UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-38545

Landsea Homes Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**82-2196021**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1717 McKinney Avenue, Suite 1000 Dallas, Texas	**75202**
(Address of Principal Executive Offices)	(Zip Code)

(949) 345-8080
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	LSEA	The Nasdaq Capital Market
Warrants exercisable for Common Stock	LSEAW	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of July 28, 2023, 38,591,314 Class A common stock, par value $0.0001 per share, were outstanding.

Landsea Homes Corporation
Form 10-Q Index
For the Three and Six Months Ended June 30, 2023

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Landsea Homes Corporation
Consolidated Balance Sheets - (Unaudited)

(in thousands, except share and per share amounts)

	June 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	$ 74,186	$ 123,634
Cash held in escrow	1,904	17,101
Real estate inventories	1,125,109	1,093,369
Due from affiliates	4,110	3,744
Goodwill	68,639	68,639
Other assets	132,623	134,009
Total assets	$ 1,406,571	$ 1,440,496
Liabilities		
Accounts payable	$ 72,899	$ 74,445
Accrued expenses and other liabilities	138,446	149,426
Due to affiliates	884	884
Notes and other debts payable, net	482,736	505,422
Total liabilities	694,965	730,177
Commitments and contingencies		
Equity		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 50,000,000 shares authorized, none issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	—	—
Common stock, $0.0001 par value, 500,000,000 shares authorized, 41,378,576 issued and 39,183,181 outstanding as of June 30, 2023, 42,110,794 issued and 40,884,268 outstanding as of December 31, 2022	4	4
Additional paid-in capital	490,741	497,598
Retained earnings	166,513	158,348
Total stockholders' equity	657,258	655,950
Noncontrolling interests	54,348	54,369
Total equity	711,606	710,319
Total liabilities and equity	$ 1,406,571	$ 1,440,496

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue				
Home sales	$ 291,512	$ 350,807	$ 532,137	$ 648,773
Lot sales and other	1,732	17,872	2,847	36,133
Total revenues	293,244	368,679	534,984	684,906
Cost of sales				
Home sales	240,835	276,156	437,889	511,858
Lot sales and other	1,748	14,438	2,461	29,809
Total cost of sales	242,583	290,594	440,350	541,667
Gross margin				
Home sales	50,677	74,651	94,248	136,915
Lot sales and other	(16)	3,434	386	6,324
Total gross margin	50,661	78,085	94,634	143,239
Sales and marketing expenses	18,334	24,155	34,742	43,303
General and administrative expenses	25,980	27,037	48,760	49,623
Total operating expenses	44,314	51,192	83,502	92,926
Income from operations	6,347	26,893	11,132	50,313
Other income (loss), net	1,159	(1,907)	2,114	(1,644)
Loss on remeasurement of warrant liability	—	(1,760)	—	(7,315)
Pretax income	7,506	23,226	13,246	41,354
Provision for income taxes	1,640	8,372	3,257	13,439
Net income	5,866	14,854	9,989	27,915
Net income (loss) attributable to noncontrolling interests	919	(81)	1,824	(85)
Net income attributable to Landsea Homes Corporation	$ 4,947	$ 14,935	$ 8,165	$ 28,000
Income per share:				
Basic	$ 0.12	$ 0.34	$ 0.20	$ 0.62
Diluted	$ 0.12	$ 0.34	$ 0.20	$ 0.62
Weighted average common shares outstanding:				
Basic	39,891,982	43,081,762	39,944,549	44,208,307
Diluted	39,971,731	43,200,467	40,059,731	44,383,407

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Consolidated Statements of Equity - (Unaudited)
(in thousands, except shares)

	Common Stock						
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at March 31, 2023	40,019,283	$ 4	$ 496,687	$ 161,566	$ 54,361	$ 712,618
Shares issued under share-based awards	132,767	—	—	—	—	—
Cash paid for shares withheld for taxes	—	—	(145)	—	—	(145)
Stock-based compensation expense	—	—	1,731	—	—	1,731
Repurchase of common stock and associated tax	(968,869)	—	(7,532)	—	—	(7,532)
Distributions to noncontrolling interests	—	—	—	—	(932)	(932)
Net income	—	—	—	4,947	919	5,866
Balance at June 30, 2023	39,183,181	$ 4	$ 490,741	$ 166,513	$ 54,348	$ 711,606

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders’ equity
Balance at December 31, 2022	40,884,268	$ 4	$ 497,598	$ 158,348	$ 54,369	$ 710,319
Shares issued under share-based awards	267,782	—	—	—	—	—
Cash paid for shares withheld for taxes	—	—	(695)	—	—	(695)
Stock-based compensation expense	—	—	1,370	—	—	1,370
Repurchase of common stock and associated tax	(968,869)	—	(7,532)	—	—	(7,532)
Forfeiture and cancellation of Earnout Shares	(1,000,000)	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	(1,845)	(1,845)
Net income	—	—	—	8,165	1,824	9,989
Balance at June 30, 2023	39,183,181	$ 4	$ 490,741	$ 166,513	$ 54,348	$ 711,606

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation
Consolidated Statements of Equity - (Unaudited)
(in thousands, except shares)

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at March 31, 2022	46,047,328	$ 5	$ 531,367	$ 97,862	$ 1,246	$ 630,480
Cash paid for shares withheld for taxes	—	—	(176)	—	—	(176)
Stock-based compensation expense	—	—	1,354	—	—	1,354
Repurchase of common stock	(5,121,749)	(1)	(36,375)	—	—	(36,376)
Contributions from noncontrolling interests	—	—	—	—	55,000	55,000
Net income (loss)	—	—	—	14,935	(81)	14,854
Balance at June 30, 2022	40,925,579	$ 4	$ 496,170	$ 112,797	$ 56,165	$ 665,136

	Common Stock					
	Shares	Amount	Additional paid-in capital	Retained earnings	Noncontrolling interests	Total stockholders' equity
Balance at December 31, 2021	46,281,091	$ 5	$ 535,345	$ 84,797	$ 1,250	$ 621,397
Shares issued under share-based awards	204,065	—	—	—	—	—
Cash paid for shares withheld for taxes	—	—	(848)	—	—	(848)
Stock-based compensation expense	—	—	1,872	—	—	1,872
Repurchase of common stock	(5,559,577)	(1)	(40,199)	—	—	(40,200)
Contributions from noncontrolling interests	—	—	—	—	55,000	55,000
Net income (loss)	—	—	—	28,000	(85)	27,915
Balance at June 30, 2022	40,925,579	$ 4	$ 496,170	$ 112,797	$ 56,165	$ 665,136

See accompanying notes to the consolidated financial statements.

Landsea Homes Corporation

Consolidated Statements of Cash Flows - (Unaudited)

(in thousands)

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
	(dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 9,989	$ 27,915
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,557	3,063
Loss on remeasurement of warrant liability	—	7,315
Real estate inventories impairment	4,700	—
Stock-based compensation	1,370	1,871
Loss on extinguishment or forgiveness of debt	—	2,496
Abandoned project costs	312	210
Write-off of offering costs	436	—
Deferred taxes	346	965
Changes in operating assets and liabilities:		
Cash held in escrow	15,197	(595)
Real estate inventories	(35,138)	(55,419)
Due from affiliates	(366)	(415)
Other assets	2,104	(32,716)
Accounts payable	(1,547)	5,389
Accrued expenses and other liabilities	(11,374)	(8,035)
Net cash used in operating activities	(11,414)	(47,956)
Cash flows from investing activities:		
Purchases of property and equipment	(3,571)	(3,228)
Distributions of capital from unconsolidated joint ventures	—	578
Payments for business acquisition, net of cash acquired	—	(258,727)
Net cash used in investing activities	(3,571)	(261,377)
Cash flows from financing activities:		
Borrowings from notes and other debts payable	190,000	216,613
Repayments of notes and other debts payable	(214,300)	(145,229)
Cash paid for shares withheld for taxes	(695)	(848)
Payment for buyback of warrants	—	(16,500)
Repurchases of common stock	(7,476)	(40,200)
Contributions from noncontrolling interests	—	55,000
Distributions to noncontrolling interests	(1,845)	—
Deferred offering costs paid	(147)	—
Debt issuance and extinguishment costs paid	—	(3,075)
Net cash (used in) provided by financing activities	(34,463)	65,761
Net decrease in cash, cash equivalents, and restricted cash	(49,448)	(243,572)
Cash, cash equivalents, and restricted cash at beginning of period	123,634	343,253
Cash, cash equivalents, and restricted cash at end of period	$ 74,186	$ 99,681

See accompanying notes to the consolidated financial statements.

1. Company and Summary of Significant Account Policies

Landsea Homes Corporation (together with its subsidiaries, “Landsea Homes” or the “Company”), a majority owned subsidiary of Landsea Holdings Corporation (“Landsea Holdings”), is engaged in the acquisition, development, and sale of homes and lots in Arizona, California, Florida, New York, and Texas. The Company’s operations are organized into the following five reportable segments: Arizona, California, Florida, Metro New York, and Texas.

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 and all subsidiaries, partnerships, and other entities in which the Company has a controlling interest as well as variable interest entities (“VIEs”) in which the Company is deemed the primary beneficiary. The Company’s investments in both unconsolidated entities in which a significant, but less than controlling, interest is held and in VIEs in which the Company is not deemed to be the primary beneficiary are accounted for under the equity method. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 9, 2023. The accompanying unaudited consolidated financial statements include all adjustments, consisting of normal recurring entries, necessary for a fair presentation of the Company’s results for the interim periods presented. Results for the interim periods are not necessarily indicative of the results to be expected for the full year due to seasonal variations and other factors.

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.

Recent Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting. These changes are intended to simplify the market transition from the London Interbank Offered Rate (“LIBOR”) to alternative reference rates. ASU 2020-04 generally considers contract modifications related to reference rate reform to be an event that does not require contract remeasurement at the modification date nor a reassessment of a previous accounting determination. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which clarified the scope and application of ASU 2020-04. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the sunset date of the reference rate reform guidance to December 31, 2024. The guidance in ASU 2020-04 may be elected over time, through December 31, 2024, as reference rate reform activities occur. Once ASU 2020-04 is elected, the guidance must be applied prospectively for all eligible contract modifications. In June 2022, the Company modified its credit facility to use the Secured Overnight Financing Rate (“SOFR”) as a reference rate rather than LIBOR. The Company elected to apply this guidance which preserves the presentation of the loan consistent with the presentation prior to the modification.

