,217

Our Arizona segment recorded pretax income for the first time during the year December 31, 2020 as a result of the acquisition of Pinnacle West in June 2019 and the acquisition of Garrett Walker in January 2020. This significantly grew our asset base in Arizona at the same time. Prior to the acquisitions, in 2018 and early 2019, Arizona had several communities in various stages of development incurring customary startup costs and general and administrative expenses.

California pretax income for the year ended December 31, 2020 decreased primarily due to a 22% decrease in home sales revenues, mainly from the close-out of certain communities with unusually high ASPs in 2019, the delays imposed by COVID-19, and inventory impairments, which amounted to $3.4 million. We expect this trend to reverse in 2021 as dollar value of orders increased 32% for the year ended December 31, 2020 compared to 2019 and the dollar value of our backlog as of December 31, 2020 is up 237% compared to December 31, 2019. For the year ended December 31, 2019, the amount of pretax income increased over 2018 due to the increase in home sales revenues. The total assets of California decreased during 2020 as we began to shift to homes with lower ASPs and reallocated some capital to the Arizona segment.

The Metro New York segment experienced a large shift in pretax loss in 2020 as compared to 2019 due to an impairment of $27.1 million at the Avora unconsolidated joint venture resulting from delays due to COVID-19, increased market competition, and pricing pressure. Our share of the impairment included in pretax (loss) income based on ownership percentage was $13.8 million. Our 2018 pretax income included the substantial closeout of the Boston Point unconsolidated joint venture which generated a meaningful amount of income as a majority of the units and a retail space associated with that project were delivered.

We have also identified our Corporate operations as a non-operating segment, as it serves to support the business's operations through functional departments such as executive, finance, treasury, human resources, accounting and legal. The majority of the corporate personnel and resources are primarily dedicated to activities relating to the business's operations and are allocated accordingly.

Home Deliveries and Home Sales Revenue

Changes in home sales revenue are the result of changes in the number of homes delivered and the ASP of those delivered homes. Commentary on significant changes for each of the segments in these metrics is provided below.

	Year Ended December 31,								
	2020			2019			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	1,104	$ 320,691	$ 290	133	$ 40,024	$ 301	730%	701%	(4)%
California	423	413,917	979	464	528,848	1,140	(9)%	(22)%	(14)%
Metro New York	—	—	—	—	—	—	N/A	N/A	N/A
Total	1,527	$ 734,608	$ 481	597	$ 568,872	$ 953	156%	29%	(50)%

	Year Ended December 31,								
	2019			2018			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	133	$ 40,024	$ 301	—	$ —	$ —	N/A	N/A	N/A
California	464	528,848	1,140	289	347,828	1,204	61%	52%	(5)%
Metro New York	—	—	—	—	—	—	N/A	N/A	N/A
Total	597	$ 568,872	$ 953	289	$ 347,828	$ 1,204	107%	64%	(21)%

The Arizona segment began delivering homes in June 2019 in connection with the acquisition of Pinnacle West and continued to grow from the acquisition of Garrett Walker in January 2020. During 2020, the Arizona segment delivered 1,104 homes with an ASP of $0.3 million and generated $320.7 million in home sales revenue. We began acquiring land and development activities in Arizona during 2018 and did not deliver any homes for the year ended December 31, 2018.

For the year ended December 31, 2020, the year-over-year decrease in home sales revenue and deliveries in the California segment of 22% and 9%, respectively, was primarily the result of COVID-19 induced shutdowns which slowed construction and sales, particularly during the second quarter. The decrease in ASP was the result of a different mix of communities delivering with lower price points consistent with our strategy of delivering homes with more affordable price point offerings.

The Metro New York segment has not yet delivered any homes, other than those through unconsolidated joint ventures. Therefore, there are no home sale revenues or deliveries for the years ended December 31, 2020, 2019 and 2018.

Home Sales Gross Margins

Home sales gross margin measures the price achieved on delivered homes compared to the costs needed to build the home. In the following table, we calculate gross margins adjusting for interest in cost of sales, inventory impairments (if applicable), and purchase price accounting for acquired work in process inventory (if applicable). We believe the above information is meaningful as it isolates the impact that indebtedness, impairments and acquisitions have on our gross margins and allows for comparability to previous periods and our competitors. See "Critical Accounting Policies" below and Note 3 - Business Combinations within the accompanying notes to the consolidated financial statements for additional discussion regarding acquired work in process inventory.

	Year Ended December 31,					
	2020	%	2019	%	2018	%
	(dollars in thousands)					
Home sales revenue	$ 734,608	100.0%	$ 568,872	100.0%	$ 347,828	100.0%
Cost of home sales	639,737	87.1%	478,054	84.0%	278,976	80.2%
Home sales gross margin	94,871	12.9%	90,818	16.0%	68,852	19.8%
Add: Interest in cost of home sales	37,926	5.2%	40,262	7.1%	16,074	4.6%
Add: Inventory impairments	3,413	0.5%	—	—%	—	—%
Adjusted home sales gross margin excluding interest and inventory impairments (1)	136,210	18.5%	131,080	23.0%	84,926	24.4%
Add: Purchase price accounting for acquired inventory	15,519	2.1%	2,874	0.5%	—	—%
Adjusted home sales gross margin excluding interest, inventory impairments, and purchase price accounting for acquired inventory (1)	$ 151,729	20.7%	$ 133,954	23.5%	$ 84,926	24.4%

(1) This non-GAAP financial measure should not be used as a substitute for the Company's operating results in accordance with GAAP. An analysis of any non-GAAP financial measure should be used in conjunction with results presented in accordance with GAAP. We believe this non-GAAP measure is meaningful because it provides insight into the impact that financing arrangements and acquisitions have on our homebuilding gross margin and allows for comparability of our gross margins to competitors that present similar information.

Home sales gross margin percentage decreased from 16.0% for the year ended December 31, 2019 to 12.9% for the year ended December 31, 2020 primarily due the purchase accounting adjustments for acquired inventory and an inventory impairment in the year ended December 31, 2020. Purchase accounting for acquired inventory began in June 2019 due to the acquisition of Pinnacle West and increased in 2020 due to the acquisition of Garrett Walker.

Adjusted home sales gross margin excluding interest, inventory impairments and purchase price accounting for acquired inventory decreased from 23.5% for the year ended December 31, 2019 to 20.7% for the year ended December 31, 2020 primarily due to a higher level of incentives offered during the second quarter of 2020 to sell standing inventory units and strengthen the balance sheet during the delays caused by COVID-19.

Home sales gross margin percentage decreased from 19.8% for the year ended December 31, 2018 to 16.0% for the year ended December 31, 2019 primarily due to higher interest costs and purchase accounting adjustments for acquired inventory.

Lot Sales

Lot sales revenue and gross margin can vary significantly between reporting periods based on (1) the number of lots sold, and (2) the percentage of completion related to the development activities required as part of the lot sales contracts. For the years ended December 31, 2020, 2019 and 2018, the California segment sold 0, 66, and 19 lots, respectively, and recognized $0.0 million, $62.1 million and $30.8 million in lot sales revenue, respectively. All lot sales to date have been in the California segment and the revenue related to these sales was fully recognized as of December 31, 2019. The change in lot sales revenue during 2019 compared to 2018 is attributable to the increase in number of lots sold and a greater percentage of completion on all lots sold inception to date.

Selling, General, and Administrative Expenses

	Year Ended December 31,			As a Percentage of Home Sales Revenue		
	2020	2019	2018	2020	2019	2018
	(dollars in thousands)					
Sales and marketing expenses	$ 48,100	$ 26,522	$ 16,266	6.5%	4.7%	4.7%
General and administrative expenses	42,598	34,884	26,313	5.8%	6.1%	7.6%
Total operating expenses	$ 90,698	$ 61,406	$ 42,579	12.3%	10.8%	12.3%

During 2020, the selling, general, and administrative ("SG&A") expense rate, as a percentage of home sales revenue, was 12.3%, up from 2019. This increase was primarily due to additional home closing costs associated with home deliveries with lower ASPs. The increase in total SG&A expenses was primarily due to (1) an increase in commissions and closing costs resulting from an increase in home sales revenues, (2) an increase in selling and marketing efforts due to an increased number of selling communities, (3) an increase in compensation and personnel related expenses as a result of higher headcount to support the growth, and (4) $0.7 million in transaction expenses from the acquisition of Garrett Walker during 2020.

During 2019, the SG&A rate as a percentage of home sales revenue was 10.8%, and improved from 12.3% in 2018 due to the increase in home sales revenue. During 2018, revenue was 64% lower than 2019, but the SG&A expenses were ramping up to support the level of growth and deliveries that were expected to occur in 2019 and 2020. Similar to 2020, the increases in total SG&A expenses from 2018 to 2019 related to increased selling costs due to higher revenues, selling communities and headcount.

Net New Home Orders, Dollar Value of Orders, and Monthly Absorption Rates

Changes in the dollar value of net new orders are impacted by changes in the number of net new orders and the average selling price of those homes. Monthly Absorption Rate is calculated as total net new orders per period, divided by the average active communities during the period, divided by the number of months per period.

	Year Ended December 31,											
	2020				2019				% Change			
	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate
	(dollars in thousands)											
Arizona (1)	1,283	$ 402,338	$ 314	5.7	104	$ 31,192	$ 300	2.6	1,134%	1,190%	5%	119%
California	608	566,078	931	4.4	376	430,133	1,144	2.7	62%	32%	(19%)	63%
Metro New York	—	—	—	—	—	—	—	—	N/A	N/A	N/A	N/A
Total	1,891	$ 968,416	$ 512	5.2	480	$ 461,325	$ 961	2.7	294%	110%	(47)%	93%

(1) Monthly Absorption Rate for Arizona in 2019 is based on seven months for the time subsequent to the acquisition of Pinnacle West in June 2019.

