

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from _____ to _____.

Commission file number 001-36126

LGI HOMES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

46-3088013

(I.R.S. Employer Identification No.)

1450 Lake Robbins Drive, Suite 430,

(Address of principal executive offices)

The Woodlands, Texas

77380

(Zip code)

(281) 362-8998

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	LGIH	NASDAQ Global Select Market

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

Yes No

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

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input 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 29, 2021, there were 24,273,191 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

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

	September 30, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 46,717	\$ 35,942
Accounts receivable	49,171	115,939
Real estate inventory	1,908,135	1,569,489
Pre-acquisition costs and deposits	50,267	37,213
Property and equipment, net	13,364	3,618
Other assets	66,272	44,882
Deferred tax assets, net	7,613	6,986
Goodwill	12,018	12,018
Total assets	<u>\$ 2,153,557</u>	<u>\$ 1,826,087</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 35,455	\$ 13,676
Accrued expenses and other liabilities	116,234	135,008
Notes payable	666,094	538,398
Total liabilities	<u>817,783</u>	<u>687,082</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 26,941,222 shares issued and 24,273,191 shares outstanding as of September 30, 2021 and 26,741,554 shares issued and 24,983,561 shares outstanding as of December 31, 2020	269	267
Additional paid-in capital	286,709	270,598
Retained earnings	1,252,619	934,277
Treasury stock, at cost, 2,668,031 shares and 1,757,993 shares, respectively	<u>(203,823)</u>	<u>(66,137)</u>
Total equity	<u>1,335,774</u>	<u>1,139,005</u>
Total liabilities and equity	<u>\$ 2,153,557</u>	<u>\$ 1,826,087</u>

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531
Cost of sales	549,319	398,971	1,642,756	1,110,763
Selling expenses	39,871	35,470	127,450	98,193
General and administrative	24,480	22,320	72,479	62,422
Operating income	137,938	77,441	406,388	199,153
Loss on extinguishment of debt	13,314	—	13,976	—
Other income, net	(2,370)	(374)	(6,979)	(2,148)
Net income before income taxes	126,994	77,815	399,391	201,301
Income tax provision	26,444	(11,189)	81,049	13,834
Net income	<u>\$ 100,550</u>	<u>\$ 89,004</u>	<u>\$ 318,342</u>	<u>\$ 187,467</u>
Earnings per share:				
Basic	\$ 4.10	\$ 3.55	\$ 12.85	\$ 7.45
Diluted	\$ 4.05	\$ 3.52	\$ 12.72	\$ 7.40
Weighted average shares outstanding:				
Basic	24,508,134	25,089,424	24,766,260	25,162,162
Diluted	24,824,320	25,257,053	25,030,161	25,328,555

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Equity
	Shares	Amount				
BALANCE—December 31, 2020	26,741,554	\$ 267	\$ 270,598	\$ 934,277	\$ (66,137)	\$ 1,139,005
Net income	—	—	—	99,658	—	99,658
Restricted stock units granted for accrued annual bonuses	—	—	272	—	—	272
Stock repurchase	—	—	—	—	(25,827)	(25,827)
Compensation expense for equity awards	—	—	3,422	—	—	3,422
Stock issued under employee incentive plans	167,089	2	2,106	—	—	2,108
BALANCE— March 31, 2021	26,908,643	\$ 269	\$ 276,398	\$ 1,033,935	\$ (91,964)	\$ 1,218,638
Net income	—	—	—	118,134	—	118,134
Stock repurchase	—	—	—	—	(55,776)	(55,776)
Compensation expense for equity awards	—	—	3,395	—	—	3,395
Stock issued under employee incentive plans	18,050	—	2,015	—	—	2,015
BALANCE— June 30, 2021	26,926,693	\$ 269	\$ 281,808	\$ 1,152,069	\$ (147,740)	\$ 1,286,406
Net income	—	—	—	100,550	—	100,550
Stock repurchase	—	—	—	—	(56,083)	(56,083)
Compensation expense for equity awards	—	—	3,352	—	—	3,352
Stock issued under employee incentive plans	14,529	—	1,549	—	—	1,549
BALANCE— September 30, 2021	26,941,222	\$ 269	\$ 286,709	\$ 1,252,619	\$ (203,823)	\$ 1,335,774