In October 2021, the FASB issued ASU 2021-08, which requires application of Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, to recognize and measure contract assets and liabilities from contracts with customers acquired in a business combination. ASU 2021-08 creates an exception to the general recognition and measurement principle in ASC 805, *Business Combinations*, and will result in recognition of contract assets and contract liabilities consistent with those recorded by the acquiree immediately before the acquisition date. The standard is effective for fiscal years beginning after December 15, 2022, early adoption was permitted. The adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, which amends the application of ASU 2016-02, *Leases (Topic 842),* related to leases with entities under common control, also referred to as common control leases. The amendments to this update require an entity to consider the useful life of leasehold improvements associated with common control leases from the perspective of the common control group and amortize the leasehold improvements over the useful life of the assets to the common control group, instead of the term of the lease. Any remaining value for the leasehold improvement at the end of the lease would be adjusted through equity. The standard is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The adoption is not expected to have a material impact on the Company's consolidated financial statements.

2. Business Combinations

On January 18, 2022, the Company acquired 100% of Hanover Family Builders, LLC ("Hanover"), a Florida-based homebuilder, for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The aggregate purchase price included a pay-off of $69.3 million related to debt held by Hanover and a payment of $15.6 million for land-related deposits. The total assets of Hanover included approximately 20 development projects and 3,800 lots owned or controlled in various stages of development.

In accordance with ASC 805, the assets acquired and liabilities assumed from the acquisition of Hanover 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. For acquired land and land options, the Company typically utilizes, with the assistance of a third-party valuation specialist, a sales comparison approach. For work in process inventories, the Company estimates the fair value based upon the stage of production of each unit and a gross margin that management believes a market participant would require to complete the remaining development 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 related to the Hanover trade name, which was estimated to have a fair value of $1.6 million and was amortized over one year. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed and relates primarily to the assembled workforce and business synergies. Goodwill of $44.2 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 Florida reporting segment in *Note 11 – Segment Reporting*. The Company incurred transaction related costs of $0.1 million and $0.7 million related to the Hanover acquisition during the three and six months ended June 30, 2022, respectively.

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	$	3,857
Real estate inventories		232,071
Goodwill		44,182
Trade name		1,590
Other assets		378
Total assets	$	282,078
Liabilities Assumed		
Accounts payable	$	6,329
Accrued expenses		13,165
Total liabilities		19,494
Net assets acquired	$	262,584

Unaudited Pro Forma Financial Information

Unaudited pro forma revenue and net income for the following periods presented give effect to the results of the acquisition of Hanover as though the acquisition date was as of January 1, 2021, the beginning of the year preceding the acquisition. Unaudited pro forma net income adjusts the operating result of Hanover 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.

	Three Months Ended June 30,	Six Months Ended June 30,
	2022	2022
	(dollars in thousands)	
Revenue	$ 368,679	$ 690,015
Pretax income	34,345	68,896
Provision for income taxes	12,733	22,390
Net income	$ 21,612	$ 46,506

3. Variable Interest Entities

The Company consolidates two joint venture ("JV") VIEs. The consolidated VIEs include one active project in the Metro New York area ("14th Ave JV") and one JV with the purpose of acquiring undeveloped land (the "LCF JV"). The Company has determined that it is the primary beneficiary of these VIEs as it has the power to direct activities of the operations that most significantly affect their economic performance.

Both consolidated VIEs are financed by equity contributions from the Company and the JV partner. The 14th Ave JV was also funded by third-party debt which was paid off in April 2022 with proceeds from a loan provided by the Company. The intercompany loan is eliminated upon consolidation.

The following table summarizes the carrying amount and classification of the VIEs' assets and liabilities in the consolidated balances sheets as of June 30, 2023 and December 31, 2022.

	June 30, 2023	December 31, 2022
	(dollars in thousands)	
Cash	$ 8,687	$ 4,697
Real estate inventories	93,832	99,699
Due from affiliates	283	329
Other assets	2,109	2,124
Total assets	$ 104,911	$ 106,849
Accounts payable	$ 710	$ 1,577
Accrued expenses and other liabilities	5,068	5,616
Total liabilities	$ 5,778	$ 7,193

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	June 30, 2023	December 31, 2022
	(dollars in thousands)	
Deposits and pre-acquisition costs	$ 102,726	$ 101,395
Land held and land under development	313,375	191,047
Homes completed or under construction	667,060	779,352
Model homes	41,948	21,575
Total real estate inventories	$ 1,125,109	$ 1,093,369

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, *Property, Plant, and Equipment,* real estate inventories are 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. The Company generally determines 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 the Company's estimates of future home sales revenue, home construction costs, pace of homes sales, and the applicable discount rate.

For the three and six months ended June 30, 2023 the Company recorded $4.7 million of real estate inventories impairment charges related to one community in its California segment. In this instance, the Company determined that additional incentives and persistent discounts were required to sell the remaining homes and was the primary cause of driving the estimated future cash flows for the community below its previous carrying values. For the three and six months ended June 30, 2022 the Company did not recognize any impairments on real estate inventories. Real estate inventories impairment charges are recorded to cost of home sales in the consolidated statements of operations.

The table below provides quantitative data for Level 3 inputs, for the periods presented, where applicable, used in determining the fair value of the impaired inventory.

	Impairment Data			Quantitative Data
Three Months Ended	Number of Projects Impaired	Real Estate Inventories Impairment	Fair Value of Inventory After Impairment	Discount Rate
		(dollars in thousands)		
June 30, 2023	1	$ 4,700	$ 19,363	11 %
Total		$ 4,700		

5. Capitalized Interest

Interest is capitalized to real estate inventories during development and as a result of other qualifying activities. Interest capitalized as a cost of real estate inventories is included in cost of sales as related inventories are delivered.

For the three and six months ended June 30, 2023, the Company incurred and capitalized interest of $11.3 million and $23.2 million, respectively. For the three and six months ended June 30, 2022, the Company incurred and capitalized interest of $7.5 million and $14.8 million, respectively. Previously capitalized interest included in cost of sales during the three and six months ended June 30, 2023 was $7.3 million and $11.9 million, respectively. Previously capitalized interest included in cost of sales during the three and six months ended June 30, 2022 was $14.8 million and $21.2 million, respectively. These amounts included interest from certain related party transactions, refer to *Note 9 – Related Party Transactions* for additional information.

6. Other Assets

As of June 30, 2023 and December 31, 2022, the Company had contract assets of $4.8 million and $7.2 million, respectively, related to lot sales and other revenue. The contract asset balance is included in other assets on the Company's consolidated balance sheets and represents cash to be received for work already performed on lot sales and other contracts. The amount of the transaction price for lot sales and other contracts remaining to be recognized as revenue for performance obligations that were not fully satisfied as of June 30, 2023 and December 31, 2022 was $8.8 million and $11.6 million, respectively. As of June 30, 2023, the Company had $0.9 million of deferred revenue related to lot sales and other revenue included in accrued expenses and other liabilities in the Company's consolidated balance sheets. As of December 31, 2022, the Company had no deferred revenue related to lot sales and other revenue. The Company reduces these liabilities and recognizes revenue as development progresses and the related performance obligations are completed.

7. Notes and Other Debts Payable, net

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

	June 30, 2023	December 31, 2022
	(dollars in thousands)	
Line of credit facility	$ 490,000	$ 514,300
Deferred loan costs	(7,264)	(8,878)
Notes and other debts payable, net	$ 482,736	$ 505,422

In October 2021, the Company entered into a line of credit agreement (the "Credit Agreement"). The Credit Agreement provides for a senior unsecured borrowing of up to $675.0 million as of June 30, 2023. The Company may increase the borrowing capacity up to $850.0 million, under certain conditions. Borrowings under the Credit Agreement bear interest at SOFR plus 3.35% or Prime Rate (as defined in the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of LIBOR with SOFR as an index rate, and an extension of the maturity date to October 2025. As of June 30, 2023, the interest rate on the loan was 8.52%. In July 2023, subsequent to the period covered by this report, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

In addition, the Company previously had one project-specific construction loan. In April 2022, the construction loan was repaid in full with proceeds from borrowings under the Credit Agreement. In connection with this payoff, the Company incurred $2.5 million of debt extinguishment fees, which were included in other income, net, in the consolidated statements of operations during the year ended December 31, 2022.

The Credit Agreement contains certain financial covenants, such as requirements for the Company to maintain a minimum liquidity balance, minimum tangible net worth, and leverage and interest coverage ratios. As of June 30, 2023, the Company was in compliance with all financial covenants.

8. Commitments and Contingencies

Legal—The Company is currently involved in various legal actions and proceedings that arise from time to time and may be subject to similar or other legal and/or regulatory actions in the future. The Company is currently unable to estimate the likelihood of an unfavorable result in any such proceeding that could have a material adverse effect on the Company's results of operations, financial position, or liquidity.

In the fourth quarter of 2021, certain insurers paid $14.9 million on behalf of the Company and others to settle a wrongful death suit. The insurers contend they are entitled to seek reimbursement from the Company for some or all of such amounts, which the Company disputes. At this time the Company is unable to estimate the amount or outcome of the insurers' claims against the Company. In addition, the Company is unable to estimate the amount or outcome of its recovery actions against relevant third parties.

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 $110.2 million and $114.9 million of performance bonds outstanding as of June 30, 2023 and December 31, 2022, respectively.

Warranty—Estimated future direct warranty costs are accrued and charged to cost of sales in the period when the related homebuilding revenues are recognized. Changes in the Company's warranty accrual are detailed in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Beginning warranty accrual	$ 46,230	$ 16,757	$ 46,657	$ 15,692
Warranty provision	1,263	1,642	2,174	3,243
Warranty payments	(1,266)	(389)	(2,604)	(925)
Ending warranty accrual	$ 46,227	$ 18,010	$ 46,227	$ 18,010

Operating Leases—The Company primarily enters into operating leases for the right to use office space, model homes, and computer and office equipment, which have remaining lease terms that range from 1 to 8 years and often include one or more options to renew. During December 2021, the Company sold model homes and immediately leased back these models. Certain of these model homes were not complete at the time of sale. All of the leases from the sale-leasebacks are accounted for as operating leases and are reflected as part of the Company's right-of-use assets and lease liabilities in the accompanying consolidated balance sheets. Certain of these sales were to a related party; refer to *Note 9 – Related Party Transactions* for further detail. The weighted average remaining lease term as of June 30, 2023 and December 31, 2022 was 5.9 and 5.7 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 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 as of June 30, 2023 and December 31, 2022 was 5.3% and 4.6%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of June 30, 2023, the Company had $13.8 million and $14.8 million recognized as a right-of-use asset and lease liability, respectively, which are presented on the consolidated balance sheets within other assets and accrued expenses and other liabilities, respectively. As of December 31, 2022, the Company had $ 15.6 million and $16.4 million recognized as a right-of-use asset and lease liability, respectively.

