

**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 September 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 (State or Other Jurisdiction of Incorporation or Organization)	82-2196021 (I.R.S. Employer Identification Number)
1717 McKinney Avenue, Suite 1000 Dallas, Texas (Address of Principal Executive Offices)	75202 (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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of October 27, 2023, 37,795,191 Class A common stock, par value \$0.0001 per share, were outstanding.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Landsea Homes Corporation
Consolidated Balance Sheets - (Unaudited)

(in thousands, except share and per share amounts)

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Assets		
Cash and cash equivalents	\$ 133,491	\$ 123,634
Cash held in escrow	10,956	17,101
Real estate inventories	1,155,661	1,093,369
Due from affiliates	4,232	3,744
Goodwill	68,639	68,639
Other assets	104,108	134,009
Total assets	<u>\$ 1,477,087</u>	<u>\$ 1,440,496</u>
Liabilities		
Accounts payable	\$ 72,287	\$ 74,445
Accrued expenses and other liabilities	150,079	149,426
Due to affiliates	881	884
Line of credit facility, net	317,010	505,422
Senior notes, net	235,383	—
Total liabilities	<u>775,640</u>	<u>730,177</u>
Commitments and contingencies (Note 8)		
Equity		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 50,000,000 shares authorized, none issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Common stock, \$0.0001 par value, 500,000,000 shares authorized, 41,382,453 issued and 37,795,191 outstanding as of September 30, 2023, 42,110,794 issued and 40,884,268 outstanding as of December 31, 2022	4	4
Additional paid-in capital	477,837	497,598
Retained earnings	175,109	158,348
Total stockholders' equity	<u>652,950</u>	<u>655,950</u>
Noncontrolling interests	48,497	54,369
Total equity	<u>701,447</u>	<u>710,319</u>
Total liabilities and equity	<u>\$ 1,477,087</u>	<u>\$ 1,440,496</u>

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Home sales	\$ 258,062	\$ 326,496	\$ 790,199	\$ 975,269
Lot sales and other	19,286	9,089	22,133	45,222
Total revenues	277,348	335,585	812,332	1,020,491
Cost of sales				
Home sales	209,753	258,362	647,642	770,220
Lot sales and other	13,309	10,737	15,770	40,546
Total cost of sales	223,062	269,099	663,412	810,766
Gross margin				
Home sales	48,309	68,134	142,557	205,049
Lot sales and other	5,977	(1,648)	6,363	4,676
Total gross margin	54,286	66,486	148,920	209,725
Sales and marketing expenses	16,930	21,063	51,672	64,366
General and administrative expenses	25,463	21,111	74,223	70,734
Total operating expenses	42,393	42,174	125,895	135,100
Income from operations	11,893	24,312	23,025	74,625
Other income (loss), net	656	990	2,770	(654)
Loss on remeasurement of warrant liability	—	—	—	(7,315)
Pretax income	12,549	25,302	25,795	66,656
Provision for income taxes	3,066	4,021	6,323	17,460
Net income	9,483	21,281	19,472	49,196
Net income attributable to noncontrolling interests	887	1,311	2,711	1,226
Net income attributable to Landsea Homes Corporation	\$ 8,596	\$ 19,970	\$ 16,761	\$ 47,970
Income per share:				
Basic	\$ 0.22	\$ 0.49	\$ 0.43	\$ 1.10
Diluted	\$ 0.22	\$ 0.49	\$ 0.42	\$ 1.09
Weighted average common shares outstanding:				
Basic	38,336,100	39,935,152	39,402,507	42,768,269
Diluted	38,440,392	40,097,269	39,549,035	42,943,871

See accompanying notes to the consolidated financial statements

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

	<u>Common Stock</u>					Noncontrolling interests	Total stockholders' equity
	Shares	Amount	Additional paid-in capital	Retained earnings	Retained earnings		
Balance at June 30, 2023	39,183,181	\$ 4	\$ 490,741	\$ 166,513	\$ 54,348	\$ 711,606	
Stock options exercised	3,877	—	37	—	—	37	
Stock-based compensation expense	—	—	879	—	—	879	
Repurchase of common stock and associated tax	(1,391,867)	—	(13,820)	—	—	(13,820)	
Distributions to noncontrolling interests	—	—	—	—	(6,738)	(6,738)	
Net income	—	—	—	8,596	887	9,483	
Balance at September 30, 2023	37,795,191	\$ 4	\$ 477,837	\$ 175,109	\$ 48,497	\$ 701,447	

	<u>Common Stock</u>					Noncontrolling interests	Total stockholders' equity
	Shares	Amount	Additional paid-in capital	Retained earnings	Retained earnings		
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	—	—	—	—	—	
Stock options exercised	3,877	—	37	—	—	37	
Cash paid for shares withheld for taxes	—	—	(695)	—	—	(695)	
Stock-based compensation expense	—	—	2,249	—	—	2,249	
Repurchase of common stock and associated tax	(2,360,736)	—	(21,352)	—	—	(21,352)	
Forfeiture and cancellation of Earnout Shares	(1,000,000)	—	—	—	—	—	
Distributions to noncontrolling interests	—	—	—	—	(8,583)	(8,583)	
Net income	—	—	—	16,761	2,711	19,472	
Balance at September 30, 2023	37,795,191	\$ 4	\$ 477,837	\$ 175,109	\$ 48,497	\$ 701,447	

See accompanying notes to the consolidated financial statements

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

	<u>Common Stock</u>					Noncontrolling interests	Total stockholders' equity
	Shares	Amount	Additional paid-in capital	Retained earnings	Additional paid-in capital		
Balance at June 30, 2022	40,925,579	\$ 4	\$ 496,170	\$ 112,797	\$ 56,165	\$ 665,136	
Shares issued under share-based awards	24,464	—	—	—	—	—	
Stock-based compensation expense	—	—	908	—	—	908	
Distributions to noncontrolling interests	—	—	—	—	(3,072)	(3,072)	
Net income (loss)	—	—	—	19,970	1,311	21,281	
Balance at September 30, 2022	40,950,043	\$ 4	\$ 497,078	\$ 132,767	\$ 54,404	\$ 684,253	

	<u>Common Stock</u>					Noncontrolling interests	Total stockholders' equity
	Shares	Amount	Additional paid-in capital	Retained earnings	Additional paid-in capital		
Balance at December 31, 2021	46,281,091	\$ 5	\$ 535,345	\$ 84,797	\$ 1,250	\$ 621,397	
Shares issued under share-based awards	228,529	—	—	—	—	—	
Cash paid for shares withheld for taxes	—	—	(848)	—	—	(848)	
Stock-based compensation expense	—	—	2,780	—	—	2,780	
Repurchase of common stock	(5,559,577)	(1)	(40,199)	—	—	(40,200)	
Contributions from noncontrolling interests	—	—	—	—	55,000	55,000	
Distributions to noncontrolling interests	—	—	—	—	(3,072)	(3,072)	
Net income (loss)	—	—	—	47,970	1,226	49,196	
Balance at September 30, 2022	40,950,043	\$ 4	\$ 497,078	\$ 132,767	\$ 54,404	\$ 684,253	