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total Equity
	Shares	Amount				
BALANCE—December 31, 2019	26,398,409	\$ 264	\$ 252,603	\$ 610,382	\$ (18,056)	\$ 845,193
Net income	—	—	—	42,839	—	42,839
Restricted stock units granted for accrued annual bonuses	—	—	222	—	—	222
Stock repurchase	—	—	—	—	(31,335)	(31,335)
Compensation expense for equity awards	—	—	1,853	—	—	1,853
Stock issued under employee incentive plans	282,065	2	831	—	—	833
BALANCE— March 31, 2020	26,680,474	\$ 266	\$ 255,509	\$ 653,221	\$ (49,391)	\$ 859,605
Net income	—	—	—	55,624	—	55,624
Compensation expense for equity awards	—	—	2,613	—	—	2,613
Stock issued under employee incentive plans	14,705	1	939	—	—	940
BALANCE— June 30, 2020	26,695,179	\$ 267	\$ 259,061	\$ 708,845	\$ (49,391)	\$ 918,782
Net income	—	—	—	89,004	—	89,004
Compensation expense for equity awards	—	—	3,926	—	—	3,926
Stock issued under employee incentive plans	11,275	—	958	—	—	958
BALANCE— September 30, 2020	26,706,454	\$ 267	\$ 263,945	\$ 797,849	\$ (49,391)	\$ 1,012,670

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 318,342	\$ 187,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	832	509
Loss on extinguishment of debt	13,976	—
Gain on disposal of assets	(880)	—
Compensation expense for equity awards	10,169	8,392
Deferred income taxes	(627)	(832)
Changes in assets and liabilities:		
Accounts receivable	66,768	(5,627)
Real estate inventory	(286,619)	(48,781)
Pre-acquisition costs and deposits	(6,328)	2,299
Other assets	(10,702)	(33,917)
Accounts payable	20,556	18,727
Accrued expenses and other liabilities	(24,400)	(15,256)
Net cash provided by operating activities	101,087	112,981
Cash flows from investing activities:		
Purchases of property and equipment	(1,641)	(1,161)
Investment in unconsolidated entities	(1,324)	(1,125)
Payment for business acquisitions	(66,864)	—
Net cash used in investing activities	(69,829)	(2,286)
Cash flows from financing activities:		
Proceeds from notes payable	1,076,419	203,056
Payments on notes payable	(944,000)	(275,000)
Redemption Premium	(10,314)	—
Loan issuance costs	(10,572)	(2,155)
Proceeds from sale of stock, net of offering expenses	5,670	2,729
Stock repurchase	(137,686)	(31,335)
Net cash used in financing activities	(20,483)	(102,705)
Net increase in cash and cash equivalents	10,775	7,990
Cash and cash equivalents, beginning of period	35,942	38,345
Cash and cash equivalents, end of period	\$ 46,717	\$ 46,335

See accompanying notes to the consolidated financial statements.

LGI HOMES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and Description of the Business

LGI Homes, Inc., a Delaware corporation (the “Company”, “we,” “us,” or “our”), is engaged in the development of communities and the design, construction and sale of new homes in Texas, Arizona, Florida, Georgia, New Mexico, Colorado, North Carolina, South Carolina, Washington, Tennessee, Minnesota, Oklahoma, Alabama, California, Oregon, Nevada, West Virginia, Virginia and Pennsylvania.

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2020. The accompanying unaudited consolidated financial statements include all adjustments that are of a normal recurring nature and necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

The accompanying unaudited financial statements as of September 30, 2021, and for the three and nine months ended September 30, 2021 and 2020, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and these differences could have a significant impact on the financial statements.