	Year Ended December 31,											
	2019				2018				% Change			
	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate	Homes	Dollar Value	ASP	Monthly Absorption Rate
	(dollars in thousands)											
Arizona	104	$ 31,192	$ 300	2.6	—	$ —	$ —	—	N/A	N/A	N/A	N/A
California	376	430,133	1,144	2.7	333	376,605	1,131	3.7	13%	14%	1%	(27)%
Metro New York	—	—	—	—	—	—	—	—	N/A	N/A	N/A	N/A
Total	480	$ 461,325	$ 961	2.7	333	$ 376,605	$ 1,131	3.7	44%	22%	(15)%	(27)%

Net new home orders increased dramatically in 2020 due to an increase in active communities, which was fueled by the acquisition of Garrett Walker in addition to several of our first communities in Arizona opening for sale during the same period. We did not have any actively selling communities in Arizona during 2019 until we purchased Pinnacle West in June 2019.

For the year-ended December 31, 2020, the increase in net new orders in California was primarily due to an increase in the monthly absorption rate, which was driven by entry-level communities that sold at a much faster pace.

The Metro New York segment has not yet sold or delivered any homes, other than those through unconsolidated joint ventures. The consolidated projects within this segment remain in various stages of construction and as of December 31, 2020 had not yet opened for sale.

Average Selling Communities

Average selling communities is the sum of communities actively selling each month, divided by the total months in the calculation period.

	Year Ended December 31,				
	2020	% Change	2019	% Change	2018
Arizona	18.8	N/A	5.7	N/A	—
California	11.6	(2)%	11.8	55%	7.6
Metro New York	—	N/A	—	N/A	—
Total	30.4	74%	17.5	130%	7.6

(1) Average selling communities calculations for Arizona in 2019 are based on seven months, for the time subsequent to the acquisition of Pinnacle West in June 2019.

Backlog

Backlog reflects the number of homes, net of cancellations, for which we have entered into a sales contract with a customer but have not yet delivered the home.

	December 31, 2020			December 31, 2019			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	508	$ 172,932	$ 340	64	$ 19,700	$ 308	694%	778%	10%
California	242	216,410	894	57	64,255	1,127	325%	237%	(21)%
Metro New York	—	—	—	—	—	—	N/A	N/A	N/A
Total	750	$ 389,342	$ 519	121	$ 83,955	$ 694	520%	364%	(25)%

The increase in the number of backlog homes and value as of December 31, 2020 as compared to December 31, 2019 is primarily attributable to a greater number of home sales in the Arizona segment following the acquisition of Garrett Walker. The increase in backlog homes and value in California is primarily due to the increase in orders resulting from newer entry-level communities that sold at a much faster pace.

Lots Owned or Controlled

The table below summarizes lots owned or controlled by reportable segment as of the dates presented. Lots controlled includes lots where we have placed a deposit and have a signed purchase contract or rolling option contract.

	December 31, 2020			December 31, 2019			
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	% Change
Arizona	3,094	1,770	4,864	645	2,596	3,241	50%
California	1,104	662	1,766	923	490	1,413	25%
Metro New York	50	—	50	70	—	70	(29)%
Total	4,248	2,432	6,680	1,638	3,086	4,724	41%

The total lots owned and controlled at December 31, 2020 were up 41% from December 31, 2019, primarily due to the continued expansion into Arizona and continued investment in California. During 2020, we purchased Garrett Walker, which added approximately 1,750 lots to the Arizona portfolio.

Equity in Net Income (Loss) of Unconsolidated Joint Ventures

As of December 31, 2020, 2019, and 2018, we held membership interests in two unconsolidated joint ventures related to homebuilding activities, both of which are part of the Metro New York segment. As of December 31, 2020, the joint venture LS-NJ Port Imperial JV LLC ("Avora") had active homebuilding activities with orders and deliveries, while the other LS-Boston-Point LLC ("Boston Point") was effectively closed out with only customary post-closing, warranty-related activities remaining.

Our share of joint venture loss for the year ended December 31, 2020 was $16.4 million, compared to a loss of $7.9 million for the year ended December 31, 2019, and income of $13.0 million for the year ended December 31, 2018. The Company's joint venture loss in 2020 and 2019 was due to impairment charges of $27.1 million and $5.8 million taken by the Avora joint venture in June 2020 and 2019, respectively. The impairment charge in 2020 was primarily a result of slowing orders during COVID-19. In both 2020 and 2019, the impairment charges were also due to increased competition from neighboring communities, and weaker pricing than expected. During 2018, the majority of the units and a retail space from the Boston Point joint venture were delivered and generated a meaningful amount of income.

The following sets forth supplemental operational and financial information about the unconsolidated joint ventures. Such information is not included in the financial data for GAAP purposes, but is reflected in the results as a component of equity in net income (loss) of unconsolidated joint ventures. This data is included for informational purposes only.

	Year Ended December 31,		
	2020	2019	2018
Unconsolidated Joint Ventures Operational Data	*(dollars in thousands)*		
Net new home orders	31	61	46
New homes delivered	33	60	161
Selling communities at end of period	1	1	2
Backlog (dollar value)	$ 5,024	$ 5,772	$ 6,523
Backlog (homes)	4	6	5
Units owned and controlled	39	72	132

Other Income (Expense), net

For the year ended December 31, 2020, other income, net was $0.1 million compared to other expense, net of $1.6 million for the same period in 2019. The amount of other expenses for the year ended December 31, 2020 was significantly lower than 2019 primarily due to the absence of certain costs associated with one of our consolidated joint ventures which finished selling out its underlying homes during 2019.

For the year ended December 31, 2019, other expense, net was $1.6 million compared to other expense, net of $1.0 million for the year ended December 31, 2018. The amount for the year ended December 31, 2019 primarily related to (1) an increase in project investigation costs for communities that ultimately were not acquired and written off, and (2) a slight increase in overhead fees paid to noncontrolling interests.

(Benefit) Provision for Income Taxes

The (benefit) provision for income taxes is primarily influenced by (1) changes in the amount of pretax income (loss), (2) changes in the amount of income (loss) attributable to noncontrolling interests that are included in pretax income (loss), (3) the reversal of valuation allowances related to deferred tax assets, (4) income tax credits, or (5) changes in federal and state statutory income tax rates. The income tax benefit for the year ended December 31, 2020 was $3.1 million, as compared to a provision of $6.2 million and $4.6 million for the years ended December 31, 2019 and 2018, respectively. The effective tax rate for the year ended December 31, 2020 was 25.3%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits and prior year true-ups, partially offset by the energy efficient home credit. The federal energy efficient home credit provides eligible contractors a federal income tax credit of $2,000 for each home delivered that meets the energy saving and certification requirements under the statute. At the end of 2020, we concluded that 423 homes delivered during the year were eligible for the tax credit, providing a benefit of $0.8 million for the year ended December 31, 2020.

The effective tax rate for the year ended December 31, 2019 was 21.6%, and was different from the federal statutory rate primarily due to state income taxes net of federal income tax benefits, partially offset by the energy efficient home credit. The effective tax rate for the year ended December 31, 2018 was 11.2%, and was different from the federal statutory rate primarily due to the release of a valuation allowance and state income taxes net of federal income tax benefits. During the year ended December 31, 2018, we released a valuation allowance of $8.2 million related to the deferred tax asset that was established the previous year.

Critical Accounting Policies

Critical accounting estimates are those that we believe are both significant and that require the Company to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and the estimates included in the financial statements might be impacted if we used different assumptions or conditions. The significant accounting policies are outlined in *Note 2 - Summary of Significant Accounting Policies* to the consolidated financial statements. The following are accounting policies that we believe are critical because of the significance of the activity to which they relate or because they require the use of significant estimates, judgments and/or other assumptions in their application. Management believes that the following accounting policies are among the most important to the portrayal of the financial condition and results of operations and require among the most difficult, subjective or complex judgments.

Revenue Recognition

Effective January 1, 2018, we adopted the requirements of Accounting Standards Codification (“ASC”) 606 under the modified retrospective method. Under ASC 606, we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To do this, we perform the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation.

Home Sales and Profit Recognition

In accordance with ASC 606, home sales revenue is recognized when performance obligations within the underlying sales contracts are fulfilled. We consider obligations fulfilled when closing conditions are complete, title has transferred to the homebuyer, and collection of the purchase price is probable. Sales incentives are recorded as a reduction of revenues when the respective home is closed. The profit we record is based on the calculation of cost of sales, which is dependent on the estimate of total cost. When it is determined that the performance obligation is not satisfied, the related revenue and profit are deferred for recognition in future periods.

Lot Sales and Profit Recognition

In accordance with ASC 606, revenues from lot sales are recorded and a profit is recognized when performance obligations are satisfied, which includes transferring a promised good or service to a customer. Lot sales are recognized when all conditions of escrow are met, including delivery of the real estate asset in the agreed-upon condition, passage of title, receipt of appropriate consideration, and collection of associated receivables, if any, is probable, and other applicable criteria are met. Sales incentives are a reduction of revenues when the respective lot sale is recognized. Based upon the terms of the agreement, when it is determined that the performance obligation is not satisfied, the sale and the related profit are deferred for recognition in future periods.

Under the terms of certain lot sale contracts, we are obligated to perform certain development activities after the close of escrow. Due to this continuing involvement, we recognize lot sales under the percentage of-completion method, whereby revenue is recognized in proportion to total costs incurred divided by total costs expected to be incurred. As of December 31, 2020 and 2019, we had no deferred revenue from lot sales. We recognize these amounts as development progresses. During 2019, we recognized $15.9 million of deferred revenue from lot sales in prior years.

Real Estate Inventories and Cost of Sales

We capitalize pre-acquisition costs, land deposits, land, development, and other allocated costs, including interest, property taxes, and indirect construction costs to real estate inventories. Pre-acquisition costs, including non-refundable land deposits, are expensed to other (expense) income, net, if we determine continuation of the prospective project is not probable.