Operating lease expense for the three and six months ended June 30, 2023 was $0.8 million and $1.9 million, respectively, and is included in general and administrative expenses on the consolidated statements of operations. For the three and six months ended June 30, 2022 operating lease expense was $0.6 million and $1.1 million, respectively.

Future minimum payments under the noncancelable operating leases in effect at June 30, 2023 were as follows *(dollars in thousands)*:

2023	$ 1,968
2024	3,481
2025	2,582
2026	2,332
2027	2,101
Thereafter	4,738
Total lease payments	17,202
Less: Discount	(2,390)
Present value of lease liabilities	$ 14,812

9. Related Party Transactions

The Company continues to pay for certain costs on behalf of Landsea Holdings. The Company records a due from affiliate balance for all such payments. As of June 30, 2023 and December 31, 2022, the Company had a net receivable due from affiliates balance of $3.2 million and $2.9 million, respectively.

In June 2023, the Company repurchased from the underwriters, at the public offering price of $7.50 per share, 443,478 shares of common stock that were sold by Landsea Holdings, the Company's majority stockholder, in a registered secondary offering, for a total purchase price of $ 3.3 million. This repurchase was effected under the Company's then-existing share repurchase authorization.

In June 2022, the Company entered into two transactions with Landsea Holdings. On June 1, 2022, the Board of Directors authorized the Company to buyback 4.4 million shares of common stock held by Landsea Holdings. The Company paid $30.0 million at a price of $6.82 per share, a discount of 5% compared to the closing price on May 31, 2022 of $7.18. Additionally, the Company repurchased all 5.5 million outstanding Private Placement Warrants, of which Landsea Holdings held 2.2 million. The Company paid Landsea Holdings $6.6 million at $3.00 per Private Placement Warrant. In addition, 2.8 million of the repurchased Private Placement Warrants were held by Level Field Capital, LLC, a related party that is controlled by a member of the Company's Board of Directors. The Company paid Level Field Capital, LLC $8.4 million at $3.00 per Private Placement Warrant. The Company's common stock and Warrants are discussed further in *Note 14 – Stockholders' Equity*.

In June 2022, Landsea Capital Fund, who is under common control with the Company, contributed $55.0 million to the LCF JV. The LCF JV, which is consolidated by the Company, used these proceeds to purchase undeveloped land from the Company. The Company distributed $ 0.9 million and $1.8 million to Landsea Capital Fund during the three and six months ended June 30, 2023, respectively. All intercompany transactions between the Company and the LCF JV have been eliminated upon consolidation.

In December 2021, the Company sold model homes to a related party for total consideration of $15.2 million. Construction of certain of these model homes was not complete at the time of sale. The Company recognized lot sales and other revenue of $0.2 million and $1.2 million during the three and six months ended June 30, 2022, respectively, related to the model homes still under construction on the sale date. Corresponding lot and other cost of sales of $0.2 million and $1.3 million was also recognized during the same periods. The Company did not recognize any revenue or other cost of sales related to these model homes during the three and six months ended June 30, 2023. As part of this transaction, the Company leased back these models. The total amount of rent payments made during the three and six months ended June 30, 2023 is $0.2 million and $0.4 million, respectively. The total amount of rent payments made during the three and six months ended June 30, 2022 is $0.2 million and $0.4 million, respectively. The right-of-use asset and lease liability balances associated with these leases is $0.9 million and $0.9 million, respectively, as of June 30, 2023 and $1.3 million and $1.3 million, respectively, as of December 31, 2022.

In July 2021, the Company entered into a landbank agreement for a project in its California segment with a related party. The Company will make regular payments to the related party based on an annualized rate of 7% of the undeveloped land costs while the land is developed and may purchase, at the Company's discretion, the lots at a predetermined price of $28.9 million. The total amount of interest payments made during the three and six months ended June 30, 2023 is $0.2 million and $0.4 million, respectively. The total amount of interest payments made during the three and six months ended June 30, 2022 is $0.3 million and $0.5 million, respectively. During the three and six months ended June 30, 2023, payments of $3.0 million and $4.0 million, including fees, have been made to purchase developed lots from the related party, respectively. During the three and six months ended June 30, 2022, payments of $5.3 million and $6.2 million, including fees, were made to purchase developed lots from the related party, respectively. Capitalized interest included in real estate inventories on the consolidated balance sheets associated with this transaction was $1.0 million and $0.8 million as of June 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and six months ended June 30, 2023 was $0.2 million and $0.4 million, respectively. There was no previously capitalized related party interest included in cost of sales during the three and six months ended June 30, 2022.

Landsea Holdings holds a series of notes payable to affiliated entities of its parent. The cash Landsea Holdings received from this debt was previously utilized to partially fund operations of the Company. Related party interest incurred by Landsea Holdings 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. 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 were not assigned to the Company, the notes payable do not represent a liability of the Company and accordingly have not been reflected in the consolidated balance sheets. Additionally, in connection with the Merger (as defined below), the Company is precluded from repaying Landsea Holdings' notes payable to the affiliated entities of its parent. Therefore, beginning January 7, 2021, additional interest from these notes payable is no longer pushed down to the Company. Capitalized interest included in real estate inventories on the consolidated balance sheets associated with this transaction was $0.9 million and $2.2 million as of June 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and six months ended June 30, 2023 was $0.5 million and $1.3 million, respectively. Previously capitalized related party interest included in cost of sales during the three and six months ended June 30, 2022 was $1.6 million and $3.1 million, respectively.

10. Income Taxes

The effective tax rate of the Company was 21.8% and 24.6% for the three and six months ended June 30, 2023, respectively, and 36.0% and 32.5% for the three and six months ended June 30, 2022, respectively. The difference between the statutory tax rate and the effective tax rate for the six months ended June 30, 2023 is primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation under Section 162(m), and tax credits for energy efficient homes. The difference between the statutory tax rate and the effective tax rate for the six months ended June 30, 2022 is primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, and warrant fair market value adjustments.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of the Company's deferred tax assets.

The Inflation Reduction Act ("IRA") of 2022 was enacted into law on August 16, 2022. The IRA introduces a 15% corporate alternative minimum tax on average annual adjusted financial statement income for applicable corporations, and a 1% excise tax on stock repurchases made by publicly traded US corporations after December 31, 2022. The IRA also retroactively extends the federal tax credit for building new energy efficient homes for homes delivered from January 1, 2022 through December 31, 2032.

11. Segment Reporting

The Company is engaged in the acquisition, development, and sale of homes and lots in multiple states across the country. The Company is managed by geographic location and each of the five geographic regions targets a wide range of buyer profiles including: first time, move-up, and luxury homebuyers.

Management of the five geographic regions report 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 income to assess profitability and to allocate resources. Accordingly, the Company has presented its operations as the following five reportable segments:

- Arizona
- California
- Florida
- Metro New York
- Texas

The Company has also identified its 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 Corporate personnel and resources are primarily dedicated to activities relating to operations and are allocated based on each segment's respective percentage of assets, revenue, and dedicated personnel.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Revenue				
Arizona	$ 72,103	$ 82,914	$ 145,692	$ 158,119
California	99,516	107,851	166,774	224,489
Florida	121,625	109,602	216,682	216,794
Metro New York	—	59,926	1,649	67,626
Texas	—	8,386	4,187	17,878
Total revenues	$ 293,244	$ 368,679	$ 534,984	$ 684,906
Pretax income (loss)				
Arizona	$ (610)	$ 6,465	$ (427)	$ 11,607
California	4,452	22,689	7,389	48,026
Florida	11,388	3,784	19,615	3,856
Metro New York	(298)	1,998	(901)	1,456
Texas	(1,441)	136	(2,761)	122
Corporate	(5,985)	(11,846)	(9,669)	(23,713)
Total pretax income	$ 7,506	$ 23,226	$ 13,246	$ 41,354

The following table summarizes total assets by segment:

	June 30, 2023	December 31, 2022
	(dollars in thousands)	
Assets		
Arizona	$ 319,659	$ 357,788
California	509,398	513,549
Florida	434,803	422,045
Metro New York	43,358	45,277
Texas	38,967	26,923
Corporate	60,386	74,914
Total assets	$ 1,406,571	$ 1,440,496

Included in the Corporate segment assets is cash and cash equivalents of $27.8 million and $40.3 million as of June 30, 2023 and December 31, 2022, respectively.

As of June 30, 2023 and December 31, 2022, goodwill of $47.9 million and $20.7 million was allocated to the Florida and Arizona segments, respectively.

12. Fair Value

ASC 820, *Fair Value Measurement*, 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:

		June 30, 2023		December 31, 2022	
	Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
		(dollars in thousands)			
Liabilities:					
Line of credit facility [1]	Level 2	$ 490,000	$ 490,000	$ 514,300	$ 514,300

(1) Carrying amount approximates fair value due to the variable interest rate terms of these loans. Carrying value excludes any associated deferred loan costs.

The carrying values of receivables, deposits, and other assets as well as 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 and goodwill are measured at fair value on a non-recurring 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 fully recoverable. During the three and six months ended June 30, 2023, we determined that real estate inventories with a carrying value of $24.1 million within one community in our California segment was not expected to be fully recoverable. Accordingly, we recognized real estate inventories impairment charges of an aggregate $4.7 million to reflect the estimated fair value of the community of $19.4 million. During the three and six months ended June 30, 2022, the Company determined that none of the real estate inventories or goodwill required impairment. Refer to *Note 4 – Real Estate Inventories* for additional information.

Prior to being purchased by the Company in June 2022, the Private Placement Warrants were historically measured at fair value on a recurring basis using a Black-Scholes option pricing model.