2. REVENUES

Revenue Recognition

Revenues from home sales are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenues from home sales are recorded at the time each home sale is closed, title and possession are transferred to the customer and we have no significant continuing involvement with the home. Home sales discounts and incentives granted to customers, which are related to the customers’ closing costs that we pay on the customers’ behalf, are recorded as a reduction of revenue in our consolidated financial statements of operations.

The following table presents our home sales revenues disaggregated by revenue stream (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Retail home sales revenues	\$ 650,041	\$ 515,221	\$ 1,990,439	\$ 1,369,130
Wholesale home sales revenues	101,567	18,981	258,634	101,401
Total home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531

The following table presents our home sales revenues disaggregated by geography, based on our determined reportable segments in [Note 13](#) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Central	\$ 287,878	\$ 186,909	\$ 924,591	\$ 520,608
Southeast	146,166	130,131	442,431	347,155
Northwest	148,515	91,138	372,903	249,455
West	90,592	62,935	252,553	182,012
Florida	78,457	63,089	256,595	171,301
Total home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531

Home Sales Revenues

We generate revenues primarily by delivering move-in ready entry-level and move-up spec homes sold under our LGI Homes brand and our luxury series spec homes sold under our Terrata Homes brand.

Retail homes sold under both our LGI Homes brand and Terrata Homes brand focus on providing move-in ready homes with standardized features within favorable markets that meet certain demographic and economic conditions. Our LGI Homes brand primarily markets to entry-level or first-time homebuyers, while our Terrata Homes brand primarily markets to move-up homebuyers.

Wholesale homes are primarily sold under a bulk sales agreement and focus on providing move-in ready homes with standardized features to real estate investors that will ultimately use the single-family homes as rental properties.

Performance Obligations

Our contracts with customers include a single performance obligation to transfer a completed home to the customer. We generally determine selling price per home on the expected cost plus margin. Our contracts contain no significant financing terms as customers who finance do so through a third party. Performance obligations are satisfied at a moment in time when the home is complete and control of the asset is transferred to the customer at closing. Home sales proceeds are generally received from the title company within a few business days after closing.

Sales and broker commissions are incremental costs incurred to obtain a contract with a customer that would not have been incurred if the contract had not been obtained. Sales and broker commissions are expensed upon fulfillment of a home closing. Advertising costs are costs to obtain a contract that would have been incurred regardless of whether the contract was obtained and are recognized as an expense when incurred. Sales and broker commissions and advertising costs are recorded within sales and marketing expense presented in our consolidated statements of operations as selling expenses.

3. REAL ESTATE INVENTORY

Our real estate inventory consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Land, land under development and finished lots	\$ 1,211,693	\$ 981,838
Information centers	27,427	30,201
Homes in progress	581,348	337,364
Completed homes	87,667	220,086
Total real estate inventory	\$ 1,908,135	\$ 1,569,489

Inventory is stated at cost unless the carrying amount is determined not to be recoverable, in which case the affected inventory is written down to fair value.

Land, development and other project costs, including interest and property taxes incurred during development and home construction, net of expected reimbursable development costs, are capitalized to real estate inventory. Land development and other common costs that benefit the entire community, including field construction supervision and related direct overhead, are allocated to individual lots or homes, as appropriate. The costs of lots are transferred to homes in progress when home construction begins. Home construction costs and related carrying charges are allocated to the cost of individual homes using the specific identification method. Costs that are not specifically identifiable to a home are allocated on a pro rata basis, which

we believe approximates the costs that would be determined using an allocation method based on relative sales values since the individual lots or homes within a community are similar in value. Inventory costs for completed homes are expensed to cost of sales as homes are closed. Changes to estimated total development costs subsequent to initial home closings in a community are generally allocated to the remaining unsold lots and homes in the community on a pro rata basis.