Land, development, and other common costs are typically allocated to real estate inventories using a methodology that approximates the relative-sales-value method. If the relative-sales-value-method is impracticable, costs are allocated based on area methods (such as square footage or lot size) or other value methods as appropriate under the circumstances. Home construction costs per production phase are recorded using the specific identification method. Cost of sales for homes closed includes the estimated total construction costs of each home at completion and an allocation of all applicable land acquisition, land development, and related common costs (both incurred and estimated to be incurred) based upon the relative-sales-value of the home within each project. Changes in estimated development and common costs are allocated prospectively to remaining homes in the project.

In accordance with ASC 360, *Property, Plant and Equipment*, inventory is stated at cost, unless the carrying amount is determined not to be recoverable, in which case inventory is written down to its fair value. We review each real estate asset on a periodic basis or whenever indicators of impairment exist. Real estate assets include projects actively selling and projects under development or held for future development. Indicators of impairment include, but are not limited to, significant decreases in local housing market values and selling prices of comparable homes, significant decreases in gross margins and sales absorption rates, costs significantly in excess of budget, and actual or projected cash flow losses.

If there are indicators of impairment, we perform a detailed budget and cash flow review of the applicable real estate inventories to determine whether the estimated remaining undiscounted future cash flows of the project are more or less than the asset's carrying value. If the undiscounted estimated future cash flows are more than the asset's carrying value, no impairment adjustment is required. However, if the undiscounted estimated future cash flows are less than the asset's carrying value, the asset is deemed impaired and is written down to fair value. Fair value is measured in accordance with ASC 820, *Fair Value Measurements and Disclosures.*

When estimating undiscounted future cash flows of a project, we make various assumptions, including: (i) expected sales prices and sales incentives to be offered, including the number of homes available, pricing and incentives being offered by the Company or other builders in other projects, and future sales price adjustments based on market and economic trends; (ii) expected sales pace and cancellation rates based on local housing market conditions, competition and historical trends; (iii) costs expended to date and expected to be incurred including, but not limited to, land and land development costs, home construction costs, interest costs, indirect construction and overhead costs, and selling and marketing costs; (iv) alternative product offerings that may be offered that could have an impact on sales pace, sales price and/or building costs; and (v) alternative uses for the property.

Many assumptions are interdependent and a change in one may require a corresponding change to other assumptions. For example, increasing or decreasing sales absorption rates has a direct impact on the estimated per unit sales price of a home, the level of time sensitive costs (such as indirect construction, overhead and carrying costs), and selling and marketing costs (such as model maintenance costs and advertising costs). Depending on the underlying objective of the project, assumptions could have a significant impact on the projected cash flow analysis. For example, if the objective is to preserve operating margins, our cash flow analysis will be different than if the objective is to increase the velocity of sales. These objectives may vary significantly from project to project and over time.

If real estate assets are considered impaired, the impairment adjustments are calculated by determining the amount the asset's carrying value exceeds its fair value in accordance with ASC 820. We calculate the fair value of real estate projects by using either a land residual value analysis or a discounted cash flow analysis. Under the land residual value analysis, we estimate what a willing buyer would pay and what a willing seller would sell a parcel of land for (other than in a forced liquidation) in order to generate a market rate operating margin and return. Under the discounted cash flow method, the fair value is determined by calculating the present value of future cash flows using a risk adjusted discount rate. Critical assumptions that are included as part of these analysis include estimating future housing revenues, sales absorption rates, land development, construction and related carrying costs (including future capitalized interest), and all direct selling and marketing costs. This evaluation and the assumptions used by us to determine future estimated cash flows and fair value require a substantial degree of judgment, especially with respect to real estate projects that have a substantial amount of development to be completed, have not started selling or are in the early stages of sales, or are longer in duration. Actual revenues, costs and time to complete and sell a community could vary from these estimates, which could impact the calculation of fair value of the asset and the corresponding amount of impairment that is recorded in the results of operations.

For the year ended December 31, 2020 we recognized real estate inventory impairments of $3.4 million related to two communities in our California segment. For the years ended December 31, 2019 and 2018, no inventory impairments were recorded.

Warranty Accrual

Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Amounts are accrued based upon our historical rates of warranty claims. We also consider historical experience of peers due to our limited history related to homebuilding sales. We assess the adequacy of the warranty accrual on a quarterly basis and adjust the amounts recorded if necessary. The warranty accrual is included in accrued expenses and other liabilities in the accompanying consolidated balance sheets and adjustments to the warranty accrual are recorded through cost of sales.

Income Taxes

We record income taxes in accordance with ASC 740, *Income Taxes*, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid.

Each year we assess the deferred tax asset to determine whether all or any portion of the asset is more likely than not (defined as a likelihood of more than 50%) unrealizable under ASC 740, *Income Taxes*. We are required to establish a valuation allowance for any portion of the tax asset determined to be more likely than not unrealizable. Our assessment considers, among other things, the nature, frequency and severity of prior cumulative losses, forecasts of future taxable income, the duration of statutory carryforward periods, utilization experience with net operating losses and tax credit carryforwards and the planning alternatives, to the extent these items are applicable. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. The value of deferred tax assets will depend on applicable income tax rates. Judgment is required in determining the future tax consequences of events that have been recognized in the Company's consolidated financial statements and/or tax returns. Differences between anticipated and actual outcomes of these future tax consequences could have a material impact on the consolidated financial statements.

We account for income taxes in accordance with ASC 740 which requires recognition of deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of its assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. When it is more likely than not that a portion or all of a deferred tax asset will not be realized in the future, we provide a corresponding valuation allowance against the deferred tax asset. In addition, when it is more likely than not that a tax position will be sustained upon examination by a tax authority that has full knowledge of all relevant information, we measure the amount of tax benefit from the position and record the largest amount of tax benefit that is more likely than not of being realized after settlement with a tax authority. Our policy is to recognize interest to be paid on an underpayment of income taxes in interest expense and any related statutory penalties in the provision for income taxes on the consolidated statements of operations.

Goodwill

We evaluate goodwill for possible impairment in accordance with ASC 350, *Intangibles–Goodwill and Other,* on an annual basis in the fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We use a two step process to assess whether or not goodwill can be realized. The first step is a qualitative assessment that analyzes current economic indicators associated with a particular reporting unit. For example, we analyze changes in economic, market and industry conditions, business strategy, cost factors, and financial performance, among others, to determine if there would be a significant decline to the fair value of a particular reporting unit. If the qualitative assessment indicates a stable or improved fair value, no further testing is required.

If a qualitative assessment indicates that a significant decline to fair value of a reporting unit is more likely than not, or if a reporting unit's fair value has historically been closer to its carrying value, we will proceed to the second step where we calculate the fair value of a reporting unit based on discounted future cash flows. If this step indicates that the carrying value of a reporting unit is in excess of its fair value, we will recognize an impairment equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Business Combinations

We account for business combinations in accordance with ASC 805, *Business Combinations*, if the acquired assets assumed and liabilities incurred constitute a business. We consider acquired companies to constitute a business if the acquired net assets and processes have the ability to create outputs in the form of revenue. For acquired companies constituting a business, we recognize the identifiable assets acquired and liabilities assumed at their acquisition-date fair values and recognize any excess of total consideration paid over the fair value of the identifiable assets as goodwill.

Liquidity and Capital Resources

Overview

As of December 31, 2020, we had $110.0 million of cash, cash equivalents, and restricted cash, a $46.3 million decrease from December 31, 2019, primarily due to the Garrett Walker acquisition and an increase in land acquisition spend partially offset by an increase in home sales revenues. Subsequent to year-end, on January 7, 2021 we completed the previously announced merger with LF Capital and received net cash of approximately $60 million in connection with the Merger.

Our principal sources of capital are cash generated from home and land sales activities, borrowing from credit facilities and distributions from unconsolidated joint ventures. Our principal uses of capital are land purchases, land development, home construction, repayments on credit facilities, the acquisition of other homebuilders, and the payment of routine liabilities.

Cash flows for each of our communities depend on the stage in the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, entitlements and other approvals, and construction of model homes, roads, utilities, general landscaping, and other amenities. Because these costs are a component of inventory and not recognized in the consolidated statements of operations until a home closes, we incur significant cash outlays prior to the recognition of earnings. In the later stages of community development, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, we are actively acquiring and developing lots in our markets to maintain and grow lot supply and active selling communities. As we continue to expand our business, we expect that cash outlays for land purchases and land development to increase our lot inventory will continue to exceed cash generated by operations.

We expect to generate cash from the sale of inventory including unsold and presold homes under construction. After making required loan repayments under various credit facilities, we intend to re-deploy the cash generated from the sale of inventory to acquire and develop strategic, well-positioned lots that represent opportunities to generate future income and cash flows by allocating capital to best position us for long-term success.

We intend to utilize debt as part of ongoing financial strategy, coupled with redeployment of cash flows from operations, to finance our business. As of December 31, 2020, we had outstanding borrowings of $272.3 million in aggregate principal related to our notes and other debts payable. We will consider a number of factors when evaluating our level of indebtedness and when making decisions regarding the incurrence of new indebtedness, including the purchase price of assets to be acquired with debt financing, the market value of our assets and the ability of particular assets, and our Company as a whole, to generate cash flow to cover the expected debt service. In addition, our credit facilities contain certain financial covenants, among others, that limit the amount of leverage we can maintain, as well as minimum tangible net worth and liquidity requirements.

We believe that we will be able to fund current and foreseeable liquidity needs with cash on hand, cash generated from operations, and cash expected to be available from credit facilities or through accessing debt or equity capital as needed.