See accompanying notes to the consolidated financial statements

Landsea Homes Corporation
Consolidated Statements of Cash Flows - (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Cash flows from operating activities:		
Net income	\$ 19,472	\$ 49,196
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,778	4,445
Loss on remeasurement of warrant liability	—	7,315
Real estate inventories impairment	4,700	—
Stock-based compensation	2,249	2,780
Loss on extinguishment or forgiveness of debt	—	2,496
Abandoned project costs	745	324
Write-off of offering costs	436	—
Deferred taxes	(10)	(2,217)
Changes in operating assets and liabilities:		
Cash held in escrow	6,145	(3,111)
Real estate inventories	(64,666)	(99,397)
Due from affiliates	(491)	(715)
Other assets	31,790	(46,887)
Accounts payable	(2,159)	2,284
Accrued expenses and other liabilities	123	287
Net cash provided by (used in) operating activities	2,112	(83,200)
Cash flows from investing activities:		
Purchases of property and equipment	(5,530)	(4,062)
Distributions of capital from unconsolidated joint ventures	—	578
Payments for business acquisition, net of cash acquired	—	(258,727)
Net cash used in investing activities	(5,530)	(262,211)
Cash flows from financing activities:		
Borrowings from notes and other debts payable	482,500	361,910
Repayments of notes and other debts payable	(429,300)	(240,526)
Cash paid for shares withheld for taxes	(695)	(848)
Payment for buyback of warrants	—	(16,500)
Proceeds from exercise of stock options	37	—
Repurchases of common stock	(21,160)	(40,200)
Contributions from noncontrolling interests	—	55,000
Distributions to noncontrolling interests	(8,583)	(3,072)
Deferred offering costs paid	(224)	—
Debt issuance and extinguishment costs paid	(9,300)	(3,414)
Net cash provided by financing activities	13,275	112,350
Net decrease in cash, cash equivalents, and restricted cash	9,857	(233,061)
Cash, cash equivalents, and restricted cash at beginning of period	123,634	343,253
Cash, cash equivalents, and restricted cash at end of period	\$ 133,491	\$ 110,192

See accompanying notes to the consolidated financial statements

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

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.

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

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 nine months ended September 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	<u>\$ 282,078</u>
Liabilities Assumed	
Accounts payable	\$ 6,329
Accrued expenses	13,165
Total liabilities	<u>19,494</u>
Net assets acquired	<u>\$ 262,584</u>

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

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 September 30,		Nine Months Ended September 30,	
	2022		2022	
	<i>(dollars in thousands)</i>			
Revenue	\$	335,585	\$	1,025,600
Pretax income		34,994		103,890
Provision for income taxes		4,823		27,213
Net income	\$	30,171	\$	76,677

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 balance sheets as of September 30, 2023 and December 31, 2022.

	September 30, 2023		December 31, 2022	
	<i>(dollars in thousands)</i>			
Cash	\$	4,407	\$	4,697
Real estate inventories		90,682		99,699
Due from affiliates		719		329
Other assets		2,104		2,124
Total assets	\$	97,912	\$	106,849
Accounts payable	\$	288	\$	1,577
Accrued expenses and other liabilities		4,950		5,616
Total liabilities	\$	5,238	\$	7,193

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

4. Real Estate Inventories

Real estate inventories are summarized as follows:

	September 30, 2023	December 31, 2022
	<i>(dollars in thousands)</i>	
Deposits and pre-acquisition costs	\$ 101,429	\$ 101,395
Land held and land under development	280,755	191,047
Homes completed or under construction	720,265	779,352
Model homes	53,212	21,575
Total real estate inventories	\$ 1,155,661	\$ 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.

During the nine months ended September 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. No additional impairments were recorded during the three months ended September 30, 2023. The Company did not recognize any impairments on real estate inventories during the three and nine months ended September 30, 2022. 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
	Number of Projects Impaired	Real Estate Inventories Impairment	Fair Value of Inventory After Impairment	Discount Rate
Three Months Ended				
		<i>(dollars in thousands)</i>		
June 30, 2023	1	\$ 4,700	\$ 19,363	11 %
Total		<u>\$ 4,700</u>		

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 nine months ended September 30, 2023, the Company incurred and capitalized interest of \$4.4 million and \$37.6 million, respectively. For the three and nine months ended September 30, 2022, the Company incurred and capitalized interest of \$13.8 million and \$28.6 million, respectively. Previously capitalized interest included in cost of sales during the three and nine months ended September 30, 2023 was \$10.0 million and \$21.9 million, respectively. Previously capitalized interest included in cost of sales during the three and nine months ended September 30, 2022 was \$10.2 million and \$31.3 million, respectively. These amounts included interest from certain related party transactions, refer to *Note 9 – Related Party Transactions* for additional information.

Landsea Homes Corporation
Notes to the Consolidated Financial Statements - (unaudited)

6. Other Assets

As of September 30, 2023 and December 31, 2022, the Company had contract assets of \$6.3 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 September 30, 2023 and December 31, 2022 was \$3.7 million and \$11.6 million, respectively. As of September 30, 2023, the Company had \$1.0 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:

	September 30, 2023	December 31, 2022
	<i>(dollars in thousands)</i>	
Line of credit facility	\$ 325,000	\$ 514,300
Deferred loan costs	(7,990)	(8,878)
Line of credit facility, net	<u>\$ 317,010</u>	<u>\$ 505,422</u>
	September 30, 2023	December 31, 2022
	<i>(dollars in thousands)</i>	
Senior notes	\$ 250,000	\$ —
Discount and deferred loan costs	(14,617)	—
Senior notes, net	<u>\$ 235,383</u>	<u>\$ —</u>

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 \$325.0 million outstanding as of September 30, 2023. The Company may increase the borrowing capacity up to \$850.0 million, under certain conditions. Funds available under the Credit Agreement are subject to a borrowing base requirement which is calculated on specified percentages of our real estate inventories. 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 \$85.0 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 September 30, 2023, the interest rate on the loan was 8.68%. In July 2023, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

In July 2023, the Company entered into a new senior unsecured note (the "Note Purchase Agreement"). The Note Purchase Agreement provided for the private placement of \$250.0 million aggregate principal amount of 11% senior notes (the "Senior Notes"). The Company received the proceeds, net of discount and fees, in July 2023. The Senior Notes matures in July 2028.