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

Interest and financing costs incurred under our debt obligations, as more fully discussed in [Note 5](#), are capitalized to qualifying real estate projects under development and homes under construction.

On May 6, 2021, we acquired certain real estate assets owned by KenRoe Inc. and its affiliated entities, including R Home LLC and Paxmar Land Development (collectively, “KenRoe”), and assumed certain related liabilities. As a result of the KenRoe acquisition, we expanded our Minnesota presence in the Minneapolis market. We acquired approximately 100 homes under construction and more than 3,000 owned and controlled lots. The total purchase price for the KenRoe assets, primarily consisting of inventory, was approximately \$27.3 million in cash, subject to certain potential post-closing adjustments. The acquisition is accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations (“ASC 805”). Our purchase accounting for KenRoe as of September 30, 2021 is preliminary and we expect to complete the working capital adjustment and valuation of the tangible assets, intangible assets and liabilities assumed as of the acquisition date within one year from the acquisition date.

On July 14, 2021, we acquired the real estate assets of Buffington Homebuilding Group, Ltd. (“Buffington”) and assumed certain related liabilities. The total purchase price for the Buffington assets, primarily consisting of inventory, was approximately \$39.1 million in cash, subject to certain potential post-closing adjustments. This acquisition further expands our land position in the Austin, Texas market. The acquired assets include over 100 homes under construction, and more than 500 owned and controlled lots. The acquisition is accounted for in accordance with ASC 805. Our purchase accounting for Buffington as of September 30, 2021 is preliminary and we expect to complete the working capital adjustment and valuation of the tangible assets, intangible assets and liabilities assumed as of the acquisition date within one year from the acquisition date.

4. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2021	December 31, 2020
Taxes payable	\$ 7,818	\$ 26,181
Real estate inventory development and construction payable	42,048	29,938
Accrued compensation, bonuses and benefits	19,105	28,579
Accrued interest	4,263	10,853
Inventory related obligations	6,331	4,515
Lease liability	4,844	5,287
Warranty reserve	7,150	5,350
Contract deposits	16,122	17,151
Other	8,553	7,154
Total accrued expenses and other liabilities	<u>\$ 116,234</u>	<u>\$ 135,008</u>

Inventory Related Obligations

We own lots in certain communities in Arizona, Florida and Texas that have Community Development Districts or similar utility and infrastructure development special assessment programs that allocate a fixed amount of debt service associated with development activities to each lot. This obligation for infrastructure development is attached to the land, which is typically payable over a 30-year period and is ultimately assumed by the homebuyer when home sales are closed. Such obligations represent a non-cash cost of the lots.

Estimated Warranty Reserve

We typically provide homebuyers with a one-year warranty on the house and a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems.

Changes to our warranty accrual are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Warranty reserves, beginning of period	\$ 6,550	\$ 3,950	\$ 5,350	\$ 3,500
Warranty provision	2,424	1,284	8,409	4,108
Warranty expenditures	(1,824)	(1,084)	(6,609)	(3,458)
Warranty reserves, end of period	\$ 7,150	\$ 4,150	\$ 7,150	\$ 4,150

5. NOTES PAYABLE**Revolving Credit Agreement**

On April 28, 2021, we entered into that certain Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"), which amends and restates that certain Fourth Amended and Restated Credit Agreement, dated as of May 6, 2019 (as amended, the "2020 Credit Agreement"). The Credit Agreement (a) increases the commitments to \$850.0 million, (b) allows the Company to increase the commitments by up to \$100.0 million, subject to terms and conditions, (c) extends the maturity to April 28, 2025 for all lenders, (d) increases the sublimit for letters of credit to \$50.0 million, (e) adds unrestricted cash in excess of \$10.0 million as a component of the borrowing base and removes certain exclusions from the borrowing base, (f) reduces the applicable margin for LIBOR loans to a range of 1.45% to 2.10%, based on our leverage ratio, (g) reduces the LIBOR floor to 0.50%, (h) increases the minimum tangible net worth requirement to \$850.0 million plus 75% of the net proceeds of equity issuances after December 31, 2020 and 50% of consolidated earnings for each quarter ending after March 31, 2021 and (i) provides for a "hardwired" transition from LIBOR loan pricing that is intended to be economically neutral to the Company; otherwise, the Credit Agreement is on substantially the same terms as the 2020 Credit Agreement.