Credit Facilities

The Company has a secured line of credit ("LOC") with total commitments of $195.0 million and a maturity date of February 2024. The LOC has a variable interest rate of Prime plus 1.25% with a floor of 5.50%. As of December 31, 2020, the interest rate was 5.50%. As of December 31, 2020, the total available amount under the credit facility based on the collateral within the LOC was $86.8 million, subject to customary borrowing base requirements, of which there was $65.5 million outstanding, compared to $8.7 million outstanding as of December 31, 2019. The increase in the outstanding balance of the LOC related to the high volume of deliveries, and paydowns on the LOC, during the month of December 2019.

In connection with the acquisition of Garrett Walker, we entered into an additional $75.0 million line of credit ("LOC2") with a bank, that was later expanded to $100.0 million. On the date of acquisition, we drew $70.0 million from the LOC2. The LOC2 has an interest rate of Prime plus 1.00% with a floor of 5.25% and matures in January 2024. As of December 31, 2020, the total available amount under the LOC2 based on the borrowing base was $100.0 million, subject to customary borrowing base requirements, of which there was $74.6 million outstanding.

We had a total of $67.8 million in project specific construction, secured loan agreements ("Project Debt") outstanding as of December 31, 2020 with various banks, and maturity dates extending from June 2022 through December 2023. The maturity dates of the Project Debt generally coincide with the estimated completion dates of the underlying communities and collateral. The Project Debt has variable interest rates based on Prime or LIBOR and as of December 31, 2020, ranged from 4.00% to 5.50%. In 2018, we assumed two loans from a third-party land seller in connection with the acquisition of real estate inventories. Both loans have a variable interest rate of LIBOR plus 6.50% with a floor of 8.25%. As of December 31, 2020, the interest rate on both loans was 8.25%.

We have various EB-5 notes payable totaling $59.2 million as of December 31, 2020 with maturity dates ranging from February 2021 to June 2023 that are also generally tied to the estimated completion dates of the associated communities. The loans have fixed interest rates of 4.00% to 6.00%.

We also received a Paycheck Protection Program ("PPP") loan during the second quarter of 2020 in the amount of $4.3 million. The PPP Note matures on April 2022 and bears interest at a rate of 1.00% per annum. We fully utilized the proceeds from this loan to satisfy certain payroll and benefit obligations and have applied for relief of the full amount of the loan under the PPP.

Letters of Credit and Performance Bonds

In the normal course of business, we post letters of credit and performance bonds related to land development performance obligations with local municipalities. As of December 31, 2020 and December 31, 2019, we had $78.0 million and $61.0 million, respectively, in letters of credit and performance bonds issued and outstanding. Although significant development and construction activities have been completed related to the improvements at these sites, the letters of credit and performance bonds are generally not released until all development and construction activities are completed.

Financial Covenants

Our loans have certain financial covenants, including requirements to maintain a minimum liquidity balance, minimum tangible net worth, gross profit margin, leverage and interest coverage ratios. See the table below for the covenant calculations.

	December 31, 2020	
Financial Covenants	**Actual**	**Covenant Requirement**
	(dollars in thousands)	
Minimum Liquidity Covenant	$ 105,778	$ 40,000
Interest Coverage Ratio - EBITDA to Interest Incurred (1)	2.42	1
Tangible Net Worth	$ 588,702	$ 189,832
Maximum Leverage Ratio (2)	34.3%	<75%
Annual Gross Margin	12.9%	11.0%
Annual Net Margin (3)	4.8%	3.5%

(1) Calculation is based on EBITDA.
(2) Calculation is combined debt minus subordinated debt divided by total capitalization. The subordinated debt consists of EB-5 financing.
(3) Calculation is pre-tax and includes addbacks for previously capitalized related party interest in cost of sales, equity in net loss of unconsolidated joint ventures, acquisition related transaction costs, and amortization of purchase price accounting for acquired inventory.

The loan agreements also contain certain restrictive covenants, including limitations on incurrence of other indebtedness, liens, dividends and other distributions, asset dispositions, investments, and limitations on fundamental changes. The agreements contain customary events of default, subject to cure periods in certain circumstances, that would result in the termination of the commitments and permit the lender to accelerate payment on outstanding borrowings. These events of default include nonpayment of principal, interest and fees or other amounts; violation of covenants; inaccuracy of representations and warranties; cross default to certain other indebtedness; unpaid judgments; change in control; and certain bankruptcy and other insolvency events. As of December 31, 2020, we were in compliance with all covenants.

Cash Flows—Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

For the years ended December 31, 2020 and December 31, 2019, the comparison of cash flows is as follows:

- Net cash provided by operating activities decreased to $13.6 million during the year ended December 31, 2020 compared to $106.0 million during 2019. The decrease in net cash flows from operating activities was primarily due to cash paid to increase in real estate inventories by $19.9 million for the year ended December 31, 2020, compared to net cash provided by real estate inventories of $94.4 million during the year ended December 31, 2019. This difference was the result of increased land acquisitions and construction costs related to a higher number of active communities in 2020.

- Net cash used in investing activities was $125.1 million during the year ended December 31, 2020, compared to $22.5 million cash used in investing activities during the same period in 2019. The increase primarily relates to the business acquisition of Garrett Walker, which resulted in cash used, net of cash acquired, totaling $128.5 million, compared to $23.6 million used in the acquisition of Pinnacle West in 2019. During the year ended December 31, 2020 the cash provided from distributions from unconsolidated joint ventures was $5.2 million, compared to $1.7 million for the same period in 2019. The increase is related to the Avora joint venture, which has paid off all of its debt and began to make distributions in December 2020.

- Net cash provided by financing activities was $65.2 million during the year ended December 31, 2020, compared to net cash used in financing activities of $46.8 million during the same period in 2019. The increase in cash provided by financing activities is due to a net increase in cash from notes and other debts payable of $94.4 million, compared to a net decrease in cash of $19.6 million in 2019. The increase was primarily the result of the new LOC2 loan we entered into in connection with the Garrett Walker acquisition. The activity in notes and other debts payable was partially offset by a $15.4 million distribution to noncontrolling interests. In addition, we completed the final repayments totaling $41.7 million on a land bank arrangement in 2019 and had no comparable payment during the year ended December 31, 2020.

Cash Flows—Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

For the years ended December 31, 2019 and December 31, 2018, the comparison of cash flows is as follows:

- Net cash provided by operating activities increased to $106.0 million during the year ended December 31, 2019 compared to net cash used of $14.6 million during the same period in 2018. The increase in cash flows from operating activities was primarily due to real estate inventories providing $94.4 million cash for the year ended December 31, 2019, compared to the use of $77.5 million during 2018, as a result of increased home deliveries and revenues.

- Net cash used in investing activities was $22.5 million during the year ended December 31, 2019, compared to $20.9 million provided from investing activities during the same period in 2018. The decrease primarily related to the business acquisition of Pinnacle West in 2019, which resulted in cash used, net of cash acquired, totaling $23.6 million. In addition, during the year ended December 31, 2019 the cash provided from distributions from unconsolidated joint ventures was $1.7 million, compared to $17.1 million for the same period in 2018. This decrease related to the substantial closeout of the Boston Point joint venture, which closed the majority of its units and a retail space during 2018.

- Net cash used by financing activities was $46.8 million during the year ended December 31, 2019, compared to $84.3 million net cash provided during the same period in 2018. The decrease in cash provided by financing activities is due to a net decrease in cash from notes and other debts payable, which was due to a higher amount of home deliveries and revenue relative to the amount of spending on land and construction costs. In addition, during 2019 we fully repaid the land bank financing arrangements, versus a minimal amount of net borrowings from land banking arrangements during 2018.

Off-Balance Sheet Arrangements

Option Contracts

In the ordinary course of business, we enter into land purchase contracts in order to procure lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These purchase contracts typically require a cash deposit, and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements, including obtaining applicable property and development entitlements. The Company also utilizes option contracts with land sellers and others as a method of acquiring land in staged takedowns, to help manage the financial and market risk associated with land holdings, and to reduce the use of funds from financing sources. Option contracts generally require payment by the Company of a non-refundable deposit for the right to acquire lots over a specified period of time at

pre-determined prices. The obligations with respect to purchase contracts and option contracts are generally limited to the forfeiture of the related non-refundable cash deposits. As of December 31, 2020, we had outstanding purchase contracts and option contracts totaling $257.6 million, and had $32.0 million of cash deposits pertaining to land option contracts.

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

Joint Ventures

As of December 31, 2020 and 2019, we held membership interests in two unconsolidated joint ventures related to homebuilding activities. One of the joint ventures has active homebuilding activities ongoing as of December 31, 2020 and the other is effectively closed out with only limited warranty activities.

As of December 31, 2020 and 2019, the unconsolidated joint ventures had $0.0 million and $21.0 million in outstanding debt, respectively. The unconsolidated joint venture loans are secured by the project's assets and contain various representations, warranties and covenants that are customary for these types of agreements and are guaranteed by our majority shareholder Landsea Holdings Corporation. All loan covenants were met as of December 31, 2020.

Contractual Obligations

The contractual obligations as of December 31, 2020 were as follows:

	Payments due by Periods (dollars in thousands)				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Long-term debt maturities (1)	$ 272,259	$ 19,542	$ 111,830	$ 140,887	$ —
Operating leases (2)	7,421	1,601	3,021	2,037	762
Purchase obligations (3)	380,342	309,144	71,198	—	—
Total contractual obligations	$ 660,022	$ 330,287	$ 186,049	$ 142,924	$ 762

(1) Principal payments in accordance with the LOC, LOC2, Project Debt, EB-5 notes payable, and other loans payable..
(2) Operating lease obligations do not include payments to property owners covering common area maintenance charges.
(3) Purchase obligations include open work orders of $122.7 million and $257.6 million of the remaining purchase price for all land option contracts (net of deposits) as of December 31, 2020.