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 and Note Purchase Agreement contain certain restrictive 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 September 30, 2023, the Company was in compliance with all financial covenants.

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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. During October 2023, one of the insurers filed a lawsuit seeking reimbursement, however, 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 \$101.2 million and \$114.9 million of performance bonds outstanding as of September 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(dollars in thousands)</i>			
Beginning warranty accrual	\$ 46,227	\$ 18,010	\$ 46,657	\$ 15,692
Warranty provision	2,988	1,359	5,162	4,602
Warranty payments	(3,547)	(1,118)	(6,151)	(2,043)
Ending warranty accrual	\$ 45,668	\$ 18,251	\$ 45,668	\$ 18,251

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 September 30, 2023 and December 31, 2022 was 5.8 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 September 30, 2023 and December 31, 2022 was 5.4% and 4.6%, respectively. Lease components and non-lease components are accounted for as a single lease component. As of September 30, 2023, the Company had \$12.9 million and \$14.1 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 nine months ended September 30, 2023 was \$0.9 million and \$2.8 million, respectively, and is included in general and administrative expenses on the consolidated statements of operations. For the three and nine months ended September 30, 2022 operating lease expense was \$0.5 million and \$1.6 million, respectively.

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

2023	\$	1,042
2024		3,481
2025		2,582
2026		2,332
2027		2,101
Thereafter		4,737
Total lease payments		16,275
Less: Discount		(2,217)
Present value of lease liabilities	\$	14,058

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 September 30, 2023 and December 31, 2022, the Company had a net receivable due from affiliates balance of \$3.4 million and \$2.9 million, respectively.

In August 2023, the Company repurchased from the underwriters, at the public offering price of \$9.75 per share, 800,000 shares of common stock that were sold by Green Investment Alpha Limited, a beneficial owner of the Company, in a registered secondary offering, for a total purchase price of \$7.8 million. Green Investment Alpha Limited no longer qualifies as a related party upon the completion of the sale.

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.

In June 2022, the Company entered into two transactions with Landsea Holdings. On June 1, 2022, the Board of Directors authorized the Company to repurchase 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 \$ 6.7 million and \$8.6 million to Landsea Capital Fund during the three and nine months ended September 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 \$5.2 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 \$1.2 million during the nine months ended September 30, 2022 related to the model homes still under construction on the sale date. Corresponding lot and other cost of sales of \$1.3 million was also recognized during the same period. No additional revenue or cost of sales related to this transaction were recognized during the three months ended September 30, 2022. The Company did not recognize any revenue or other cost of sales related to these model homes during the three and nine months ended September 30, 2023. As part of this transaction, the Company leased back these models. The total amount of rent payments made during the three and nine months ended September 30, 2023 is \$0.2 million and \$0.6 million, respectively. The total amount of rent payments made during the three and nine months ended September 30, 2022 is \$0.2 million and \$0.6 million, respectively. The right-of-use asset and lease liability balances associated with these leases is \$0.7 million and \$0.7 million, respectively, as of September 30, 2023 and \$1.3 million and \$1.3 million, respectively, as of December 31, 2022.

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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 nine months ended September 30, 2023 is \$0.1 million and \$0.5 million, respectively. The total amount of interest payments made during the three and nine months ended September 30, 2022 is \$0.2 million and \$0.8 million, respectively. During the three and nine months ended September 30, 2023, payments of \$3.0 million and \$7.0 million, including fees, have been made to purchase developed lots from the related party, respectively. During the three and nine months ended September 30, 2022, payments of \$1.7 million and \$7.9 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 \$0.9 million and \$0.8 million as of September 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2023 was \$0.4 million and \$0.8 million, respectively. There was no previously capitalized related party interest included in cost of sales during the three and nine months ended September 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 \$0.6 million and \$2.2 million as of September 30, 2023 and December 31, 2022, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2023 was \$0.3 million and \$1.6 million, respectively. Previously capitalized related party interest included in cost of sales during the three and nine months ended September 30, 2022 was \$0.7 million and \$3.8 million, respectively.

10. Income Taxes

The effective tax rate of the Company was 24.4% and 24.5% for the three and nine months ended September 30, 2023, respectively, and 15.9% and 26.2% for the three and nine months ended September 30, 2022, respectively. The difference between the statutory tax rate and the effective tax rate for the nine months ended September 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 nine months ended September 30, 2022 is primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, warrant fair market value adjustments, and tax credits for energy-efficient homes.

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 introduced 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 extended the federal tax credit for building new energy-efficient homes for homes delivered from January 1, 2022 through December 31, 2032.

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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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(dollars in thousands)</i>			
Revenue				
Arizona	\$ 69,308	\$ 76,808	\$ 215,000	\$ 234,927
California	103,982	118,977	270,756	343,466
Florida	104,058	103,564	320,740	320,358
Metro New York	—	28,132	1,649	95,758
Texas	—	8,104	4,187	25,982
Total revenues	\$ 277,348	\$ 335,585	\$ 812,332	\$ 1,020,491
Pretax income (loss)				
Arizona	\$ 5,253	\$ 6,046	\$ 4,826	\$ 17,653
California	9,795	20,059	17,184	68,085
Florida	4,378	4,172	23,993	8,028
Metro New York	(917)	(810)	(1,818)	646
Texas	(1,383)	(215)	(4,144)	(93)
Corporate	(4,577)	(3,950)	(14,246)	(27,663)
Total pretax income	\$ 12,549	\$ 25,302	\$ 25,795	\$ 66,656

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The following table summarizes total assets by segment:

	September 30, 2023	December 31, 2022
	<i>(dollars in thousands)</i>	
Assets		
Arizona	\$ 346,411	\$ 357,788
California	545,670	513,549
Florida	432,565	422,045
Metro New York	42,249	45,277
Texas	54,669	26,923
Corporate	55,523	74,914
Total assets	<u>\$ 1,477,087</u>	<u>\$ 1,440,496</u>

Included in the Corporate segment assets is cash and cash equivalents of \$21.3 million and \$40.3 million as of September 30, 2023 and December 31, 2022, respectively.