As of September 30, 2021, the borrowing base under the Credit Agreement was \$1.1 billion, of which borrowings, including the 2029 Senior Notes (as defined herein), of \$679.0 million were outstanding, \$8.3 million of letters of credit were outstanding and \$459.6 million was available to borrow under the Credit Agreement.

Interest is paid monthly on borrowings at LIBOR plus 1.45%. The Credit Agreement applicable margin for LIBOR loans ranges from 1.45% to 2.10% based on our leverage ratio. At September 30, 2021, LIBOR was 0.08%; however, the Credit Agreement has a 0.50% LIBOR floor.

The Credit Agreement contains various financial covenants, including a minimum tangible net worth, a leverage ratio, a minimum liquidity amount and an EBITDA to interest expense ratio. The Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At September 30, 2021, we were in compliance with all of the covenants contained in the Credit Agreement.

Senior Notes Offerings

On June 28, 2021, we issued \$300.0 million aggregate principal amount of our 4.000% Senior Notes due 2029 (the "2029 Senior Notes") in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A ("Rule 144A") under the Securities Act of 1933, as amended (the "Securities Act"), and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S ("Regulation S") under the Securities Act. Interest on the 2029 Senior Notes accrues at a rate of 4.000% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2022. The 2029 Senior Notes mature on July 15, 2029. Terms of the 2029 Senior Notes are governed by an Indenture, dated as of July 6, 2018, and Third Supplemental Indenture thereto, dated as of June 28, 2021, as may be supplemented from time to time, among us, our subsidiaries that guarantee our obligations under the Credit Agreement and Wilmington Trust, National Association, as trustee.

On July 6, 2018, we issued \$300.0 million aggregate principal amount of our 6.875% Senior Notes due 2026 (the "2026 Senior Notes") in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S. On July 15, 2021, we redeemed all of the outstanding 2026 Senior Notes, which resulted in the principal payment of \$300.0 million and a redemption premium of \$10.3 million. Additionally, we expensed \$3.0 million of deferred financing costs and discounts that

were being previously amortized in association with the 2026 Senior Notes. We financed the redemption of the 2026 Senior Notes with a portion of the net proceeds from the offering of the 2029 Senior Notes, together with cash on hand.

Notes payable consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Notes payable under the Credit Agreement (\$850.0 million revolving credit facility at September 30, 2021) maturing on April 28, 2025; interest paid monthly at LIBOR plus 1.45%.	\$ 379,041	\$ 246,621
4.000% Senior Notes due July 15, 2029; interest paid semi-annually at 4.000%.	300,000	—
6.875% Senior Notes due July 15, 2026; interest paid semi-annually at 6.875%.	—	300,000
Net discount and debt issuance costs	(12,947)	(8,223)
Total notes payable	\$ 666,094	\$ 538,398

Capitalized Interest

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest incurred	\$ 6,091	\$ 8,885	\$ 21,863	\$ 28,303
Less: Amounts capitalized	(6,091)	(8,885)	(21,863)	(28,303)
Interest expense	\$ —	\$ —	\$ —	\$ —
Cash paid for interest	\$ 11,772	\$ 13,122	\$ 26,264	\$ 31,822

Included in interest incurred was amortization of deferred financing costs and discounts for notes payable of \$0.8 million for each of the three months ended September 30, 2021 and 2020, and \$2.2 million for each of the nine months ended September 30, 2021 and 2020.