We are subject to certain obligations associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of business. Option contracts for the purchase of land enable the Company to defer acquiring portions of properties owned by third parties until we have determined whether to exercise our option, which may serve to reduce the financial risks associated with long-term land holdings. At December 31, 2020, we had $32.0 million of deposits, of which $1.0 million are refundable. We expect to acquire the majority of such land within the next 3 years. The Company's performance, including the timing and amount of purchase, if any, on the remaining purchase and option contracts is subject to change.

Non-GAAP Financial Measures

We include certain non-GAAP financial measures, including adjusted home sales gross margin, EBITDA, adjusted EBITDA, net debt to net capital, and adjusted net income. These non-GAAP financial measures are presented to provide investors additional insights to facilitate the analysis of our results of operations. These non-GAAP financial measures are not in accordance with, or an alternative for, GAAP and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures are not based on any comprehensive or standard set of accounting rules or principles. Accordingly, the calculation of our non-GAAP financial measures may differ from the definitions of non-GAAP financial measures other companies may use with the same or similar names. This limits, to some extent, the usefulness of this information for comparison purposes. Non-GAAP financial measures have limitations in that they do not reflect all of the amounts associated with our financial results as determined in accordance with GAAP. This information should only be used to evaluate our financial results in conjunction with the corresponding GAAP information. Accordingly, we qualify our use of non-GAAP financial measures whenever non-GAAP financial measures are presented.

Net Debt to Net Capital

The following table presents the ratio of debt to capital as well as the ratio of net debt to net capital which is a non-GAAP financial measure. The ratio of debt to capital is computed as the quotient obtained by dividing total debt, net of issuance costs, by total capital (sum of total debt, net of issuance costs plus total equity).

The non-GAAP ratio of net debt to net capital is computed as the quotient obtained by dividing net debt (which is total debt, net of issuance costs less cash, cash equivalents and restricted cash to the extent necessary to reduce the debt balance to zero) by net capital (sum of net debt plus total equity). The most comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to net capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing. We believe that by deducting our cash from our debt, we provide a measure of our indebtedness that takes into account our cash liquidity. We believe this provides useful information as the ratio of debt to capital does not take into account our liquidity and we believe that the ratio of net debt to net capital provides supplemental information by which our financial position may be considered. Investors may also find this to be helpful when comparing our leverage to the leverage of our competitors that present similar information.

See table below reconciling this non-GAAP measure to the ratio of debt to capital.

	December 31,	
	2020	2019
	(dollars in thousands)	
Total notes and other debts payable, net	$ 264,809	$ 189,964
Total equity	529,486	583,370
Total capital	$ 794,295	$ 773,334
Ratio of debt to capital	33.3%	24.6%
Total notes and other debts payable, net	$ 264,809	$ 189,964
Less: cash, cash equivalents and restricted cash	110,048	156,378
Net debt	154,761	33,586
Total equity	529,486	583,370
Net capital	$ 684,247	$ 616,956
Ratio of net debt to net capital	22.6%	5.4%

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the years ended December 31, 2020, 2019, and 2018. EBITDA and Adjusted EBITDA are non-GAAP financial measures used in evaluating operating performance. We define EBITDA as net income before (i) income tax expense (benefit), (ii) interest expenses, and (iii) depreciation and amortization. We define Adjusted EBITDA as net income before (i) income tax expense (benefit), (ii) interest expenses, (iii) depreciation and amortization, (iv) inventory impairments, (v) purchase accounting adjustments for acquired work in process inventory related to business combinations, (vi) (gain) loss on debt extinguishment, (vii) transaction costs related to business combinations, and (viii) the impact of income or loss allocations from our unconsolidated joint ventures. We believe EBITDA and Adjusted EBITDA provide indicators of general economic performance that is not affected by fluctuations in interest, effective tax rates, levels of depreciation and amortization, and items considered to be non-recurring. The economic activity related to our unconsolidated joint ventures is not core to our operations and is the reason we have excluded those amounts. Accordingly, we believe these measures are useful for comparing our core operating performance from period to period. Our presentation of EBITDA and Adjusted EBITDA should not be considered as an indication that our future results will be unaffected by unusual or non-recurring items.

	Year Ended December 31,		
	2020	2019	2018
		(dollars in thousands)	
Net (loss) income	$ (9,084)	$ 22,391	$ 36,706
(Benefit) provision for income taxes	(3,081)	6,159	4,613
Interest in cost of sales	37,926	40,393	16,299
Interest relieved to equity in net income (loss) of unconsolidated joint ventures	1,162	1,934	4,153
Interest expense	15	—	111
Depreciation and amortization expense	3,580	2,960	1,556
EBITDA	30,518	73,837	63,438
Inventory impairments	3,413	—	—
Purchase price accounting in cost of home sales	15,519	2,874	—
Transaction costs	1,031	1,220	—
Equity in net loss (income) of unconsolidated joint ventures, net of interest	15,256	5,967	(17,171)
Less: Imputed interest in cost of sales(1)	(776)	(10,024)	(4,324)
Adjusted EBITDA	$ 64,961	$ 73,874	$ 41,943

(1) Imputed interest related to a land banking transaction that was treated as a product financing arrangement.

Adjusted Net Income

Adjusted Net Income to Landsea is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating our operating results and understanding our operating results without the effect of certain expenses that were historically pushed down by our parent company and other non-recurring items. We believe excluding these items provides a more comparable assessment of our financial results from period to period. Adjusted Net Income to Landsea is calculated by excluding the effects of related party interest that was pushed down by our parent company, purchase accounting adjustments for acquired work in process inventory related to business combinations, and the impact from our unconsolidated joint ventures, and tax-effected using a normalized effective tax rate. The economic activity related to our unconsolidated joint ventures is not core to our operations and is the reason we have excluded those amounts. We also adjust for the expense of related party interest pushed down from our parent company as we have no obligation to repay the debt and related interest.

	Year Ended December 31,		
	2020	2019	2018
		(dollars in thousands)	
Net (loss) income attributable to Landsea Homes Incorporated	$ (8,951)	$ 17,200	$ 29,184
Inventory impairments	3,413	—	—
Previously capitalized related party interest included in cost of sales	14,110	15,646	9,164
Equity in net loss (income) of unconsolidated joint ventures	16,418	7,901	(13,018)

Purchase price accounting for acquired inventory	15,519	2,874	—
Total adjustments	49,460	26,421	(3,854)
Tax-effected adjustments [1]	36,933	20,721	(2,775)
Adjusted net income (loss) attributable to Landsea Homes Incorporated	$ 27,982	$ 37,921	$ 26,409

(1) For the years ended December 31, 2020, 2019 and 2018 our adjusted income tax expense is reflective of our effective income tax rate, excluding the effects from establishing or releasing a valuation allowance, applied to our adjusted pretax income (loss).

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. The Company's primary exposure to market risk is interest rate risk associated with variable notes and credit facilities. Borrowings under various variable notes and credit facilities bear interest at a floating rate equal to the adjusted Prime rate or LIBOR plus an applicable margin between 0.75% to 6.50% per annum.

Inflation

The Company's operations 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. While we attempt to pass on cost increases to customers through increased prices, when weak housing market conditions exist, we are often unable to offset cost increases with higher selling prices.

Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity during the spring, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. Since it typically takes four to eight months to construct a new home, we deliver more homes in the second half of the year as spring and summer home orders convert to home deliveries. Because of this seasonality, home starts, construction costs and related cash outflows have historically been highest in the third and fourth quarters, and the majority of cash receipts from home deliveries occurs during the second half of the year. We expect this seasonal pattern to continue over the long-term, although it may be affected by volatility in the homebuilding industry.

Exhibit 99.3

LS-BOSTON POINT LLC

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2020 and 2019
(Unaudited)

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LS-BOSTON POINT LLC
BALANCE SHEETS
DECEMBER 31, 2020 and 2019 (Unaudited)

	2020	2019
ASSETS		
Cash	$ 70,311	$ 94,737
Investment in Non-Controlled Joint Ventures	-	225,000
Total Assets	$ 70,311	$ 319,737
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Accrued expenses	$ -	$ 20,000
Due to member	-	2,859
Total Liabilities	-	22,859
Members' Equity	70,311	296,878
Total Liabilies and Members' Equity	$ 70,311	$ 319,737

The accompanying notes are an integral part of these financial statements.

LS-BOSTON POINT LLC
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 (Unaudited)

	2020	2019
Income:		
Income from non-controlled joint ventures	$ -	$ 1,087,482
	-	1,087,482
Expenses:		
Impairment of non-controlled joint ventures	225,000	-
Professional fees	967	39,644
Office expense	-	13,717
State taxes and annual fees	600	1,769
	226,567	55,130

Net (loss) income	$ (226,567)	$ 1,032,352

The accompanying notes are an integral part of these financial statements.

LS-BOSTON POINT LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 (Unaudited)

	Managing Member	Investor Member	Total
Balance, December 31, 2018	$ 4,780,581	$ 4,967,177	$ 9,747,758
Capital Distributions	(5,241,616)	(5,241,616)	(10,483,232)
Net Income	516,176	516,176	1,032,352
Balance, December 31, 2019	55,141	241,737	296,878
Net Loss	(55,141)	(171,426)	(226,567)
Balance, December 31, 2020	$ -	$ 70,311	$ 70,311

The accompanying notes are an integral part of these financial statements.

LS-BOSTON POINT LLC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019 (Unaudited)

	2020	2019
Cash Flow From Operating Activities:		
Net (loss) income	$ (226,567)	$ 1,032,352
Adjustments to reconcile net (loss) income to net cash flow from operating activities:		
(Income) from non-controlled joint ventures		(1,087,482)
Impairment of non-controlled joint ventures	225,000	
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(22,859)	(120,522)
Distributions of earning from non-controlling joint venture	-	1,208,004
Net cash flow (used in) provided by operating activities	(24,426)	1,032,352
Cash Flow From Investing Activities:		
Distributions of capital from non-controlled joint venture	-	9,493,034
Net cash flow provided by investing activities	-	9,493,034
Cash Flow From Financing Activities:		
Distributions to member	-	(10,483,232)
Net cash flow (used in) financing activities	-	(10,483,232)
Net (decrease) increase in cash	(24,426)	42,154
Cash, Beginning of Year	94,737	52,583
Cash, End of Year	$ 70,311	$ 94,737

The accompanying notes are an integral part of these financial statements.