As of September 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:

	Hierarchy	September 30, 2023		December 31, 2022	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(dollars in thousands)</i>					
Liabilities:					
Line of credit facility ⁽¹⁾	Level 2	\$ 325,000	\$ 325,000	\$ 514,300	\$ 514,300
Senior notes ⁽²⁾	Level 2	\$ 250,000	\$ 242,500	\$ —	\$ —

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

(2) Carrying amount, net of discount, approximates fair value due to the recency of the debt issuance. Carrying value excludes any associated discounts or 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 nine months ended September 30, 2023, we

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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. No additional impairments were recorded during the three months ended September 30, 2023. The Company determined that none of the real estate inventories or goodwill required impairment during the three and nine months ended September 30, 2022. 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:

	Nine Months Ended September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Warrant liability		
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 nine months ended September 30, 2023:

	Awards	Weighted Average Grant Date Fair Value	
	<i>(in thousands)</i>		
Nonvested, at December 31, 2022	1,625	\$	8.82
Granted	298		8.28
Vested	(375)		8.68
Forfeited	—		—
Nonvested, at September 30, 2023	1,548	\$	8.75

The following table presents a summary of the Company's stock options activity for the nine months ended September 30, 2023:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	<i>(in thousands)</i>		<i>(in years)</i>	<i>(in thousands)</i>
Options outstanding at December 31, 2022	684	\$ 8.82		
Granted	228	6.46		
Exercised	(4)	8.83		
Forfeited	(205)	8.73		
Options outstanding at September 30, 2023	703	\$ 8.09	8.75	\$ 636
Options exercisable at September 30, 2023	163	\$ 8.82	8.36	\$ 28

Stock-based compensation expense totaled \$0.9 million and \$2.2 million during the three and nine months ended September 30, 2023, respectively, and is included in general and administrative expenses on the consolidated statements of operations. For the three and nine months ended September 30, 2022, stock-based compensation expense was \$0.9 million and \$2.8 million, respectively.

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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):

		September 30, 2023
		<i>(in thousands, except period)</i>
Unvested units		1,548
Remaining cost on unvested units	\$	2,995
Remaining vesting period		3.25 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 September 30, 2023, there were 41.4 million shares of common stock issued and 37.8 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 \$0.0 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. In April 2022, the Board of Directors authorized an extension of the stock repurchase program for the repurchase of an additional \$10.0 million of capacity to repurchase common stock, with an expiration of December 31, 2022. In June 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.

During the nine months ended September 30, 2022, the Company repurchased 5,559,577 shares of common stock for a total of \$40.0 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. No shares were repurchased during the three months ended September 30, 2022. As of September 30, 2022, the Company had approximately \$10.0 million in remaining authorized capacity.

In March 2023, the Board of Directors authorized a stock repurchase program allowing for the repurchase of up to \$0.0 million worth of common stock, with an expiration of December 31, 2023. In July 2023, 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.

During the three and nine months ended September 30, 2023, the Company repurchased 1,391,867 and 2,360,736 shares of common stock for a total of \$13.7 million and \$21.2 million, respectively, 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 September 30, 2023, the Company had approximately \$2.1 million in remaining authorized capacity.

In October 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of \$0.0 million with no stated expiration date.

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.

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.

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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 September 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 \$.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 \$8.00 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.

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15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (“EPS”) for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<i>(dollars in thousands, except share and per share amounts)</i>				
Numerator				
Net income attributable to Landsea Homes Corporation	\$ 8,596	\$ 19,970	\$ 16,761	\$ 47,970
Less: undistributed earnings allocated to participating shares	—	(487)	—	(1,094)
Net income attributable to common stockholders	\$ 8,596	\$ 19,483	\$ 16,761	\$ 46,876
Denominator				
Weighted average common shares outstanding - basic	38,336,100	40,935,152	39,402,507	43,768,269
Adjustment for weighted average participating shares outstanding	—	(1,000,000)	—	(1,000,000)
Adjusted weighted average common shares outstanding under two class method - basic	38,336,100	39,935,152	39,402,507	42,768,269
Dilutive effect of warrants	—	—	—	—
Dilutive effect of share-based awards	104,292	162,117	146,528	175,602
Adjusted weighted average common shares outstanding under two class method - diluted	38,440,392	40,097,269	39,549,035	42,943,871
Earnings per share				
Basic	\$ 0.22	\$ 0.49	\$ 0.43	\$ 1.10
Diluted	\$ 0.22	\$ 0.49	\$ 0.42	\$ 1.09

The Company excluded 2.0 million and 2.2 million common stock equivalents from diluted EPS related to antidilutive warrants, options, and share-based awards during the three and nine months ended September 30, 2023, respectively. The Company excluded 1.6 million common stock equivalents from diluted EPS during each of the three and nine months ended September 30, 2022.

16. Supplemental Disclosures of Cash Flow Information

The following table presents certain supplemental cash flow information:

	Nine Months Ended September 30,	
	2023	2022
<i>(dollars in thousands)</i>		
Supplemental disclosures of cash flow information		
Interest paid, net of amounts capitalized	\$ —	\$ —
Income taxes paid	\$ 8,736	\$ 32,454
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

On October 10, 2023, the Company expanded into the Colorado market by acquiring certain assets of Richfield Homes, LLC. The Company paid an aggregate cash purchase price of \$22.5 million to acquire approximately 290 owned or controlled lots in the greater Denver, Colorado area, including any construction in progress on those lots.

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 nine months ended September 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 nine months ended September 30, 2023 and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(dollars in thousands, except per share amounts)</i>		<i>(dollars in thousands, except per share amounts)</i>	
Revenue				
Home sales	\$ 258,062	\$ 326,496	\$ 790,199	\$ 975,269
Lot sales and other	19,286	9,089	22,133	45,222
Total revenues	277,348	335,585	812,332	1,020,491
Cost of sales				
Home sales	209,753	258,362	647,642	770,220
Lot sales and other	13,309	10,737	15,770	40,546
Total cost of sales	223,062	269,099	663,412	810,766
Gross margin				
Home sales	48,309	68,134	142,557	205,049
Lot sales and other	5,977	(1,648)	6,363	4,676
Total gross margin	54,286	66,486	148,920	209,725
Sales and marketing expenses	16,930	21,063	51,672	64,366
General and administrative expenses	25,463	21,111	74,223	70,734
Total operating expenses	42,393	42,174	125,895	135,100
Income from operations	11,893	24,312	23,025	74,625
Other income (loss), net	656	990	2,770	(654)
Loss on remeasurement of warrant liability	—	—	—	(7,315)
Pretax income	12,549	25,302	25,795	66,656
Provision for income taxes	3,066	4,021	6,323	17,460
Net income	9,483	21,281	19,472	49,196
Net income attributable to noncontrolling interests	887	1,311	2,711	1,226
Net income attributable to Landsea Homes Corporation	\$ 8,596	\$ 19,970	\$ 16,761	\$ 47,970
Income per share:				
Basic	\$ 0.22	\$ 0.49	\$ 0.43	\$ 1.10
Diluted	\$ 0.22	\$ 0.49	\$ 0.42	\$ 1.09
Weighted average common shares outstanding:				
Basic	38,336,100	39,935,152	39,402,507	42,768,269
Diluted	38,440,392	40,097,269	39,549,035	42,943,871

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 acquisition 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.