The following table reconciles the beginning and ending balances for the Level 3 recurring fair value measurements during the periods presented:

	Six Months Ended June 30,	
	2023	2022
Warrant liability	*(dollars in thousands)*	
Beginning balance	$ —	$ 9,185
Changes in fair value	—	7,315
Repurchases of warrants	—	(16,500)
Ending balance	$ —	$ —

13. Stock-Based Compensation

The following table presents a summary of the Company's nonvested performance share units ("PSUs") and restricted stock units ("RSUs") for the six months ended June 30, 2023:

	Awards	Weighted Average Grant Date Fair Value
	(in thousands)	
Nonvested, at December 31, 2022	1,625	$ 8.82
Granted	238	7.95
Vested	(375)	8.68
Forfeited	—	—
Nonvested, at June 30, 2023	1,488	$ 8.72

The following table presents a summary of the Company’s stock options activity for the six months ended June 30, 2023:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		*(in years)*	*(in thousands)*
Options outstanding at December 31, 2022	684	$ 8.82		
Granted	228	6.46		
Exercised	—	—		
Forfeited	(199)	8.74		
Options outstanding at June 30, 2023	713	$ 8.09	8.97	$ 892
Options exercisable at June 30, 2023	167	$ 8.82	8.51	$ 87

Stock-based compensation expense totaled $1.7 million and $1.4 million during the three and six months ended June 30, 2023, respectively, and is included in general and administrative expenses on the consolidated statements of operations. Net stock-based compensation activity during the three months ended March 31, 2023 resulted in a reduction to expense due to the forfeiture of certain options as well as the revised estimates on the expected PSU achievement. For the three and six months ended June 30, 2022, stock-based compensation expense was $1.4 million and $1.9 million, respectively.

The following table presents a summary of the Company’s outstanding RSUs and PSUs, assuming the current estimated level of performance achievement (in thousands, except years):

	June 30, 2023
	(in thousands, except period)
Unvested units	1,488
Remaining cost on unvested units	$ 3,205
Remaining vesting period	3.50 years

Stock-based compensation expense associated with the outstanding RSUs and PSUs is measured using the grant date fair value. The expense associated with the PSUs also incorporates the estimated achievement of the established performance criteria at the end of each reporting period until the performance period ends.

14. Stockholders’ Equity

The Company’s authorized capital stock consists of 500.0 million shares of common stock with a par value of $0.0001 per share, and 50.0 million shares of preferred stock with a par value of $0.0001 per share. As of June 30, 2023, there were 41.4 million shares of common stock issued and 39.2 million outstanding, and no shares of preferred stock issued or outstanding. All outstanding shares of common stock are validly issued, fully paid and nonassessable.

Stock Repurchases

In January 2022, the Board of Directors authorized a stock repurchase program. The program allowed for the repurchase of up to $50.0 million worth of common stock, inclusive of associated fees. The authorization to effect stock repurchases expired on June 30, 2022, with no remaining capacity to repurchase common stock. During the three and six months ended June 30, 2022, the Company repurchased 722,923 and 1,160,751 shares of common stock for a total of $6.2 million and $10.0 million, in each case respectively, which was recorded as a reduction to additional paid-in capital.

In April 2022, the Board of Directors authorized an extension of the stock repurchase program for the repurchase and an additional $10.0 million of capacity to repurchase common stock, with an expiration of December 31, 2022. As of June 30, 2022, no shares had been repurchased under this authorization.

In May 2022, the Board of Directors authorized a repurchase of 4,398,826 shares of our common stock directly from the Company's majority shareholder for $30.0 million, or a per-share price of $6.82 per share. The Company consummated this repurchase in June 2022.

In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of up to $10.0 million worth of common stock, with an expiration of December 31, 2023. During the three and six months ended June 30, 2023, the Company repurchased 968,869 shares of common stock for a total of $7.5 million, which was recorded as a reduction to additional paid-in capital. A portion of these shares were repurchased directly from the Company's majority shareholder. Refer to *Note 9 – Related Party Transactions* for additional information. As of June 30, 2023, the Company had approximately $2.5 million in remaining capacity.

The timing and amount of repurchases are based on a variety of factors such as the market price of the Company's common stock, corporate and contractual requirements, market and economic conditions, and legal requirements.

In July 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of approximately $3.3 million, with an expiration date of December 31, 2023, and an additional $10.0 million with no stated expiration date.

The Inflation Reduction Act of 2022 included a 1% excise tax on stock repurchases, net of new stock issuances, beginning in 2023. The tax is expected to be paid annually and the Company accrues the tax during interim periods with the offset to additional paid-in capital on the consolidated balance sheet.

Merger Transaction

On August 31, 2020, Landsea Homes and 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. The Merger Agreement provided for, among other things, the merger of Merger Sub with and into Landsea Homes Incorporated ("LHI"), previously a wholly-owned subsidiary of Landsea Holdings, with LHI continuing as the surviving corporation (the "Merger"). On January 7, 2021 (the "Closing Date"), the Merger was consummated pursuant to the Merger Agreement (the "Closing"). The name of LF Capital was changed at that time to Landsea Homes Corporation.

Upon closing of the Merger, Level Field Capital, LLC (the "Sponsor") held 1.0 million shares that were subject to surrender and forfeiture for no consideration in the event the common stock did not reach certain thresholds during the 24-month period following the closing of the Merger (the "Earnout Shares"). The Sponsor transferred 0.5 million Earnout Shares to Landsea Holdings. In January 2023, the Company concluded that the threshold for the Earnout Shares was not met and therefore those shares were forfeited and cancelled. Additionally, the Sponsor transferred 2.2 million private placement warrants to Landsea Holdings (such private placement warrants, each exercisable to purchase one share of Common Stock at an exercise price of $11.50 per share, are referred to as the "Private Placement Warrants", and together with the Company's public warrants, are referred to as the "Warrants"). During the year ended December 31, 2022, the private placement warrants were repurchased by the Company and are no longer outstanding. Refer below for additional information.

Warrants

As of June 30, 2023, there were 15,525,000 outstanding Warrants consisting entirely of public warrants. At the time of the Merger, the Warrant Agreement was amended so that each public warrant is exercisable at $1.15 for one tenth of a share of common stock. As part of the amendment, each holder of the public warrants received $1.85 per warrant for a total of $28.7 million paid by the Company upon closing of the Merger. The Warrants will expire five years after the completion of the Merger or earlier upon redemption or liquidation.

The Company may call the public warrants for redemption:

- in whole and not in part;
- at a price of $0.01 per warrant;
- upon a minimum of 30 days' prior written notice of redemption; and
- if, and only if, the last reported closing price of the shares equals or exceeds $18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company sends the notice of redemption to the warrant holders.

If the Company calls the public warrants for redemption, management will have the option to require all holders that wish to exercise the public warrants to do so on a "cashless basis," as described in the Warrant Agreement.

The exercise price and number of common shares issuable upon exercise of the Warrants may be adjusted in certain circumstances including in the event of a share dividend, or recapitalization, reorganization, merger or consolidation. However, the Warrants will not be adjusted for issuance of common shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the Warrants shares. Accordingly, the Warrants may expire worthless.

In June 2022, the Company repurchased all 5.5 million outstanding Private Placement Warrants, which were exercisable at $11.50 into one share of common stock. The Company paid $16.5 million, or $3.00 per warrant, to repurchase all of the outstanding Private Placement Warrants. This amount included $6.6 million for the repurchase of 2.2 million of the Private Placement Warrants that were held by the Company's majority shareholder, Landsea Holdings, and $8.4 million to Level Field Capital, LLC, a related party, for the repurchase of 2.8 million Private Placement Warrants. Refer to *Note 9 – Related Party Transactions* for additional information. The loss recognized on the repurchase of the Private Placement Warrants is recorded as loss on remeasurement of warrant liability on the Company's consolidated statements of operations.

15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share ("EPS") for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(dollars in thousands, except share and per share amounts)			
Numerator				
Net income attributable to Landsea Homes Corporation	$ 4,947	$ 14,935	$ 8,165	$ 28,000
Less: undistributed earnings allocated to participating shares	—	(339)	—	(619)
Net income attributable to common stockholders	$ 4,947	$ 14,596	$ 8,165	$ 27,381
Denominator				
Weighted average common shares outstanding - basic	39,891,982	44,081,762	39,944,549	45,208,307
Adjustment for weighted average participating shares outstanding	—	(1,000,000)	—	(1,000,000)
Adjusted weighted average common shares outstanding under two class method - basic	39,891,982	43,081,762	39,944,549	44,208,307
Dilutive effect of warrants	—	—	—	—
Dilutive effect of share-based awards	79,749	118,705	115,182	175,100
Adjusted weighted average common shares outstanding under two class method - diluted	39,971,731	43,200,467	40,059,731	44,383,407
Earnings per share				
Basic	$ 0.12	$ 0.34	$ 0.20	$ 0.62
Diluted	$ 0.12	$ 0.34	$ 0.20	$ 0.62

The Company excluded 2.5 million and 2.2 million common stock equivalents from diluted EPS related to antidilutive warrants, options, and share-based awards during the three and six months ended June 30, 2023, respectively. The Company excluded 1.6 million common stock equivalents from diluted EPS during each of the three and six months ended June 30, 2022.

16. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Six Months Ended June 30,	
	2023	2022
	(dollars in thousands)	
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	$ —	$ —
Income taxes paid	$ 6,691	$ 27,997
Supplemental disclosures of non-cash investing and financing activities		
Change in right-of-use assets for new, modified, or terminated operating leases	$ 338	$ 3,660

17. Subsequent Event

In July 2023, the Company entered into a new senior unsecured note (the "Note Purchase Agreement"). The Note Purchase Agreement provides for the private placement of $250.0 million aggregate principal amount of 11% senior notes. The Company received the proceeds, net of discount and fees, in July 2023. The Note Purchase Agreement matures in July 2028. The Company intends to use the net proceeds from the sale of the notes to pay down a portion of the outstanding borrowings under its Credit Agreement and for working capital and general corporate purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with and is qualified in its entirety by the consolidated financial statements and notes thereto included elsewhere in this document. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the section entitled "Risk Factors" of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on March 9, 2023. This section discusses certain items in the three and six months ended June 30, 2023 and 2022 and year-to-year comparisons between those periods. References to "we", "Landsea Homes", the "Company", "us", or "our" refer to Landsea Homes Corporation.