LS-BOSTON POINT LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019 (Unaudited)

Note 1 - Summary of Significant Accounting Policies:

Nature of Operations

On January 5, 2016, an Amended and Restated Limited Liability Company Agreement was executed for LS-Boston Point LLC ("the Company"), a Delaware Limited Liability Company, between LS-PA Boston Point LLC ("Managing Member") and PARE Fenway US LLC ("Investor Member"), collectively "the Members". As a limited liability company, the members have limited personal liability for the obligations of the entity. The Company was formed for the purpose of investing in, through its interest in Fenway Point Partners LLC, the Pierce Boston Development Project ("the Project") located in Boston, Massachusetts. The

Project is a mixed-use construction project consisting of 109 for-sale apartment units, 240 rental apartment units, approximately 20,000 square feet of retail space and a subterranean garage totaling approximately 79 parking spaces.

On December 4, 2018, Fenway Point Partners LLC distributed out the interest in its wholly owned subsidiary, Point Condo Holdings LLC, to its members. Immediately thereafter, Fenway Point Partners LLC redeemed the partnership interest in Fenway Point Partners LLC from the Company (see Note 2).

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Fair Value Measurements

The carrying amounts of the Company's cash and due to member approximate the fair value due to their short-term nature.

Impairment of Assets

The Company reviews its investments in non-controlled joint ventures for indicators of impairment during each reporting period. The Company is subject to risks incidental to the ownership, development, and sales of real estate. These include, among others, the risks normally associated with changes in the general economic climate in the community in which the Company operates, trends in the real estate industry, changes in tax laws, interest rate levels, availability of financing, and potential liability under environmental and other laws. ASC 323-10, Investments – Equity Method and Joint Ventures, requires that a loss in value of the carrying amount of an investment should be recognized by writing down the carrying amount of the investment to its fair value.

During the year ended December 31, 2020, we recorded an impairment of $225,000 on the investment in the non-controlled joint venture based on current information suggesting that we would not receive any future distributions from the non-controlled joint venture. During the year ended December 31, 2019, the Company concluded that no indicators of impairment were present and therefore no impairment charges were taken relating to the investment.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from management's estimates.

The real estate industry has historically been cyclical and sensitive to changes in economic conditions such as interest rates, credit availability, and unemployment levels. Changes in these economic conditions could affect the assumptions used by management in preparing the accompanying financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued):

Variable Interest Entities

The Company accounts for variable interest entities in accordance with ASC 810, Consolidation ("ASC 810"). The Company determines whether an entity in which the Company holds a direct or indirect variable interest is a VIE based on several factors. Under ASC 810, a variable interest entity ("VIE") is created when: (a) the equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by other parties, including the equity holders; (b) the entity's equity holders as a group either (i) lack the direct or indirect ability to make decisions about the entity, (ii) are not obligated to absorb expected losses of the entity or (iii) do not have the right to receive expected residual returns of the entity; or (c) the entity's equity holders have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of the equity holder with disproportionately few voting rights. If an entity is deemed to be a VIE pursuant to ASC 810, the enterprise that has both (i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb the expected losses of the entity or right to receive benefits from the entity that could be potentially significant to the VIE is considered the primary beneficiary and must consolidate the VIE.

The Company considers a variety of factors with any investment in determination of a VIE and reconsiders such considerations continually. The Company will consolidate any VIE where it is determined the Company is the primary beneficiary and disclose when the Company is not the primary beneficiary, as well as disclose the maximum exposure to loss related to the VIE that is not consolidated.

The Company uses the equity method to account for investments in non-controlled joint ventures that qualify as VIE's where the Company is the not the primary beneficiary. Our involvement in the VIE noted in Note 2 is based on equal voting rights and therefore we have determined that we are not the primary beneficiary and do not consolidate the VIE. Our share of the earnings from these equity-method basis companies is included in consolidated net income. Our maximum exposure is equal to our investment in the unconsolidated joint venture as shown on the balance sheet as investment in non-controlled joint ventures.

Income Taxes

The Company, with the consent of its members, has elected to be treated as a partnership for federal income tax purposes. No provision for income taxes has been made for the Company since such taxes, if any, are the responsibility of the individual members. The Company's income tax returns are subject to examination by taxing authorities.

Recent Accounting Pronouncement

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. ASU 2020-05 deferred the effective date by one year and permitted early adoption of the standard, but not before the original effective date; therefore, is effective for annual reporting periods beginning after December 15, 2019. The Company adopted the amendments in this update on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

Note 2 - Investment in Non-Controlled Joint Ventures:

The Company held a 50% ownership interest in Fenway Point Partners LLC and Subsidiaries through December 4, 2018. The equity method of accounting is used on its balance sheets and statements of operations.

On December 4, 2018, the Company's partnership interest in Fenway Point Partners LLC was redeemed for $50,764,158. Prior to the redemption, Fenway Point Partners LLC distributed the interest in its wholly owned subsidiary, Point Condo Holdings LLC, to its members. As of December 31, 2019, the Company holds a 50% ownership interest in Point Condo Holdings LLC. During the year ended December 31, 2020 the value of the Company's ownership interest was reduced to $0 and therefore have not provided the below information as of and for the year ended December 31, 2020.

The results of operations and financial position for Point Condo Holdings LLC for the period ended December 31, 2019, are summarized as follows.

	2019
	(unaudited)
Condensed income statement information:	
Revenue	$ 26,488,198
Cost of sales	21,629,856
Net income	$ 2,984,523
The Company's share of net income	$ 1,087,482
Condensed balance sheet information:	
Assets	$ 197,857
Liabilities	
Accounts payable	$ 32,442
Point Condo Holdings LLC members' equity	165,415
Total liabilities and members' equity	$ 197,857
LS- Boston Point LLC's share of members' equity	$ 225,000

Note 3 - Related Party Transactions:

Due to Member

As of December 31, 2020 and 2019, the Managing Member was owed a balance of $0 and $2,859, respectively.

Note 4 - Commitments and Contingencies:

Legal

The Company is subject to the usual obligations associated with ownership, development and sale of real estate and other potential liabilities incidental to its business. The Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In management's opinion, the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note 5 - Equity Structure:

Pursuant to the Amended and Restated Limited Liability Company Agreement dated January 5, 2016, each member of the Company was credited with Initial Capital Contributions to acquire certain percentage interests as follows:

	Amount	**%**
Managing Member	$ 18,730,897	50.00%
Investor Member	18,730,897	50.00%
	$ 37,461,794	100.00%

The amounts above represent the value credited to each member at the inception of the joint venture. The statements of changes in members' equity are reported on the equity method in accordance with GAAP.

Note 6 - Concentration of Credit Risk:

The Company has potential concentration of credit risk, in that, at times, it may maintain deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). To mitigate this risk, the Company places its cash deposits only with high quality institutions. Management believes the risk of loss is minimal.

Note 7 - Subsequent Events:

The Company evaluates all events and transactions through the date the financial statements are available to be issued. The Company performed this evaluation through March 12, 2021, the date the financial statements were available to be issued, and has concluded that no events or transactions have occurred subsequent to December 31, 2020, that require consideration as adjustments to or disclosures in the financial statements.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Defined terms included below shall have the same meaning as terms defined and included elsewhere in the Current Report on Form 8-K (the "Form 8-K") filed with the Securities and Exchange Commission (the "SEC") on January 13, 2021. Unless the context otherwise requires, the "registrant" and the "Company" refer to LF Capital Acquisition Corp. prior to the closing of the Business Combination and to the combined company and its subsidiaries following the closing of the Business Combination. "Landsea Homes" refers to the business of Landsea Homes Incorporated prior to the closing of the Business Combination.

Introduction

The Company is providing the following unaudited pro forma condensed combined financial information to aid you in your analysis of the financial aspects of the Business Combination. The following unaudited pro forma condensed combined financial information present the combination of the financial information of the Company and Landsea Homes adjusted to give effect to the Business Combination and related transactions. The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses."

The unaudited pro forma condensed combined balance sheet as of December 31, 2020 combines the historical balance sheet of the Company and the historical balance sheet of Landsea Homes on a pro forma basis as if the Business Combination and related transactions, summarized below, had been consummated on December 31, 2020. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 combines the historical statements of operations of the Company and Landsea Homes on a pro forma basis as if the Business Combination and related transactions, summarized below, had been consummated on January 1, 2020, the beginning of the earliest period presented:

- the merger of Merger Sub, a wholly-owned subsidiary of the Company, with and into Landsea Homes, with Landsea Homes surviving the merger as a wholly-owned subsidiary of the Company;

- issuance of 32,557,303 shares of Common Stock of the Company;

- impacts of the Sponsor Surrender Agreement, including the forfeiture of 600,000 Founder Shares, forfeiture of 500,000 shares of Sponsor's converted Founder Shares contingent on the stock reaching certain price thresholds, transfer to Seller of 500,000 shares of Common Stock immediately after the closing of the Business Combination and forfeiture of such shares in the event the same price thresholds noted above are not met, the cash payment of $1.5 million for the outstanding amounts due under the Convertible Note upon the consummation of the Business Combination, and the forgiveness of $1.0 million for the outstanding amount due under the Promissory Note for no consideration upon the consummation of the Business Combination;

- impact of the Forward Purchase Transaction, wherein parties to the agreement purchased Class A common stock from public stockholders or in the open market or in privately negotiated transactions at or less than $10.56 per share, inclusive of any fees and commissions, and agreed not to redeem such shares and vote such shares in favor of the Business Combination. Parties received 250,415 Common Stock as an inducement for this commitment, and the Sponsor forfeited Founder Shares of the same amount;

- conversion of all outstanding Class B common stock to Common Stock on a one-to-one basis;

- payment of $1.85 per public warrant outstanding following the consummation of the Business Combination.