On October 10, 2023, the Company expanded into the Colorado market by acquiring certain assets of Richfield Homes, LLC. The Company paid an aggregate cash purchase price of \$22.5 million to acquire approximately 290 owned or controlled lots in the greater Denver, Colorado area, including any construction in progress on those lots.

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. Costs of construction of our homes have varied significantly over the past two years. During 2023, a significant portion of these supply chain and labor challenges have eased, however, recent increases, and the potential for future increases, in federal interest rates have put downward pressure on demand in our industry by reducing affordability for homebuyers across all of our markets.

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. During the first half of 2023, both metrics showed signs of improving and stabilizing, however continued inflation and federal interest rate increases, and the potential for future increases, have continued to cause affordability concerns and market uncertainty which 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. We manage certain marketing programs nationwide, however the majority of incentives we offer are 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, through a licensing agreement, we partnered with NFM Lending as a preferred lender to provide mortgage services under the name Landsea Mortgage. In connection with this arrangement, 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, but the added discounts and incentives have lowered revenue and gross margins. 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 nine months ended September 30, 2023, home sales revenue decreased 19% to \$790.2 million from \$975.3 million and home deliveries decreased 12% to 1,459 units from 1,667 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 nine months ended September 30, 2023 was \$19.5 million compared to \$49.2 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 increased marginally to 44.1% as of September 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 nine months ended September 30, 2023 we observed improved absorption rates compared to the same period in the prior year, primarily due to successful sales promotions that have helped generate sales, offset by interest rates remaining high and continued 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 September 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	
<i>(dollars in thousands)</i>												
Arizona	136	\$ 59,444	\$ 437	2.7	38	\$ 15,397	\$ 405	0.8	258 %	286 %	8 %	238 %
California	140	128,352	917	4.1	68	56,460	830	1.8	106 %	127 %	10 %	128 %
Florida	210	97,245	463	2.3	134	70,973	530	1.8	57 %	37 %	(13)%	28 %
Metro New York	—	—	N/A	—	7	13,472	1,925	2.3	N/A	N/A	N/A	N/A
Texas	—	—	N/A	—	10	9,172	917	1.7	N/A	N/A	N/A	N/A
Total	486	\$ 285,041	\$ 587	2.7	257	\$ 165,474	\$ 644	1.5	89 %	72 %	(9)%	80 %

Nine Months Ended September 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	
<i>(dollars in thousands)</i>												
Arizona	474	\$ 201,452	\$ 425	3.2	310	\$ 154,420	\$ 498	2.6	53 %	30 %	(15)%	23 %
California	520	446,045	858	4.9	357	330,705	926	3.4	46 %	35 %	(7)%	44 %
Florida	551	240,269	436	2.1	728	350,029	481	3.0	(24 %)	(31 %)	(9)%	(30 %)
Metro New York	—	—	N/A	—	20	50,662	2,533	2.2	N/A	N/A	N/A	N/A
Texas	4	4,194	1,049	1.5	17	16,268	957	0.8	(76) %	(74) %	10 %	88 %
Total	1,549	\$ 891,960	\$ 576	3.0	1,432	\$ 902,084	\$ 630	2.9	8 %	(1 %)	(9)%	3 %

For both the three and nine months ended September 30, 2023, the increase in net new orders in Arizona compared to the prior year period was due to the implementation of sales programs during a challenging environment for affordability. Interest rates began to have a significant impact on our Arizona segment during the three months ended September 30, 2022, and resulted in a significant drop in net orders at that time. Although interest rates continue to be high compared to recent periods, the use of targeted incentives has lowered ASP during the nine months ended September 30, 2023, but drove a significant amount of business for the same period, resulting in an increase in net new orders.

In the California segment, the increase in net new orders for the three and nine months ended September 30, 2023, was primarily due to additional incentives which lowered ASP but provided positive results from the market compared to the corresponding prior periods. Like other markets, California began to see challenges from rising interest rates in the third quarter of 2022, but sales improved more quickly than in our other markets due to additional incentives and quick move-in homes, which have been subject to increased demand during the nine months ended September 30, 2023. There is still uncertainty about the long-term trends as consumers continue evaluating prices and overall payments in the current environment.

Our Florida segment was initially more resilient than our other segments to the interest rate and inflationary pressures seen across the company. However, we have seen an increased slowdown in this segment resulting from increased mortgage interest rates and decreased affordability during the nine months ended September 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. Driven by these efforts, we experienced greater volume in this segment, while recognizing slightly lower ASPs, during the third quarter of 2023.

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 September 30, 2023.

Prior to September 30, 2023, our Texas segment completed the sale and delivery of the lots acquired from Vintage Estate Homes (“Vintage”) and we expect sales and deliveries to 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 September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Arizona	17.0	16.3	4 %	16.7	13.1	27 %
California	11.3	12.3	(8 %)	11.8	11.7	1 %
Florida	31.0	25.3	23 %	29.5	26.9	10 %
Metro New York	—	1.0	(100 %)	—	1.0	(100 %)
Texas	—	2.0	(100 %)	0.3	2.3	(87 %)
Total	59.3	57.0	4 %	58.3	55.0	6 %

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 September 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	<i>(dollars in thousands)</i>								
Arizona	115	\$ 50,314	\$ 438	154	\$ 69,690	\$ 453	(25 %)	(28 %)	(3)%
California	115	103,982	904	128	118,978	930	(10) %	(13) %	(3)%
Florida	218	103,766	476	243	103,086	424	(10) %	1 %	12 %
Metro New York	—	—	N/A	11	28,132	2,557	N/A	N/A	N/A
Texas	—	—	N/A	7	6,610	944	N/A	N/A	N/A
Total	448	\$ 258,062	\$ 576	543	\$ 326,496	\$ 601	(17 %)	(21 %)	(4)%

	Nine Months Ended September 30,								
	2023			2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	<i>(dollars in thousands)</i>								
Arizona	445	\$ 193,438	\$ 435	451	\$ 200,881	\$ 445	(1 %)	(4 %)	(2)%
California	315	270,756	860	389	342,217	880	(19) %	(21) %	(2)%
Florida	694	320,162	461	766	318,711	416	(9) %	— %	11 %
Metro New York	1	1,649	1,649	43	95,758	2,227	(98) %	(98) %	(26)%
Texas	4	4,194	1,049	18	17,702	983	(78) %	(76) %	7 %
Total	1,459	\$ 790,199	\$ 542	1,667	\$ 975,269	\$ 585	(12 %)	(19 %)	(7)%

Our Arizona segment delivered 115 homes and generated \$50.3 million in home sales revenue for the three months ended September 30, 2023. The segment delivered 445 homes and generated \$193.4 million in home sales revenue for the nine months ended September

30, 2023. The decrease in home deliveries, revenue, and ASP compared to the corresponding periods in 2022 was primarily the result of lower home sales and more significant incentives during recent periods. An increase in average selling communities and our ability to leverage existing inventory to support quick move-in homes that have been experiencing higher demand have helped to offset such decreases in our Arizona segment.