Consolidated Financial Data

The following table summarizes our unaudited results of operations for the three and six months ended June 30, 2023 and 2022.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(dollars in thousands, except per share amounts)		*(dollars in thousands, except per share amounts)*	
Revenue				
Home sales	$ 291,512	$ 350,807	$ 532,137	$ 648,773
Lot sales and other	1,732	17,872	2,847	36,133
Total revenues	293,244	368,679	534,984	684,906
Cost of sales				
Home sales	240,835	276,156	437,889	511,858
Lot sales and other	1,748	14,438	2,461	29,809
Total cost of sales	242,583	290,594	440,350	541,667
Gross margin				
Home sales	50,677	74,651	94,248	136,915
Lot sales and other	(16)	3,434	386	6,324
Total gross margin	50,661	78,085	94,634	143,239
Sales and marketing expenses	18,334	24,155	34,742	43,303
General and administrative expenses	25,980	27,037	48,760	49,623
Total operating expenses	44,314	51,192	83,502	92,926
Income from operations	6,347	26,893	11,132	50,313
Other income (loss), net	1,159	(1,907)	2,114	(1,644)
Loss on remeasurement of warrant liability	—	(1,760)	—	(7,315)
Pretax income	7,506	23,226	13,246	41,354
Provision for income taxes	1,640	8,372	3,257	13,439
Net income	5,866	14,854	9,989	27,915
Net income (loss) attributable to noncontrolling interests	919	(81)	1,824	(85)
Net income attributable to Landsea Homes Corporation	$ 4,947	$ 14,935	$ 8,165	$ 28,000
Income per share:				
Basic	$ 0.12	$ 0.34	$ 0.20	$ 0.62
Diluted	$ 0.12	$ 0.34	$ 0.20	$ 0.62
Weighted average common shares outstanding:				
Basic	39,891,982	43,081,762	39,944,549	44,208,307
Diluted	39,971,731	43,200,467	40,059,731	44,383,407

Business Overview

Driven by a commitment to sustainability, we design and build homes and communities in Arizona, California, Florida, Metro New York, and Texas. We create inspired spaces for modern living and feature homes and communities in vibrant, prime locations which connect seamlessly with their surroundings and enhance the local lifestyle for living, working, and playing. The defining principle, “Live in Your Element®,” creates the foundation for our customers to live where they want to live, how they want to live – in a home created especially for them.

We are engaged in the acquisition, development, and sale of homes and lots in the states of Arizona, California, Florida, New York, and Texas. Our operations are organized into five reportable segments: Arizona, California, Florida, Metro New York, and Texas. We build and sell an extensive range of home types across a variety of price points, but we focus our efforts on the first-time homebuyer. Our Corporate operations are a non-operating segment that supports our homebuilding operations by providing executive, finance, treasury, human resources, accounting, and legal services.

We continue to capitalize on opportunities to shift inventory and product to more affordable offerings through our recent growth resulting from acquisitions in Florida. In January 2022, we acquired 100% of Hanover Family Builders, LLC (“Hanover”), a Florida-based homebuilder, for an aggregate cash purchase price, net of working capital adjustments, of $262.6 million. The Hanover acquisition increased our presence in Florida with a backlog of 522 units valued at $228.1 million as of the acquisition date. We believe this acquisition fits with and continues to advance our overall business strategy by expanding into new geographic and diverse markets.

During recent years, we saw significant increases in demand across our markets, fueled by historically low interest rates on mortgage loans and a generally tightening supply of homes for sale. This increased demand allowed us to increase prices and derive additional revenue from homes sales, as we delivered more units than ever before. Supply chain issues, labor shortages, and the resulting cost increases partially offset some of the revenue growth that we experienced. Even as we have experienced some of these supply chain and labor challenges easing, recent increases in federal interest rates have put downward pressure on demand in our industry by reducing affordability for homebuyers across all of our markets.

Costs of construction of our homes have varied significantly over the past two years. Supply chain issues primarily originating from the COVID-19 pandemic are continuing to show signs of easing. Products previously back ordered or at higher than normal prices are continuing to normalize and we have generally been able to obtain more favorable terms and conditions for contracted supplies and labor. While specific products are still occasionally difficult to procure, we expect to continue to manage this challenge by partnering with suppliers that can dedicate their attention and products to us, expanding our operational forecasts to assist in making purchase orders with sufficient lead time, using standard size products that are interchangeable, and holding select products on hand to ensure availability. The improvement in our supply chain is allowing us to be more strategic in the contracts we enter into and the vendors we use. We have seen improvements in our cycle time from beginning construction on a home to final delivery to the homebuyer, and we believe these steps will allow us to continue to shorten that cycle time.

Rising interest rates have put downward pressure on demand due to decreased affordability for many potential homebuyers across the nation. Challenges to affordability negatively impacted absorption and cancellation rates, particularly in the second half of 2022. Since the beginning of 2023, both metrics have shown signs of improving and stabilizing, however continued inflation and market uncertainty could create further challenges across the homebuilding industry. We continue to monitor mortgage interest rates but are unsure of the length and magnitude of any future interest rate increases by the Federal Reserve which ultimately drive these rates. This has led us to respond to the current market by focusing sales and marketing efforts on addressing affordability and interest rates as well as providing certain purchase incentives, subject to managing our inventory levels in the market. While we do manage certain marketing programs nationwide, the majority of incentives we offer are specific and tailored to each community’s circumstances. We regularly perform stress tests on our backlog to identify homebuyers that are most likely to cancel their sales contracts, without intervention, due to higher costs from rising interest rates. Additionally, we have partnered and have a licensing agreement with NFM Lending as a preferred lender to provide mortgage services under the name Landsea Mortgage. In connection with this partnership, we have focused many of our incentives on mortgage interest rates and assisting homebuyers with buydowns on their home loans. This has helped achieve certain goals related to sales pace and absorption, while the added discounts and incentives have lowered revenue and gross margins, particularly in our California segment deliveries, we’ve achieved significant volume improvements in net new orders in that segment. We continue to monitor the credit worthiness of our homebuyers with NFM Lending to ensure as many of our sales as possible lead to successful home deliveries.

Strategy

Our strategy is focused on maximizing stockholder 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
- Strengthen unique brand position through product differentiation
- Continue geographic expansion and diversification into new markets
- Leverage existing sales, marketing, and general and administrative base to enhance stockholder 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 of adjusted home sales gross margin, net debt to total capital, earnings before interest, taxes, depreciation, and amortization ("EBITDA") and Adjusted EBITDA, and Adjusted Net Income in their respective sections below to enhance an investor's evaluation of the ongoing operating results and to facilitate meaningful comparison of the results between periods. Management uses these non-GAAP measures to evaluate the ongoing operations and for internal planning and forecasting.

Summary Results of Operations

For the six months ended June 30, 2023, home sales revenue decreased 18% to $532.1 million from $648.8 million and home deliveries decreased 10% to 1,011 units from 1,124 units, in each case as compared to the same period in the prior year. The decrease in home deliveries and home sales revenue year-over-year is primarily the result of a decrease in demand and affordability as mortgage interest rates have risen significantly compared to the prior year period. In addition, our Metro New York segment has nearly completed delivering homes at its one community, with only two units remaining to deliver. In total, our net income for the six months ended June 30, 2023 was $10.0 million compared to $27.9 million in the corresponding prior year period.

We remain focused on growth and view our leverage ratios as a key factor in allowing us to expand. While we have grown organically and through acquisitions in recent years, we remain in a position to act on our strategy and to be opportunistic about acquisitions and other growth opportunities. Our debt-to-capital ratio decreased slightly to 40.4% as of June 30, 2023 compared to 41.6% as of December 31, 2022. We believe the continued strength of our balance sheet and operating platform have positioned us well to continue to execute our growth strategy.

We anticipate the homebuilding markets in each of our operating segments to be tied to both the local economy and the macro-economic environment. Accordingly, net orders, home deliveries, and average selling price ("ASP") can be negatively affected by economic conditions, such as rising interest rates, decreases in employment and median household incomes, as well as decreases in household formations and increasing supply of inventories. Shortages in labor or materials can also significantly increase costs, reduce gross margins, and lower our overall profitability. During the six months ended June 30, 2023 we observed mixed absorption rates compared to the same period in the prior year, primarily due to higher interest rates and concerns about affordability. We are seeing signs of stabilization in metrics such as cancellation rates compared to the second half of 2022. Our results have been impacted, and could be further impacted, by continued challenges in home affordability as a result of price appreciation, increases in mortgage interest rates, or tightening of mortgage lending standards.

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 ASP 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. Commentary on significant changes for each of the segments in these metrics is provided below.

	Three Months Ended June 30,											
	2023				2022				% 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	186	$ 79,263	$ 426	3.6	133	$ 64,962	$ 488	3.4	40 %	22 %	(13)%	6 %
California	216	181,466	840	5.9	115	112,070	975	3.5	88 %	62 %	(14)%	69 %
Florida	163	63,686	391	1.9	287	139,692	487	3.6	(43 %)	(54 %)	(20)%	(47 %)
Metro New York[(1)]	—	—	N/A	—	—	2,874	N/A	—	N/A	N/A	N/A	N/A
Texas	—	—	N/A	—	3	2,914	971	0.5	N/A	N/A	N/A	N/A
Total	565	$ 324,415	$ 574	3.3	538	$ 322,512	$ 599	3.3	5 %	1 %	(4)%	— %

(1) During the three months ended June 30, 2022, the Metro New York segment had one cancellation and one sale.

	Six Months Ended June 30,											
	2023				2022				% 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	338	$ 142,008	$ 420	3.4	272	$ 139,023	$ 511	3.9	24 %	2 %	(18)%	(13 %)
California	380	317,693	836	5.3	289	274,245	949	4.3	31 %	16 %	(12)%	23 %
Florida	341	143,024	419	2.0	594	279,056	470	3.6	(43 %)	(49 %)	(11)%	(44 %)
Metro New York	—	—	N/A	—	13	37,190	2,861	2.2	N/A	N/A	N/A	N/A
Texas	4	4,194	1,049	1.3	7	7,096	1,014	0.5	(43) %	(41) %	3 %	160 %
Total	1,063	$ 606,919	$ 571	3.1	1,175	$ 736,610	$ 627	3.6	(10 %)	(18 %)	(9)%	(14 %)

For both the three and six months ended June 30, 2023, the increase in net new orders in Arizona compared to the prior year period was due in part to the mix of homes sold as certain higher priced communities sold out in the prior year, as well as increasing incentives at multiple communities. These incentives increased sales during the first and second quarters of 2023, but decreased the ASP of those home sales.