The historical financial information of the Company was derived from the audited financial statements of the Company as of and for the year ended December 31, 2020. The historical financial information of Landsea Homes was derived from the audited consolidated financial statements of Landsea Homes as of and for the year ended December 31, 2020. This information should be read together with the accompanying notes to the unaudited pro forma condensed combined financial statements, the Company's and Landsea Homes' audited financial statements and related notes, the sections titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and other financial information which is incorporated by reference.

The Business Combination was accounted for as a reverse recapitalization, in accordance with GAAP. Under this method of accounting, the Company was treated as the "acquired" company for financial reporting purposes. Accordingly, the Business Combination was treated as the equivalent of Landsea Homes issuing stock for the net assets of the Company, accompanied by a recapitalization. The net assets of the Company are stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination are those of Landsea Homes.

Landsea Homes was determined to be the accounting acquirer based on evaluation of the following facts and circumstances:

- Seller has the largest voting interest in the post-combination company;

- The board of directors of the post-combination company has nine members, and the Seller has the ability to designate seven members of the board of directors;

- Landsea Homes management holds executive management roles for the post-combination company and is responsible for the day-to-day operations;

- Landsea Homes was significantly larger than the Company by assets, revenue, and employees; and

- The purpose and intent of the Business Combination was to create an operating public company through the Company, with management continuing to use Landsea Homes' platform to grow the business and the combined entity assumed the name Landsea Homes Corporation.

Public stockholders were offered the opportunity to redeem, upon closing of the Business Combination, shares of Class A common stock for cash equal to their pro rata share of the aggregate amount on deposit (as of two business days prior to the closing of the Business Combination) in the Trust Account.

Assumptions and estimates underlying the unaudited pro forma adjustments set forth in the unaudited pro forma condensed combined financial statements are described in the accompanying notes. The unaudited pro forma condensed combined financial statements have been presented for illustrative purposes only and are not necessarily indicative of the operating results and financial position that would have been achieved had the Business Combination occurred on the dates indicated. Further, the unaudited pro forma condensed combined financial statements do not purport to project the future operating results or financial position of the Company following the completion of the Business Combination. The unaudited pro forma adjustments represent management's estimates based on information available as of the time that these unaudited pro forma condensed combined financial statements were prepared and are subject to change as additional information becomes available and analyses are performed.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF DECEMBER 31, 2020
(in thousands)

	LF Capital Acquisition Corp (Historical)	Landsea Homes (Historical)	Reclassification Adjustments	Transaction Accounting Adjustments	Pro Forma Combined
ASSETS					
Cash and cash equivalents	$ 69	$ 105,778	$ -	$ 109,742(A)	$ 165,184
				(7,964)(B)	
				(3,742)(C)	
				(5,434)(D)	
				(1,500)(E)	
				(2,929)(G)	
				(75)(H)	
				(40)(I)	
				(28,721)(J)	
Cash held in escrow	-	11,618	-	-	11,618
Restricted cash	-	4,270	-	-	4,270
Prepaid expenses	2	-	(2)	-	-
Marketable securities held in Trust Account	109,742	-	-	(109,742)(A)	-
Real estate inventories	-	687,819	-	-	687,819
Due from affiliates	-	2,663	-	-	2,663
Investment in and advances to unconsolidated joint ventures	-	21,342	-	-	21,342
Goodwill	-	20,705	-	-	20,705
Other assets	-	41,569	2	(7,617)(B)	29,110
				(4,842)(P)	
Total assets	$ 109,813	$ 895,764	$ -	$ (62,864)	$ 942,713

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET (CONTINUED)

AS OF DECEMBER 31, 2020
(in thousands)

	LF Capital Acquisition Corp (Historical)	Landsea Homes (Historical)	Reclassification Adjustments	Transaction Accounting Adjustments	Pro Forma Combined
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Accounts payable	$ 1,962	$ 36,243	$ -	$ (1,830)(C)	$ 36,300
				(75)(H)	
Accrued expenses and other liabilities	-	62,869	-	(2,166)(G)	60,703
Accrued expenses	-	-	-	-	-
Due to affiliates	-	2,357	-	-	2,357
Convertible note payable - related party	1,500	-	-	(1,500)(E)	-
Promissory note - related party	1,000	-	-	(1,000)(F)	-
Notes and other debts payable, net	-	264,809	-	-	264,809
Franchise tax payable	40	-	-	(40)(I)	-
Income tax payable	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Deferred underwriting commissions	5,434	-	-	(5,434)(D)	-
Total liabilities	9,936	366,278	-	(12,045)	364,169
COMMITMENTS					
Class A common stock subject to possible redemption	-	-	-	-	-
STOCKHOLDERS' EQUITY					
Class A common stock	1	-	-	3(L)	5
				-(M)	
				1(N)	
Class B common stock	1	-	-	-(M)	-
				(1)(N)	
				-(O)	
Preferred stock	-	-	-	-	-
Additional paid-in capital	99,729	496,174	-	(15,581)(B)	545,990
				(3,880)(C)	
				(3)(L)	
				-(O)	
				(26,607)(K)	
				1,000(F)	
				(4,842)(P)	

Retained earnings	146	32,011	-	1,968(C)	31,248
				(763)(G)	
				(28,721)(J)	
				26,607(K)	
Noncontrolling interests	-	1,301	-	-	1,301
Total stockholders' equity	99,877	529,486	-	(50,819)	578,544
Total liabilities and stockholders' deficit	$ 109,813	$ 895,764	$ -	$ (62,864)	$ 942,713

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2020
(in thousands, except share and per share data)

	LF Capital Acquisition Corp (Historical)	Landsea Homes (Historical)	Reclassification Adjustments	Transaction Accounting Adjustments		Pro Forma Combined
Revenue						
Home sales	$ -	$ 734,608	$ -	$ -		$ 734,608
Total revenue	-	734,608	-	-		734,608
Cost of sales						
Home sales	-	636,324	-	-		636,324
Inventory impairments	-	3,413	-	-		3,413
Total cost of sales	-	639,737	-	-		639,737
Gross margin						
Home sales	-	94,871	-	-		94,871
Total gross margin	-	94,871	-	-		94,871
Sales and marketing expenses	-	48,100	-	-		48,100
General and administrative expenses	2,470	42,598	200	(120)	**(AA)**	44,743
				800	**(BB)**	
				(1,968)	**(EE)**	
				763	**(FF)**	
Franchise tax expense	200	-	(200)	-		-
Total operating expenses	2,670	90,698	-	(525)		92,843
Income (loss) from operations	(2,670)	4,173	-	525		2,028
Interest earned on investments and marketable securities	694	-	-	(694)	**(CC)**	-
Other income (expense), net	-	80	-	-		80
Equity in net (loss) income of unconsolidated joint ventures	-	(16,418)	-	-		(16,418)
Loss before income taxes	(1,976)	(12,165)	-	(169)		(14,310)
Income tax expense	120	-	(120)	-		-
(Benefit) provision for income taxes	-	(3,081)	120	(44)	**(DD)**	(3,005)
Net loss	(2,096)	(9,084)	-	(125)		(11,305)
Net loss attributed to noncontrolling interests	-	(133)	-	-		(133)
Net loss attributable to Landsea Homes Incorporated	$ (2,096)	$ (8,951)	$ -	$ (125)		$ (11,172)
Weighted average number of shares of Class A common stock outstanding - basic and diluted	14,006,380					45,231,025
Net income (loss) per share of Class A common stock - basic and diluted	$ 0.03					$ (0.25)
Weighted average number of shares of Class B common stock outstanding - basic and diluted	3,881,250					
Net loss per share of Class B common stock - basic and diluted	$ (0.64)					

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Basis of Presentation

The Business Combination was accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, the Company was treated as the "acquired" company for financial reporting purposes. Accordingly, the Business Combination was treated as the equivalent of Landsea Homes issuing stock for the net assets of the Company, accompanied by a recapitalization. The net assets of the Company are stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Business Combination are those of Landsea Homes.

The unaudited pro forma condensed combined balance sheet as of December 31, 2020 assumes that the Business Combination occurred on December 31, 2020. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 presents pro forma effect to the Business Combination as if it had been completed on January 1, 2020. These periods are presented on the basis of Landsea Homes as the accounting acquirer.

The unaudited pro forma condensed combined balance sheet as of December 31, 2020 has been prepared using, and should be read in conjunction with, the following:

· The Company's audited condensed balance sheet as of December 31, 2020 and the related notes for the period ended December 31, 2020; and

· Landsea Homes' audited consolidated balance sheet as of December 31, 2020 and the related notes for the period ended December 31, 2020.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 has been prepared using, and should be read in conjunction with, the following:

· The Company's audited condensed statement of operations for the year ended December 31, 2020 and the related notes; and

· Landsea Homes' audited consolidated statement of operations for the year ended December 31, 2020 and the related notes.

The pro forma adjustments reflecting the consummation of the Business Combination are based on certain currently available information and certain assumptions and methodologies that the Company believes are reasonable under the circumstances. The unaudited condensed pro forma adjustments, which are described in the accompanying notes, may be revised as additional information becomes available and is evaluated.

Therefore, it is likely that the actual adjustments will differ from the pro forma adjustments and it is possible the difference may be material. The Company believes that its assumptions and methodologies provide a reasonable basis for presenting all of the significant effects of the Business Combination based on information available to management at this time and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the actual results of operations and financial position would have been had the Business Combination taken place on the dates indicated, nor are they indicative of the future consolidated results of operations or financial position of the post-combination company. They should be read in conjunction with the historical financial statements and notes thereto of the Company and Landsea Homes.