Our California segment delivered 115 homes and generated \$104.0 million in home sales revenue for the three months ended September 30, 2023. The segment delivered 315 homes and generated \$270.8 million in home sales revenue for the nine months ended September 30, 2023. The decrease in home deliveries, revenue, and ASP during the three and nine months ended September 30, 2023, compared to the corresponding periods in 2022 was driven primarily by the affordability challenges observed across the Company as those lower home sales and more significant incentives during recent periods.

Despite the decrease in home deliveries in Florida resulting from affordability concerns, ASP increased 12% and 11% during the three and nine months ended September 30, 2023, respectively, compared to the corresponding prior year period. This increase 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. Similar to our other segments, market uncertainty and concerns of affordability remain and could impact future results further.

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 September 30, 2023.

Prior to September 30, 2023, our Texas segment completed the sale and delivery of the lots acquired from Vintage and we expect sales and deliveries to 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 September 30,			
	2023	%	2022	%
	<i>(dollars in thousands)</i>			
Home sales revenue	\$ 258,062	100.0 %	\$ 326,496	100.0 %
Cost of home sales	209,753	81.3 %	258,362	79.1 %
Home sales gross margin	48,309	18.7 %	68,134	20.9 %
Add: Interest in cost of home sales	9,713	3.8 %	10,138	3.1 %
Add: Real estate inventories impairment	—	—%	—	—%
Adjusted home sales gross margin excluding interest and real estate inventories impairment ⁽¹⁾	58,022	22.5 %	78,272	24.0 %
Add: Purchase price accounting for acquired inventory	3,865	1.5 %	10,612	3.3 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory ⁽¹⁾	\$ 61,887	24.0 %	\$ 88,884	27.2 %

	Nine Months Ended September 30,			
	2023	%	2022	%
	<i>(dollars in thousands)</i>			
Home sales revenue	\$ 790,199	100.0 %	\$ 975,269	100.0 %
Cost of home sales	647,642	82.0 %	770,220	79.0 %
Home sales gross margin	142,557	18.0 %	205,049	21.0 %
Add: Interest in cost of home sales	21,531	2.7 %	31,224	3.2 %
Add: Real estate inventories impairment	4,700	0.6 %	—	—%
Adjusted home sales gross margin excluding interest and real estate inventories impairment ⁽¹⁾	168,788	21.4 %	236,273	24.2 %
Add: Purchase price accounting for acquired inventory	14,060	1.8 %	41,162	4.2 %
Adjusted home sales gross margin excluding interest, real estate inventories impairment, and purchase price accounting for acquired inventory ⁽¹⁾	\$ 182,848	23.1 %	\$ 277,435	28.4 %

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

Home sales gross margin decreased by 220 basis points and 300 basis points to 18.7% and 18.0% for the three and nine months ended September 30, 2023, respectively, compared to the corresponding periods in 2022. The decrease in both the three and nine 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 nine months ended September 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 320 basis points and 530 basis points to 24.0% and 23.1% for the three and nine months ended September 30, 2023, respectively, compared to the corresponding periods in 2022. Discounts and incentives increased significantly for the three and nine months ended September 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.

	September 30, 2023			September 30, 2022			% Change		
	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP	Homes	Dollar Value	ASP
	<i>(dollars in thousands)</i>								
Arizona	134	\$ 58,000	\$ 433	281	\$ 134,771	\$ 480	(52)%	(57)%	(10)%
California	284	253,735	893	224	214,864	959	27 %	18 %	(7)%
Florida	342	171,004	500	767	374,953	489	(55)%	(54)%	2 %
Metro New York	—	—	N/A	2	5,591	2,796	N/A	N/A	N/A
Texas	—	—	N/A	11	10,914	992	N/A	N/A	N/A
Total	<u>760</u>	<u>\$ 482,739</u>	<u>\$ 635</u>	<u>1,285</u>	<u>\$ 741,093</u>	<u>\$ 577</u>	(41)%	(35)%	10 %

The decrease in the number of backlog homes and value as of September 30, 2023 as compared to September 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 nine months ended September 30, 2023, we recognized \$19.3 million and \$22.1 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 nine months ended September 30, 2022, we collectively recognized \$9.1 million and \$45.2 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 September 30, 2023 and December 31, 2022, we had contract assets of \$6.3 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 September 30, 2023 and December 31, 2022 was \$3.7 million and \$11.6 million, respectively.

As of September 30, 2023 the Company had \$1.0 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.

	September 30, 2023			September 30, 2022			% Change
	Lots Owned	Lots Controlled	Total	Lots Owned	Lots Controlled	Total	
Arizona	1,833	1,534	3,367	2,302	2,191	4,493	(25 %)
California	718	1,415	2,133	628	1,948	2,576	(17 %)
Florida	2,388	1,606	3,994	2,420	1,978	4,398	(9 %)
Metro New York	2	—	2	7	—	7	(71 %)
Texas	130	1,577	1,707	18	918	936	82 %
Total	5,071	6,132	11,203	5,375	7,035	12,410	(10 %)

The total lots owned or controlled at September 30, 2023 decreased 10% from September 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Pretax income (loss)	<i>(dollars in thousands)</i>		<i>(dollars in thousands)</i>	
Arizona	\$ 5,253	\$ 6,046	\$ 4,826	\$ 17,653
California	9,795	20,059	17,184	68,085
Florida	4,378	4,172	23,993	8,028
Metro New York	(917)	(810)	(1,818)	646
Texas	(1,383)	(215)	(4,144)	(93)
Corporate	(4,577)	(3,950)	(14,246)	(27,663)
Total	\$ 12,549	\$ 25,302	\$ 25,795	\$ 66,656

Our Arizona segment recorded pretax income of \$5.3 million and \$4.8 million in the three and nine months ended September 30, 2023, respectively, compared to pretax income of \$6.0 million and \$17.7 million in the comparable periods during 2022. The decrease in pretax income in both the three and nine months ended September 30, 2023 was primarily due to a decrease in revenue per home as additional incentives have been required to continue to close homes at our desired pace. Additionally, we have seen significant increases in costs of homes delivered, as more homes that were built during periods of especially high labor and material costs were completed during the current periods presented compared to the prior year periods.

Our California segment recorded pretax income of \$9.8 million and \$17.2 million for the three and nine months ended September 30, 2023, respectively, compared to a pretax income of \$20.1 million and \$68.1 million in the comparable periods in 2022. The decrease in both the three and nine months ended September 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 current year periods presented compared to the prior year periods.