In the California segment, the increase in net new orders for the six months ended June 30, 2023, particularly during the second quarter, was primarily due to additional incentives which lowered ASP but provided very positive results from the market, and the sale of quick move-in homes which have been in higher demand than usual. These additional incentives and quick move-in homes have helped our sales improve in California faster than other segments while there is still uncertainty about the long-term trends as consumers continue evaluating prices and overall payments in the current environment.

While our Florida segment was initially more resilient than our other segments to the interest rate and inflationary pressures seen across the company, we have seen an increased slowdown in this segment resulting from increased mortgage interest rates and decreased affordability during the three and six months ended June 30, 2023 compared to the prior period. These challenges to affordability decreased the number of homes sales significantly. We continue to strive for the right balance between incentives and sales pace and are tailoring our current incentives and marketing to push for greater absorption in the market.

The Metro New York segment has nearly sold out its one remaining community, with only two units and a retail space remaining to sell and deliver as of June 30, 2023.

As of June 30, 2023 our Texas segment completed the sale and delivery of the lots acquired from Vintage Estate Homes (“Vintage”) and we expect to see sales and deliveries idle over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality of Landsea Homes’ national brand.

Average Selling Communities

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	% Change	2023	2022	% Change
Arizona	17.0	13.0	31 %	16.5	11.5	43 %
California	12.3	11.0	12 %	12.0	11.3	6 %
Florida	28.0	26.7	5 %	28.8	27.7	4 %
Metro New York	—	1.0	(100 %)	—	1.0	(100 %)
Texas	—	2.0	(100 %)	0.5	2.5	(80 %)
Total	57.3	53.7	7 %	57.8	54.0	7 %

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.

	Three Months Ended June 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	160	$ 70,590	$ 441	154	$ 69,176	$ 449	4 %	2 %	(2)%
California	115	99,516	865	133	107,687	810	(14) %	(8) %	7 %
Florida	264	121,406	460	252	109,084	433	5 %	11 %	6 %
Metro New York	—	—	N/A	28	59,926	2,140	N/A	N/A	N/A
Texas	—	—	N/A	5	4,934	987	N/A	N/A	N/A
Total	539	$ 291,512	$ 541	572	$ 350,807	$ 613	(6 %)	(17 %)	(12)%

	Six Months Ended June 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	(dollars in thousands)								
Arizona	330	$ 143,124	$ 434	297	$ 131,191	$ 442	11 %	9 %	(2)%
California	200	166,774	834	261	223,239	855	(23) %	(25) %	(2)%
Florida	476	216,396	455	523	215,625	412	(9) %	— %	10 %
Metro New York	1	1,649	1,649	32	67,626	2,113	(97) %	(98) %	(22)%
Texas	4	4,194	1,049	11	11,092	1,008	(64) %	(62) %	4 %
Total	1,011	$ 532,137	$ 526	1,124	$ 648,773	$ 577	(10 %)	(18 %)	(9)%

Our Arizona segment delivered 160 homes and generated $70.6 million in home sales revenue for the three months ended June 30, 2023. The segment delivered 330 homes and generated $143.1 million in home sales revenue for the six months ended June 30, 2023. The increase in home closings compared to the corresponding periods in 2022 was primarily a result of a net increase in average selling communities and leveraging existing inventory to support quick move-in homes which customers were demanding. The slight decrease in ASP is primarily the result of the mix of homes delivered and increasing incentives. This trend was consistent through the three and six months ended June 30, 2023 compared to the prior year periods.

Our California segment delivered 115 homes and generated $99.5 million in home sales revenue for the three months ended June 30, 2023. The segment delivered 200 homes and generated $166.8 million in home sales revenue for the six months ended June 30, 2023. The decrease in home deliveries during the three and six months ended June 30, 2023, compared to the corresponding periods in 2022 was driven primarily by the affordability challenges observed across the Company. ASP increased during the three months ended June 30, 2023 compared to the prior year period primarily due to mix as we delivered a larger percentage of homes from our higher-end communities. The decrease in ASP during the six months ended June 30, 2023 was primarily the result of the mix of homes delivered and increasing incentives.

Despite a decrease in home deliveries in Florida resulting from affordability concerns, compared to the corresponding prior year period, the ASP increased 10% during the six months ended June 30, 2023. This was the result of additional focus in communities with higher price points that remained relatively steady during the recent challenges stemming from higher mortgage interest rates and market uncertainty. During the three months ended June 30, 2023 we saw growth across all attributes as we see customers returning to the market allowing us to be selective in the use of heavier incentives compared to the prior year period.

The Metro New York segment has nearly sold out its one remaining community, with only two units and a retail space remaining to sell and deliver as of June 30, 2023.

As of June 30, 2023 our Texas segment completed the sale and delivery of the lots acquired from Vintage and we expect to see sales and deliveries idle over the short-term as we pivot the Texas segment to new projects from recent land acquisitions that will be consistent with the quality and price points of Landsea Homes' national brand.

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, real estate inventories impairment, and purchase price accounting for acquired work in process inventory. We believe the below information is meaningful as it isolates the impact that indebtedness, real estate inventories impairment, and acquisitions have on the gross margins and allows for comparability to previous periods and competitors. See *Note 2 – Business Combinations* within the accompanying notes to the consolidated financial statements for additional discussion regarding acquired work in process inventory.

	Three Months Ended June 30,			
	2023	**%**	**2022**	**%**
	(dollars in thousands)			
Home sales revenue	$ 291,512	100.0 %	$ 350,807	100.0 %
Cost of home sales	240,835	82.6 %	276,156	78.7 %
Home sales gross margin	50,677	17.4 %	74,651	21.3 %
Add: Interest in cost of home sales	7,276	2.5 %	14,704	4.2 %
Add: Real estate inventories impairment	4,700	1.6 %	—	— %
Adjusted home sales gross margin excluding interest and real estate inventories impairment[1]	62,653	21.5 %	89,355	25.5 %
Add: Purchase price accounting for acquired inventory	5,710	2.0 %	12,812	3.7 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory [1]	$ 68,363	23.5 %	$ 102,167	29.1 %

	Six Months Ended June 30,			
	2023	**%**	**2022**	**%**
	(dollars in thousands)			
Home sales revenue	$ 532,137	100.0 %	$ 648,773	100.0 %
Cost of home sales	437,889	82.3 %	511,858	78.9 %
Home sales gross margin	94,248	17.7 %	136,915	21.1 %
Add: Interest in cost of home sales	11,818	2.2 %	21,086	3.3 %
Add: Real estate inventories impairment	4,700	0.9 %	—	— %
Adjusted home sales gross margin excluding interest and real estate inventories impairment[1]	110,766	20.8 %	158,001	24.4 %
Add: Purchase price accounting for acquired inventory	10,195	1.9 %	30,550	4.7 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory [1]	$ 120,961	22.7 %	$ 188,551	29.1 %

(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 decreased by 390 basis points and 340 basis points to 17.4% and 17.7% for the three and six months ended June 30, 2023, respectively, compared to the corresponding periods in 2022. The decrease in both the three and six month periods compared to the prior periods are primarily due to the need for additional sales discounts and incentives to drive continued sales and delivery activity in the current period, partially offset by significant costs in the prior year period related to purchase price accounting for acquired inventory. We also recorded a real estate inventories impairment during the three and six months ended June 30, 2023 which decreased our gross margin. Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory decreased 560 basis points and 640 basis points to 23.5% and 22.7% for the three and six months ended June 30, 2023, respectively, compared to the corresponding periods in 2022. Discounts and incentives increased significantly for the three and six months ended June 30, 2023 compared to the prior year periods primarily related to mortgage interest rate buydowns on behalf of our home-buyers. This represented the primary driver for the decrease in adjusted gross margin period over period.

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.

	June 30, 2023			June 30, 2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
				(dollars in thousands)					
Arizona	113	$ 48,871	$ 432	397	$ 189,064	$ 476	(72)%	(74)%	(9)%
California	259	229,365	886	284	277,382	977	(9)%	(17)%	(9)%
Florida	350	177,525	507	876	407,066	465	(60)%	(56)%	9 %
Metro New York	—	—	N/A	6	20,251	3,375	N/A	N/A	N/A
Texas	—	—	N/A	8	8,352	1,044	N/A	N/A	N/A
Total	722	$ 455,761	$ 631	1,571	$ 902,115	$ 574	(54)%	(49)%	10 %

The decrease in the number of backlog homes and value as of June 30, 2023 as compared to June 30, 2022 was a product of the significant cancellation rates in the second half of 2022 resulting primarily from the spike in mortgage interest rates during that time, combined with the closings of existing inventory, including quick move-in terms demanded by customers. While we have seen demand and cancellations stabilize since the beginning of 2023, the current market environment remains uncertain and further challenges could persist.

Lot Sales and Other Revenue

Lot sales and other revenue and gross margin can vary significantly between reporting periods based on the number of lots under contract and the percentage of completion related to the development activities required as part of the lot sales and other contracts. For the three and six months ended June 30, 2023, we recognized $1.7 million and $2.8 million, respectively, of lot sales and other revenue in our Arizona segment related to the sale and subsequent development of lots under contract. For the three and six months ended June 30, 2022, we collectively recognized $17.9 million and $36.1 million, respectively, of lot sales and other revenue in our Arizona, Florida and Texas segments related to the sale and subsequent development of the lots and related homes under contract.

As of June 30, 2023 and December 31, 2022, we had contract assets of $4.8 million and $7.2 million, respectively, related to lot sales and other revenue. The contract asset balance is included in other assets on the Company’s consolidated balance sheets and represents cash to be received for work already performed on lot sale and other contracts. The amount of the transaction price for lot sales and other contracts allocated to performance obligations that were unsatisfied or partially unsatisfied, as of June 30, 2023 and December 31, 2022 was $8.8 million and $11.6 million, respectively.

As of June 30, 2023 the Company had $0.9 million of deferred revenue related to lot sales and other revenue included in accrued expenses and other liabilities in the Company’s consolidated balance sheets. As of December 31, 2022, the Company had no deferred revenue related to lot sales and other revenue. We recognize these amounts as development progresses and the related performance obligations are completed.

Lots Owned or Controlled

The table below summarizes the 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.