2. Accounting Policies

Upon consummation of the Business Combination, management will perform a comprehensive review of the two entities' accounting policies. As a result of the review, management may identify differences between the accounting policies of the two entities which, when conformed, could have a material impact on the financial statements of the post-combination company. Based on its initial analysis, management did not identify any differences that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information does not assume any differences in accounting policies.

3. Adjustments to Unaudited Pro Forma Condensed Combined Financial Information

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Business Combination and has been prepared for informational purposes only.

The following unaudited pro forma condensed combined financial information has been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses." Release No. 33-10786 replaces the existing pro forma adjustment criteria with simplified requirements to depict the accounting for the transaction ("*Transaction Accounting Adjustments*") and present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("*Management's Adjustments*"). The Company has elected not to present Management's Adjustments and are only presenting Transaction Accounting Adjustments in the following unaudited pro forma condensed combined financial information.

The pro forma combined provision for income taxes does not necessarily reflect the amounts that would have resulted had the post-combination company filed consolidated income tax returns during the periods presented.

The pro forma basic and diluted earnings per share amounts presented in the unaudited pro forma condensed combined statement of operations are based upon the number of the post-combination company's shares outstanding, assuming the Business Combination occurred on January 1, 2020.

Transaction Accounting Adjustments to Unaudited Pro Forma Condensed Combined Balance Sheet

The Transaction Accounting Adjustments included in the unaudited pro forma condensed combined balance sheet as of December 31, 2020 are as follows:

(A) Reflects the reclassification of $109.7 million marketable securities held in the Trust Account that becomes available to fund expenses in connection with the Business Combination or future cash needs of Landsea Homes.

(B) Represents transaction costs incurred by Landsea Homes of approximately $15.6 million, inclusive of advisory, banking, and printing fees, legal and accounting fees, and other equity issuance costs that are offset to Additional Paid-in Capital. The unaudited pro forma condensed combined balance sheet reflects these costs as a reduction of cash of $8.0 million as $7.6 million has been paid as of the pro forma balance sheet date. Equity issuance costs of $15.6 million are offset to Additional Paid-In Capital.

(C) Represents transaction costs incurred by the Company of approximately $3.9 million, inclusive of equity issuance costs that are offset to Additional Paid-in Capital. The unaudited pro forma condensed combined balance sheet reflects these costs as a reduction of cash of $3.7 million as $0.2 million has been paid as of the pro forma balance sheet date. Equity issuance costs of $3.9 million are offset to Additional Paid-In Capital. The costs expensed through retained earnings are removed in the unaudited pro forma condensed combined statement of operations discussed in (EE) below.

(D) Reflects the payment of $5.4 million of deferred underwriters' fees. The fees were paid at closing of the Business Combination out of the cash in the Trust Account.

(E) Reflects the cash repayment of the Company's $1.5 million Convertible Note to the Sponsor at the closing of the Business Combination. The Sponsor waived its rights to convert the note to warrants of the post Business Combination entity at a price of $1.00 per warrant in the Sponsor Surrender Agreement.

(F) Reflects the forgiveness of the Company's $1.0 million Promissory Note to the Sponsor at the closing of the Business Combination.

(G) Reflects the cash payment of $2.9 million, settlement of the accrued liability of $2.2 million, and impact on retained earnings of acceleration of vesting of certain Landsea Homes phantom stock awards. Existing employment agreements with certain Landsea Homes executives contained a provision for accelerating vesting of phantom stock awards that was triggered upon consummation of the Business Combination.

(H) Reflects the cash payment of an additional fee to Mr. Prot, the Chairman of the Board, for the closing of the Business Combination.

(I) Reflects the payment of the Company's accrued tax liabilities at the closing of the Business Combination.

(J) Represents the cash payment to the holders of the public warrants related to the Warrant Amendment. The Warrant Amendment provided for cash consideration of $1.85 per public warrant, and that each outstanding public warrant become redeemable for 1/10th of a share of Company Class A common stock for an exercise price of $1.15, amending the previous terms of a public warrant being redeemable for 1 share of Company Class A common stock for an exercise price of $11.50.

(K) Reflects the reclassification of historical Company Retained Earnings into Additional Paid-In Capital.

(L) Reflects the adjustment to the Company's Class A common stock and Additional Paid-In Capital for the issuance of the Company's Class A common stock with a value of $343.8 million at a price of $10.56 per share of Class A common stock as consideration to the Seller for the Business Combination.

(M) Reflects issuance of the Utilization Fee Shares and Additional Fee shares as shares of Class A common stock in connection with the Forward Purchase Transaction, and the forfeiture of Class B common stock in the same amount of shares. Parties to the Forward Purchase Transaction purchased Company Class A common stock in the open market in exchange for 250,415 shares of Class A common stock. The Sponsors forfeited Founder Shares of the amount of the shares of Class A common stock issued to the parties.

(N) Reflects the conversion of all outstanding Class B common stock to Class A upon closing of the Business Combination (as adjusted for the amounts forfeited pursuant to Items (M) and (O) hereof). This includes 500,000 shares of Class B common stock converted to Class A common stock that the Sponsors may only sell or transfer and 500,000 of Sponsor Class B common stock converted to Class A common stock transferred to Seller that the Seller may only sell or transfer when certain share price thresholds are met during the twenty-four month period following the closing of the Business Combination.

(O) Reflects the forfeiture of 600,000 Founder Shares with the adjustment to Additional Paid-In Capital. The forfeiture of the 2,260,000 Private Placement Warrants owned by the Sponsor do not result in a pro forma adjustment as it is a reclassification within the Additional Paid-In Capital line item. The 2,200,000 Private Placement Warrants transferred by Sponsors to the Seller do not result in a pro forma adjustment as these are already outstanding warrants that changed ownership.

(P) Reflects the transfer of a deferred tax asset related to interest on debt legally held by Landsea Holdings. Landsea Homes and Landsea Holdings are no longer consolidated after the Business Combination. As a result, the deferred tax asset is transferred to Landsea Holdings.

Transaction Accounting Adjustments to Unaudited Pro Forma Condensed Combined Statement of Operations

The Transaction Accounting Adjustments included in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2020 are as follows:

(AA) Represents the elimination of the expense related to the Company's office space and general administrative services, the agreement of which terminated upon closing of the Business Combination.

(BB) Represents the recognition of stock compensation expense for new Restricted Stock Unit awards granted to certain executives of Landsea Homes upon consummation of the Business Combination. The awards will vest over 4 years and will have a continuing impact on the operations post-Business Combination.

(CC) Represents the elimination of investment income related to the marketable securities held in the Trust Account.

(DD) Reflects the income tax effect of the pro forma adjustments using the estimated blended federal and state statutory tax rate of 26%.

(EE) Reflects the removal of the transaction costs in the Company's historical statement of operations for the year ended December 31, 2020. The Company's transaction costs are reflected as equity issuance costs for the purposes of the unaudited pro forma condensed combined statement of operations. This is a non-recurring item.

(FF) Reflects the expense of the acceleration of vesting of certain Landsea Homes phantom stock awards in the statement of operations for the year ended December 31, 2020. These costs are reflected as incurred on January 1, 2020, the date the Business Combination occurred for the purposes of the unaudited pro forma condensed combined statement of operations. Existing employment agreements with certain Landsea Homes executives contained a provision for accelerating vesting of phantom stock awards that was triggered upon consummation of the Business Combination. This is a non-recurring item.

4. Loss per Share

Represents the net loss per share calculated using the historical weighted average shares outstanding, and the issuance of additional shares in connection with the Business Combination, assuming the shares were outstanding since January 1, 2020. As the Business Combination and related transactions are being reflected as if they had occurred at the beginning of the period presented, the calculation of weighted average shares outstanding for basic and diluted net loss per share assumes that the shares issuable relating to the Business Combination have been outstanding for the entire period presented.

	Year Ended December 31, 2020
Pro forma net loss	$ (11,172)
Weighted average number of shares of Class A common stock outstanding - basic and diluted (1)(2)(3)	45,231,025
Net loss per share of Class A common stock - basic and diluted	$ (0.25)

(1) For the purposes of calculating the weighted average number of shares of Class A common stock outstanding, management determined that the 1,000,000 shares of Class A common stock subject to forfeiture upon the valuation of the Class A common stock failing to reach certain thresholds during the twenty-four month period following the closing of the Business Combination are not participating securities, based upon the current trading price of the Class A common stock of $10.53 as of January 7, 2021. As such, these were excluded from the calculation of the weighted average number of shares of Class A common stock outstanding.

(2) The public warrants and Private Placement Warrants are exercisable at $11.50 per share amounts which exceeds the current market price of Class A common stock and the approximate per share redemption price, as of January 7, 2021. These warrants are considered anti-dilutive and excluded from the earnings per share calculation when the exercise price exceeds the average market value of the common stock price during the applicable period.

(3) The Company considered potentially dilutive RSUs using the treasury stock method and determined that such RSUs were anti-dilutive for the year ended December 31, 2020.

The following summarizes the number of shares of Class A common stock outstanding:

	Shares	Ownership %
Seller (2)	33,057,303	71.5%
Public (1)	10,642,887	23.0%
LF Capital Restricted Parties (Converted Founder Shares) (1)(3)	2,530,835	5.5%
Total shares	**46,231,025**	

(1) Includes the 250,415 shares of Class A common stock issued as Utilization Fee Shares and Additional Fee Shares, and the forfeiture of 250,415 Founder Shares in connection with the Forward Purchase Transaction.

(2) Includes the 500,000 shares of Class A common stock to be transferred to Seller that are subject to forfeiture if the valuation of the Class A common stock does not reach certain thresholds during the twenty-four month period following the closing of the Business Combination.

(3) Includes the 500,000 shares of Class A common stock of the Sponsor that are subject to forfeiture if the valuation of the Class A common stock does not reach certain thresholds during the twenty-four month period following the closing of the Business Combination.