Our Florida segment recorded pretax income of \$4.4 million and \$24.0 million for the three and nine months ended September 30, 2023, respectively, compared to pretax income of \$4.2 million and \$8.0 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 nine months ended September 30, 2023, the Florida segment experienced a slowdown in demand similar to other segments, however in most cases, we observed that the increases in ASP equaled or exceeded the increases in costs.

The Metro New York segment had pretax loss of \$0.9 million and \$1.8 million for the three and nine months ended September 30, 2023, respectively, which decreased from pretax loss of \$0.8 million and pretax income of \$0.6 million in the comparable periods in 2022 as the prior nine month period included a significant number of deliveries during the first half of the year which provided positive gross margins for that segment. We continue to wind up the sales and deliveries activities in this 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. For the three months ended September 30, 2023, the loss allocated to Corporate increased by \$0.6 million compared to the prior period primarily due to fluctuations in general and administrative ("G&A") expenses, see below for further explanation. The Corporate non-operating segment generated a smaller pretax loss year-to-date 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 September 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	<i>(dollars in thousands)</i>			
Sales and marketing expenses	\$ 16,930	\$ 21,063	6.6 %	6.5 %
General and administrative expenses	25,463	21,111	9.9 %	6.5 %
Total sales, marketing, and G&A expenses	\$ 42,393	\$ 42,174	16.5 %	13.0 %

	Nine Months Ended September 30,		As a Percentage of Home Sales	
	2023	2022	2023	2022
	<i>(dollars in thousands)</i>			
Sales and marketing expenses	\$ 51,672	\$ 64,366	6.5 %	6.6 %
General and administrative expenses	74,223	70,734	9.4 %	7.3 %
Total sales, marketing, and G&A expenses	\$ 125,895	\$ 135,100	15.9 %	13.9 %

For the three and nine months ended September 30, 2023, sales and marketing 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 and other operational costs in the G&A expenses as the Company continues to grow.

The sales, marketing, and general and administrative ("SG&A") expense rate as a percentage of home sales revenue for the three and nine months ended September 30, 2023, was 16.5% and 15.9%, an increase of 3.5% and 2.0% from the prior year periods, respectively. The SG&A expense rate increased primarily due to higher wage and operational 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 nine months ended September 30, 2023, was a provision of \$3.1 million and \$6.3 million, respectively, compared to \$4.0 million and \$17.5 million for the three and nine months ended September 30, 2022. The effective tax rate for the three and nine months ended September 30, 2023, was 24.4% and 24.5%, respectively, compared to 15.9% and 26.2% for the three and nine months ended September 30, 2022. The difference between the statutory tax rate and the effective tax rate for the three and nine months ended September 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 nine months ended September 30, 2022, was primarily related to state income taxes net of federal income tax benefits, estimated deduction limitations for executive compensation, warrant fair market value adjustments, and tax credits for energy-efficient homes.

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 September 30, 2023, we had \$144.4 million of cash, cash equivalents, restricted cash, and cash held in escrow, a \$3.7 million increase from December 31, 2022. The change was primarily due to the sale of our Senior Notes (as defined below) and borrowings from notes and other debt payables offset by ordinary business activities as cash from home deliveries was primarily reinvested to acquire and construct additional real estate inventories. Cash held in escrow represents closings happening immediately before quarter-end in which we received the funds from the title company subsequent to September 30, 2023.

Our principal sources of capital are cash generated from home and land sales activities, borrowings under our credit facility and proceeds from the sale of our Senior Notes. 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 September 30, 2023, we had outstanding borrowings of \$575.0 million in aggregate principal, excluding discount and deferred loan costs, and had \$245.0 million in additional borrowing capacity under our credit 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 \$325.0 million outstanding as of September 30, 2023. The Company may increase the borrowing capacity up to \$850.0 million, under certain circumstances. Funds available under the Credit Agreement are subject to a borrowing base requirement which is calculated on specified percentages of our real estate inventories. 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 September 30, 2023, the interest rate on the loan was 8.68%. In July 2023, the Credit Agreement was modified to extend the maturity date and now matures in October 2026.

Senior Notes

In July 2023, the Company entered into a new senior unsecured note (the “Note Purchase Agreement”). The Note Purchase Agreement provided for the private placement of \$250.0 million aggregate principal amount of 11% senior notes (the “Senior Notes”). The Company received the proceeds, net of discount and fees, in July 2023. The Senior Notes mature in July 2028.

Financial Covenants

The Credit Agreement and Note Purchase Agreement have 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.

Financial Covenants	September 30, 2023		December 31, 2022	
	Actual	Covenant Requirement	Actual	Covenant Requirement
	<i>(dollars in thousands)</i>		<i>(dollars in thousands)</i>	
Minimum Liquidity Covenant	\$ 494,447	\$ 50,000	\$ 301,435	\$ 50,000
Interest Coverage Ratio - Adjusted EBITDA to Interest Incurred	2.88	2.00	4.76	1.75
Tangible Net Worth	\$ 632,807	\$ 394,253	\$ 641,636	\$ 394,253
Maximum Leverage Ratio ⁽¹⁾	40.7 %	<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 and Note Purchase Agreement also contain certain restrictive covenants, including limitations on incurrence of other indebtedness, liens, dividends and other distributions, asset dispositions, investments, and limitations on fundamental changes. They contain customary events of default, subject to cure periods in certain circumstances, that would result in the termination of the commitments and permit the lender to accelerate payment on outstanding borrowings. These events of default include nonpayment of principal, interest, and fees or other amounts; violation of covenants; inaccuracy of representations and warranties; cross default to certain other indebtedness; unpaid judgments; change in control; and certain bankruptcy and other insolvency events. As of September 30, 2023, we were in compliance with all related 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 \$101.2 million and \$114.9 million of performance bonds outstanding at September 30, 2023 and December 31, 2022, respectively.

Cash Flows—Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

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

- Net cash provided by operating activities was \$2.1 million during the nine months ended September 30, 2023 compared to net cash used in operating activities of \$83.2 million during the same period in 2022. The increase in net cash provided by operating activities was primarily due to less cash being used in our real estate inventories construction and a positive rather

than negative cash flow from other assets compared to the prior period. We used \$34.7 million less for real estate inventories compared to the prior period. In addition, cash from other assets was \$31.8 million during the nine months ended September 30, 2023, compared to a use of \$46.9 million in the prior period, primarily related to funds placed in escrow for the purchase of real estate inventory in the prior period that were closed on in the current period. An increase of \$9.3 million in net cash collected from cash held in escrow compared to the prior period also contributed to the increase in our net cash provided by operating activities. These changes were partially offset by a decrease in net income, adjusted for noncash operating components of net income, of \$33.0 million.