	June 30, 2023			June 30, 2022			
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	% Change
Arizona	2,040	1,389	3,429	2,362	2,285	4,647	(26 %)
California	574	1,708	2,282	684	2,078	2,762	(17 %)
Florida	2,366	1,687	4,053	1,690	2,954	4,644	(13 %)
Metro New York	2	—	2	18	—	18	(89 %)
Texas	38	1,204	1,242	28	918	946	31 %
Total	5,020	5,988	11,008	4,782	8,235	13,017	(15 %)

The total lots owned or controlled at June 30, 2023 decreased 15% from June 30, 2022. While we continue to deliver on owned homes and take possession of lots previously under contract, we are monitoring the market to appropriately manage future lot contracts relative to the current market. Our goal remains to maintain a strong balance sheet while entering into contracts for new lots when we are satisfied that the timing and metrics support our actions.

Results of Operations by Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Pretax income (loss)	*(dollars in thousands)*		*(dollars in thousands)*	
Arizona	$ (610)	$ 6,465	$ (427)	$ 11,607
California	4,452	22,689	7,389	48,026
Florida	11,388	3,784	19,615	3,856
Metro New York	(298)	1,998	(901)	1,456
Texas	(1,441)	136	(2,761)	122
Corporate	(5,985)	(11,846)	(9,669)	(23,713)
Total	$ 7,506	$ 23,226	$ 13,246	$ 41,354

Our Arizona segment recorded pretax loss of $0.6 million and $0.4 million in the three and six months ended June 30, 2023, respectively, compared to pretax income of $6.5 million and $11.6 million in the comparable periods during 2022. The decrease in pretax income in both the three and six months ended June 30, 2023 was primarily due to a temporary significant increase in costs of homes delivered, as homes that were built during periods of especially high labor and material costs were completed this quarter. Additionally, the Arizona segment had a significant amount of gross margin from lot sales in the prior period compared to the current period.

Our California segment recorded pretax income of $4.5 million and $7.4 million for the three and six months ended June 30, 2023, respectively, compared to a pretax income of $22.7 million and $48.0 million in the comparable periods in 2022. The decrease in both the three and six months ended June 30, 2023 was due primarily to a comparative drop in deliveries period over period as well as increasing incentives seen across the Company as mortgage interest rates increased, challenging affordability, and driving down volume and gross margin. The California segment also had impacts from increased costs of homes delivered which decreased our gross margin during the periods presented compared to the prior year periods.

Our Florida segment recorded pretax income of $11.4 million and $19.6 million for the three and six months ended June 30, 2023, respectively, compared to pretax income of $3.8 million and $3.9 million in the comparable periods in 2022. We expanded our Florida operations with the acquisition of Hanover in January 2022 and so the corresponding periods in the prior year included additional costs related to the integration and higher amortization of purchase price accounting for acquired inventory and the acquired tradename. During the three and six months ended June 30, 2023, the Florida segment experienced a slowdown in demand similar to other segments, however we saw fewer discounts and incentives needed to maintain our desired sales pace.

The Metro New York segment had pretax loss of $0.3 million and $0.9 million for the three and six months ended June 30, 2023, respectively, which decreased from pretax income of $2.0 million and $1.5 million in the comparable periods in 2022 as the prior three and six month periods included a significant number of deliveries which provided positive gross margins for that segment. We continue to wind up the sales and deliveries activities in that segment.

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 dedicated to activities relating to the business's operations and are allocated accordingly. The Corporate non-operating segment generated a smaller pretax loss compared to the prior year period as the corresponding period in 2022 included a loss related to the fair value of the private placement warrants of $7.3 million. The warrants were repurchased in June 2022 and therefore there was no corresponding loss in the current period.

Sales, Marketing, and General and Administrative Expenses

	Three Months Ended June 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	(dollars in thousands)			
Sales and marketing expenses	$ 18,334	$ 24,155	6.3 %	6.9 %
General and administrative expenses	25,980	27,037	8.9 %	7.7 %
Total sales, marketing, and G&A expenses	$ 44,314	$ 51,192	15.2 %	14.6 %

	Six Months Ended June 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	(dollars in thousands)			
Sales and marketing expenses	$ 34,742	$ 43,303	6.5 %	6.7 %
General and administrative expenses	48,760	49,623	9.2 %	7.6 %
Total sales, marketing, and G&A expenses	$ 83,502	$ 92,926	15.7 %	14.3 %

For the three and six months ended June 30, 2023, sales, marketing, and general and administrative ("SG&A") expenses decreased compared to the prior year period primarily due to the slowing of volume and thus related commission and closing costs in the current period. This was partially offset by increases in wage costs, including costs of benefits and severance.

The SG&A expense rate as a percentage of home sales revenue for the three and six months ended June 30, 2023 was 15.2% and 15.7%, an increase of 0.6% and 1.4% from the prior year period, respectively. The SG&A expense rate increased primarily due to higher wage costs as noted above, offset by cost savings on commissions, closings costs and professional fees. While we anticipate commissions and closings costs may rise in the near future as sales and deliveries increase, we expect to be able to further leverage our G&A base, including wages, and reduce the percentage of SG&A compared to home sales revenue in future periods.

Provision for Income Taxes

The provision for income taxes for the three and six months ended June 30, 2023 was a provision of $1.6 million and $3.3 million, respectively, compared to $8.4 million and $13.4 million for the three and six months ended June 30, 2022. The effective tax rate for the three and six months ended June 30, 2023 was 21.8% and 24.6%, respectively, compared to 36.0% and 32.5% for the three and six months ended June 30, 2022. The difference between the statutory tax rate and the effective tax rate for the three and six months ended June 30, 2023 was primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, and tax credits for energy efficient homes. The difference between the statutory tax rate and the effective tax rate for the three and six months ended June 30, 2022 was primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, and warrant fair market value adjustments.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective, or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our 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 consolidated financial statements might be impacted if we used different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 9, 2023.

Liquidity and Capital Resources

Overview

As of June 30, 2023, we had $76.1 million of cash, cash equivalents, restricted cash, and cash held in escrow, a $64.6 million decrease from December 31, 2022. The change was primarily due to ordinary business activities as cash from home deliveries was primarily reinvested to acquire and construct additional real estate inventories, pay down debt by $24.3 million, and reduce our accrued expenses. Cash held in escrow represents closings happening immediately before quarter-end in which we received the funds from the title company subsequent to June 30, 2023.

Our principal sources of capital are cash generated from home and land sales activities and borrowings from the credit facility. Principal uses of capital are land purchases, land development, home construction, repayments on the credit facility, and the payment of routine liabilities.

Cash flows for each community depend on the community's 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 recognizing 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 our supply of lots and active selling communities.

We expect to generate cash from the sale of inventory including homes under construction. We generally 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. When it meets our strategic goals, we may continue to purchase companies that strengthen our position in markets in a way that would not be possible with organic growth. As we continue to expand our business, we expect that our cash outlays for land purchases and development to increase our lot inventory may, at times, exceed our cash generated by operations.

We intend to utilize debt as part of our ongoing financial strategy, coupled with redeployment of cash flows from operations to finance our business. As of June 30, 2023, we had outstanding borrowings of $490.0 million in aggregate principal, excluding deferred loan costs, and had $185.0 million in additional borrowing capacity under our facility. We will consider several 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 business as a whole, to generate cash flow to cover the expected debt service. In addition, our credit facility contains certain financial covenants, among other things, 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 our current and foreseeable liquidity needs with our cash on hand, cash generated from operations, and cash expected to be available from our credit facility or through accessing debt or equity capital as needed.

Credit Facility

In October 2021, the Company entered into a line of credit agreement (the "Credit Agreement"). The Credit Agreement provides for a senior unsecured borrowing of up to $675.0 million of which there was $490.0 million outstanding as of June 30, 2023. The Company may increase the borrowing capacity up to $850.0 million, under certain circumstances. Borrowings under the Credit Agreement bear interest at the Secured Overnight Financing Rate ("SOFR") plus 3.35% or the Prime Rate (as defined in the Credit Agreement) plus 2.75%. The interest rate includes a floor of 3.85%. The Credit Agreement was modified three times in 2022, which resulted in an increase in the borrowing commitment from $585.0 million to $675.0 million, the replacement of the London Interbank Offered Rate ("LIBOR") with SOFR as an index rate, and an extension of the maturity date to October 2025. As of June 30, 2023, the interest rate on the loan was 8.52%. In July 2023, subsequent to the period covered by this report, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

Financial Covenants

The Credit Agreement has certain financial covenants, including requirements for us to maintain a minimum liquidity balance, minimum tangible net worth as well as maximum leverage and interest coverage ratios. See the table below for the covenant calculations.

	June 30, 2023		December 31, 2022	
Financial Covenants	**Actual**	**Covenant Requirement**	**Actual**	**Covenant Requirement**
	(dollars in thousands)		*(dollars in thousands)*	
Minimum Liquidity Covenant	$ 261,090	$ 50,000	$ 301,435	$ 50,000
Interest Coverage Ratio - Adjusted EBITDA to Interest Incurred	3.36	2.00	4.76	1.75
Tangible Net Worth	$ 642,967	$ 394,253	$ 641,636	$ 394,253
Maximum Leverage Ratio (1)	40.2 %	<60%	37.8 %	<60%

(1) Calculation is debt, net of certain cash amounts, divided by that same net debt balance plus tangible net worth.

The Credit Agreement also contains certain restrictive covenants, including limitations on incurrence of other indebtedness, liens, dividends and other distributions, asset dispositions, investments, and limitations on fundamental changes. The Credit Agreement contains 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 June 30, 2023, we were in compliance with all Credit Agreement covenants.

Letters of Credit and Performance Bonds

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. We had $110.2 million and $114.9 million of performance bonds outstanding at June 30, 2023 and December 31, 2022 respectively.

Cash Flows—Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

For the six months ended June 30, 2023 and 2022, the comparison of cash flows is as follows:

- Net cash used in operating activities was $11.4 million during the six months ended June 30, 2023 compared to $48.0 million during the same period in 2022. The decrease in net cash flows used in operating activities was primarily due to less cash being used in our real estate inventories construction compared to the prior period. We used $20.3 million less for real estate inventories compared to the prior period. We also used $34.8 million less in other assets primarily related to funds placed in escrow for the purchase of real estate inventory in the corresponding prior period. An increase of $15.8 million in net cash collected from cash held in escrow also drove our cash inflows from operating activities. These changes are partially offset by a decrease in net income, adjusted for noncash operating components of net income, of $24.1 million.

- Net cash used in investing activities was $3.6 million during the six months ended June 30, 2023, compared to $261.4 million during the same period in 2022. This difference was related to payments of $258.7 million, net of cash received from working capital adjustments, for our acquisition of Hanover in January 2022, while we did not acquire any businesses in the current period.