- Net cash used in investing activities was \$5.5 million during the nine months ended September 30, 2023, compared to \$262.2 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 provided by financing activities was \$13.3 million during the nine months ended September 30, 2023, compared to \$112.4 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 \$68.2 million during the nine months ended September 30, 2023, as compared to the prior period in 2022. Additionally, we received contributions of \$55.0 million from a noncontrolling interest to fund a consolidated joint venture that was formed in the nine months ended September 30, 2022. These changes were partially offset by a decrease in cash paid for stock repurchases of \$19.0 million compared to the prior period and the payment of \$16.5 million to repurchase outstanding private placement warrants in the prior period.

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 September 30, 2023, we had outstanding purchase and option contracts totaling \$624.4 million, net of \$98.4 million related cash deposits (of which \$0.4 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 September 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. In July 2023, 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.

During the three and nine months ended September 30, 2023, the Company repurchased 1,391,867 and 2,360,736 shares of common stock for a total of \$13.7 million and \$21.2 million, respectively, 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 September 30, 2023, the Company had approximately \$2.1 million in remaining authorized capacity.

In October 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of \$20.0 million with no stated expiration date.

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.

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.

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.

	September 30, 2023	December 31, 2022
	<i>(dollars in thousands)</i>	
Total notes and other debts payable, net	\$ 552,393	\$ 505,422
Total equity	701,447	710,319
Total capital	\$ 1,253,840	\$ 1,215,741
Ratio of debt to capital	44.1 %	41.6 %
Total notes and other debts payable, net	\$ 552,393	\$ 505,422
Less: cash, cash equivalents, and restricted cash	133,491	123,634
Less: cash held in escrow	10,956	17,101
Net debt	407,946	364,687
Total capital	\$ 1,253,840	\$ 1,215,741
Ratio of net debt to total capital	32.5 %	30.0 %

EBITDA and Adjusted EBITDA

The following table presents EBITDA and Adjusted EBITDA for the three and nine months ended September 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 September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Net income	\$ 9,483	\$ 21,281
Provision for income taxes	3,066	4,021
Interest in cost of sales	10,006	10,150
Depreciation and amortization expense	1,221	1,382
EBITDA	23,776	36,834
Purchase price accounting in cost of home sales	3,865	10,612
Transaction costs	600	—
Abandoned project costs	433	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(70)
Adjusted EBITDA	\$ 28,674	\$ 47,376

	Nine Months Ended September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Net income	\$ 19,472	\$ 49,196
Provision for income taxes	6,323	17,460
Interest in cost of sales	21,878	31,276
Interest relieved to equity in net income of unconsolidated joint ventures	—	70
Depreciation and amortization expense	3,778	4,445
EBITDA	51,451	102,447
Real estate inventories impairment	4,700	—
Purchase price accounting in cost of home sales	14,060	41,162
Transaction costs	633	1,205
Write-off of offering costs	436	—
Abandoned project costs	745	—
Equity in net income of unconsolidated joint ventures, excluding interest relieved	—	(209)
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Adjusted EBITDA	<u>\$ 72,025</u>	<u>\$ 154,416</u>

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 September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Net income attributable to Landsea Homes Corporation	\$ 8,596	\$ 19,970
Pre-Merger capitalized related party interest included in cost of sales	324	714
Equity in net income of unconsolidated joint ventures	—	(70)
Purchase price accounting for acquired inventory	3,865	10,612
Total adjustments	4,189	11,256
Tax-effected adjustments ⁽¹⁾	3,088	8,270
Adjusted net income attributable to Landsea Homes Corporation	<u>\$ 11,684</u>	<u>\$ 28,240</u>

	Nine Months Ended September 30,	
	2023	2022
	<i>(dollars in thousands)</i>	
Net income attributable to Landsea Homes Corporation	\$ 16,761	\$ 47,970
Real estate inventories impairment	4,700	—
Pre-Merger capitalized related party interest included in cost of sales	1,587	3,831
Equity in net income of unconsolidated joint ventures	—	(139)
Purchase price accounting for acquired inventory	14,060	41,162
Loss on debt extinguishment or forgiveness	—	2,496
Loss on remeasurement of warrant liability	—	7,315
Total adjustments	20,347	54,665
Tax-effected adjustments ⁽¹⁾	14,997	44,599
Adjusted net income attributable to Landsea Homes Corporation	\$ 31,758	\$ 92,569

(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. The Senior Notes bear interest on the outstanding amount at a fixed rate of 11.0% per annum, and therefore are not subject to fluctuations in interest rates.

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 September 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 September 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 September 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⁾⁽²⁾	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (in millions) ⁽¹⁾⁽²⁾
July 1, 2023 - July 31, 2023	591,867	\$ 9.94	591,867	\$ 10.0
August 1, 2023 - August 31, 2023	800,000	\$ 9.75	800,000	\$ 2.1
September 1, 2023 - September 30, 2023	—	\$ —	—	\$ 2.1

(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 September 30, 2023, 2,360,736 shares had been repurchased under this authorization.

(2) In July 2023, 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.

In October 2023, subsequent to the period covered by this report, the Board of Directors authorized additional capacity of \$20.0 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 September 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	Note Purchase Agreement, dated as of July 17, 2023, by and among Landsea Homes Corporation, U.S. Bank Trust Company, National Association, as the agent, and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 17, 2023)
10.2	Seventh Amendment Agreement, dated July 31, 2023, by and among Landsea Homes Corporation, as borrower, the other loan parties party thereto, Western Alliance Bank as administrative agent, and the lender parties thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 1, 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 September 30, 2023, formatted in Inline XBRL: (i) Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022; (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2023 and 2022; (iii) Consolidated Statements of Equity for the three and nine months ended September 30, 2023 and 2022; (iv) Consolidated Statements of Cash Flows for the nine months ended September 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 September 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: November 2, 2023

By: /s/ John Ho
John Ho
Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2023

By: /s/ Chris Porter
Chris Porter
Chief Financial Officer
(Principal Financial Officer)

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
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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: November 2, 2023

By: /s/ John Ho

Name: John Ho

Title: Chief Executive Officer

(Principal Executive Officer)

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
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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: November 2, 2023

By: /s/ Chris Porter

Name: Chris Porter

Title: Chief Financial Officer
(Principal Financial Officer)

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 September 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: November 2, 2023

By: /s/ John Ho

Name: John Ho

Title: Chief Executive Officer
(Principal Executive Officer)

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 September 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: November 2, 2023

By: /s/ Chris Porter

Name: Chris Porter

Title: Chief Financial Officer
(Principal Financial Officer)