- Net cash used in financing activities was $34.5 million during the six months ended June 30, 2023, compared to net cash provided by financing activities of $65.8 million during the same period in 2022. The decrease was primarily due to a decrease in net borrowings on notes and other debts payable of $95.7 million during the six months ended June 30, 2023 as compared to the prior period in 2022.

Option Contracts

In the ordinary course of business, we enter into land purchase contracts in order to procure lots for the construction of 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. We also utilize 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 of a non-refundable deposit for the right to acquire lots over a specified period of time at pre-determined prices. Our obligations with respect to purchase contracts and option contracts are generally limited to the forfeiture of the related non-refundable cash deposits. As of June 30, 2023, we had outstanding purchase and option contracts totaling $624.7 million, net of $99.5 million related cash deposits (of which $0.7 million is refundable) pertaining to these 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.

Material Cash Requirements

As of June 30, 2023, there had been no material changes to our known contractual and other obligations appearing in the “Material Cash Requirements” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 9, 2023.

Stock Repurchases

In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of up to $10.0 million worth of common stock, with an expiration of December 31, 2023. During the three and six months ended June 30, 2023, the Company repurchased 968,869 shares of common stock for a total of $7.5 million, which was recorded as a reduction to additional paid-in capital. As of June 30, 2023, the Company had approximately $2.5 million in remaining capacity.

In June 2023 members of the Company's senior management team purchased an aggregate of approximately 60,000 shares from the underwriters, at the public offering price of $7.50 per share, that were sold by Landsea Holdings, the Company’s majority stockholder, in a registered secondary offering.

In July 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of approximately $3.3 million, with an expiration date of December 31, 2023, and an additional $10.0 million with no stated expiration date.

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.

Non-GAAP Financial Measures

We include non-GAAP financial measures, including adjusted home sales gross margin, EBITDA and adjusted EBITDA, net debt to total 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 financial measures 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 Total Capital

The following table presents the ratio of debt to capital as well as the ratio of net debt to total 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 total 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 as well as cash held in escrow to the extent necessary to reduce the debt balance to zero) by total capital. The most comparable GAAP financial measure is the ratio of debt to capital. We believe the ratio of net debt to total 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 total capital provides supplemental information by which our financial position may be considered.

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

	June 30, 2023	December 31, 2022
	(dollars in thousands)	
Total notes and other debts payable, net	$ 482,736	$ 505,422
Total equity	711,606	710,319
Total capital	$ 1,194,342	$ 1,215,741
Ratio of debt to capital	40.4 %	41.6 %
Total notes and other debts payable, net	$ 482,736	$ 505,422
Less: cash, cash equivalents, and restricted cash	74,186	123,634
Less: cash held in escrow	1,904	17,101
Net debt	406,646	364,687
Total capital	$ 1,194,342	$ 1,215,741
Ratio of net debt to total capital	34.0 %	30.0 %

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2023 and 2022. Adjusted EBITDA is a non-GAAP financial measure used by management in evaluating operating performance. We define Adjusted EBITDA as net income before (i) income tax expense (benefit), (ii) interest expenses, (iii) depreciation and amortization, (iv) real estate inventories impairment, (v) purchase accounting adjustments for acquired work in process inventory related to business combinations, (vi) loss on debt extinguishment or forgiveness, (vii) transaction costs related to business combinations, (viii) write-off of deferred offering costs, (ix) abandoned projects costs, (x) the impact of income or loss allocations from our unconsolidated joint ventures, and

(xi) loss on remeasurement of warrant liability. We believe Adjusted EBITDA provides an indicator 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 this measure is useful for comparing our core operating performance from period to period. Our presentation of Adjusted EBITDA should not be considered as an indication that our future results will be unaffected by unusual or non-recurring items.

	Three Months Ended June 30,	
	2023	2022
	(dollars in thousands)	
Net income	$ 5,866	$ 14,854
Provision for income taxes	1,640	8,372
Interest in cost of sales	7,319	14,737
Interest relieved to equity in net income of unconsolidated joint ventures	—	35
Depreciation and amortization expense	1,139	1,440
EBITDA	15,964	39,438
Real estate inventories impairment	4,700	—
Purchase price accounting in cost of home sales	5,710	12,812
Transaction costs	18	257
Write-off of offering costs	436	—
Abandoned project costs	197	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(105)
Loss on debt extinguishment or forgiveness	—	2,476
Loss on remeasurement of warrant liability	—	1,760
Adjusted EBITDA	$ 27,025	$ 56,638

	Six Months Ended June 30,	
	2023	2022
	(dollars in thousands)	
Net income	$ 9,989	$ 27,915
Provision for income taxes	3,257	13,439
Interest in cost of sales	11,872	21,126
Interest relieved to equity in net income of unconsolidated joint ventures	—	70
Depreciation and amortization expense	2,557	3,063
EBITDA	27,675	65,613
Real estate inventories impairment	4,700	—
Purchase price accounting in cost of home sales	10,195	30,550
Transaction costs	33	1,205
Write-off of offering costs	436	—
Abandoned project costs	312	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(139)
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Adjusted EBITDA	$ 43,351	$ 107,040

Adjusted Net Income

Adjusted Net Income attributable to Landsea Homes is a non-GAAP financial measure that we believe is useful to management, investors and other users of our financial information in evaluating 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 attributable to Landsea Homes 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, the impact from our unconsolidated joint ventures, loss on debt extinguishment or forgiveness, real estate inventories impairment, and loss on remeasurement of warrant liability, and tax-effected using a blended statutory 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 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.

	Three Months Ended June 30,	
	2023	**2022**
	(dollars in thousands)	
Net income attributable to Landsea Homes Corporation	$ 4,947	$ 14,935
Real estate inventories impairment	4,700	—
Pre-Merger capitalized related party interest included in cost of sales	545	1,600
Equity in net income of unconsolidated joint ventures	—	(70)
Purchase price accounting for acquired inventory	5,710	12,812
Loss on debt extinguishment or forgiveness	—	2,476
Loss on remeasurement of warrant liability	—	1,760
Total adjustments	10,955	18,578
Tax-effected adjustments (1)	8,075	16,566
Adjusted net income attributable to Landsea Homes Corporation	$ 13,022	$ 31,501

	Six Months Ended June 30,	
	2023	**2022**
	(dollars in thousands)	
Net income attributable to Landsea Homes Corporation	$ 8,165	$ 28,000
Real estate inventories impairment	4,700	—
Pre-Merger capitalized related party interest included in cost of sales	1,263	3,117
Equity in net income of unconsolidated joint ventures	—	(69)
Purchase price accounting for acquired inventory	10,195	30,550
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Total adjustments	16,158	43,409
Tax-effected adjustments (1)	11,910	36,272
Adjusted net income attributable to Landsea Homes Corporation	$ 20,075	$ 64,272

(1) Our tax-effected adjustments are based on our federal rate and a blended state rate adjusted for certain discrete items.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Due to the nature of homebuilding and our business we are exposed to market risks in the ordinary course of our business, including the effects of interest rate changes and inflation as described below. We are also exposed to market risk from fluctuations in our stock prices and related characteristics.

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 the credit facility. Borrowings under our credit facility bear interest at a floating rate equal to the Prime rate plus 2.75% or SOFR plus 3.35% per annum.

Inflation

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.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of our Company's Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a- 15(e) and 15d- 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 30, 2023 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures: (a) are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and (b) include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to Company's management, including the CEO and the CFO, as appropriate, to allow timely discussions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Item 1, Part 1, "*Note 8 – Commitments and Contingencies - Legal.*"

Item 1A. Risk Factors

There have been no material changes to the risk factors we previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 that was filed with the SEC on March 9, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information concerning the Company's repurchases of common stock during the three months ended June 30, 2023.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions)(1)
April 1, 2023 - April 30, 2023	—	$ —	—	$ 10.0
May 1, 2023 - May 31, 2023	126,069	$ 6.85	126,069	$ 9.1
June 1, 2023 - June 30, 2023	842,800	$ 7.85	842,800	$ 2.5

(1) In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of $10.0 million worth of common stock, expiring December 31, 2023. As of June 30, 2023, 968,869 shares had been repurchased under this authorization.

In July 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of approximately $3.3 million, with an expiration date of December 31, 2023, and an additional $10.0 million with no stated expiration date.

This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

(c) Trading Plans

During the quarter ended June 30, 2023, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (in each case, as defined in Item 408(a) of Regulation S-K)

Item 6. Exhibits

Exhibit Number	Exhibit Description
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)
10.1	Amended and Restated Stockholder's Agreement, by and between Landsea Homes Corporation and Landsea Holdings Corporation, dated June 13, 2023 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 14, 2023)
31.1*	Certification of John Ho, Chief Executive Officer of Landsea Homes Corporation, pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Chris Porter, Chief Financial Officer of Landsea Homes Corporation, pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934
32.1**	Certification of John Ho, Chief Executive Officer of Landsea Homes Corporation, pursuant to 18 U.S.C. Section 1350
32.2**	Certification of Chris Porter, Chief Financial Officer of Landsea Homes Corporation, pursuant to 18 U.S.C. Section 1350
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in Inline XBRL: (i) Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022; (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2023 and 2022, (iii) Consolidated Statements of Equity for the three and six months ended June 30, 2023 and 2022; (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022 and (v) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in Inline XBRL (included as Exhibit 101).

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

		Landsea Homes Corporation
Date: August 1, 2023	By:	/s/ John Ho
		John Ho Chief Executive Officer *(Principal Executive Officer)*
Date: August 1, 2023	By:	/s/ Chris Porter
		Chris Porter Chief Financial Officer *(Principal Financial Officer)*

EXHIBIT 31.1

CERTIFICATIONS

I, John Ho, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landsea Homes Corporation;

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

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

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

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

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

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date:	August 1, 2023
By:	/s/ John Ho
Name:	John Ho
Title:	Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Chris Porter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Landsea Homes Corporation;

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

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

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

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

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

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date:	August 1, 2023
By:	/s/ Chris Porter
Name:	Chris Porter
Title:	Chief Financial Officer (Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the quarterly report of Landsea Homes Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Ho, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date:	August 1, 2023
By:	/s/ John Ho
Name:	John Ho
Title:	Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the quarterly report of Landsea Homes Corporation (the “Company”) on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chris Porter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

Date:	August 1, 2023
By:	/s/ Chris Porter
Name:	Chris Porter
Title:	Chief Financial Officer (Principal Financial Officer)