6. INCOME TAXES

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The statute of limitations with regards to our federal income tax filings is three years. The statute of limitations for our state tax jurisdictions is three to four years depending on the jurisdiction. In the normal course of business, we are subject to tax audits in various jurisdictions, and such jurisdictions may assess additional income taxes. We do not expect the outcome of any audit to have a material effect on our consolidated financial statements; however, audit outcomes and the timing of audit adjustments are subject to significant uncertainty.

For the three and nine months ended September 30, 2021, our effective tax rates of 20.8% and 20.3%, respectively, are lower than the Federal statutory rate primarily as a result of the federal energy efficient homes tax credit and excess compensation cost for share-based payments, partially offset by an increase in the rate for state income taxes, net of the federal benefit payments.

Income taxes paid were \$36.0 million and \$46.6 million for the three months ended September 30, 2021 and 2020, respectively. Income taxes paid were \$99.7 million and \$65.5 million for the nine months ended September 30, 2021 and 2020, respectively.

7. EQUITY

Stock Repurchase Program

In November 2018, we announced that our Board of Directors (the “Board”) authorized a stock repurchase program, pursuant to which we may purchase up to \$50.0 million of shares of our common stock through open market transactions, privately negotiated transactions or otherwise in accordance with applicable laws. In October 2020, the Board approved an increase in our stock repurchase program by an additional \$300.0 million. During the three months ended September 30, 2021, we repurchased 358,817 shares of our common stock for \$56.1 million to be held as treasury stock. During the nine months

ended September 30, 2021, we repurchased 910,038 shares of our common stock for \$137.7 million to be held as treasury stock. A total of 1,668,031 shares of our common stock has been repurchased since our stock repurchase program commenced. As of September 30, 2021, we may purchase up to \$162.7 million of shares of our common stock under our stock repurchase program. The timing, amount and other terms and conditions of any repurchases of shares of our common stock under our stock repurchase program will be determined by our management at its discretion based on a variety of factors, including the market price of our common stock, corporate considerations, general market and economic conditions and legal requirements. Our stock repurchase program may be modified, discontinued or suspended at any time.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator (in thousands):				
Net income (Numerator for basic and dilutive earnings per share)	\$ 100,550	\$ 89,004	\$ 318,342	\$ 187,467
Denominator:				
Basic weighted average shares outstanding	24,508,134	25,089,424	24,766,260	25,162,162
Effect of dilutive securities:				
Stock-based compensation units	316,186	167,629	263,901	166,393
Diluted weighted average shares outstanding	24,824,320	25,257,053	25,030,161	25,328,555
Basic earnings per share	\$ 4.10	\$ 3.55	\$ 12.85	\$ 7.45
Diluted earnings per share	\$ 4.05	\$ 3.52	\$ 12.72	\$ 7.40
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	553	131	3,629	1,561

9. STOCK-BASED COMPENSATION

Non-performance Based Restricted Stock Units

The following table summarizes the activity of our time-vested restricted stock units (“RSUs”):

	Nine Months Ended September 30,			
	2021		2020	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning balance	142,738	\$ 62.54	162,686	\$ 50.84
Granted	25,124	\$ 141.96	48,926	\$ 61.25
Vested	(35,503)	\$ 63.23	(55,259)	\$ 32.51
Forfeited	(6,205)	\$ 73.62	(3,000)	\$ 56.74
Ending balance	126,154	\$ 77.61	153,353	\$ 60.65

We recognized \$0.8 million and \$0.9 million of stock-based compensation expense related to outstanding RSUs for each of the three months ended September 30, 2021 and 2020, respectively. We recognized \$2.5 million and \$2.6 million of stock-based compensation expense related to outstanding RSUs for each of the nine months ended September 30, 2021 and 2020, respectively. Generally, the RSUs cliff vest on the third anniversary of the grant date and can only be settled in shares of our common stock. At September 30, 2021, we had unrecognized compensation cost of \$4.5 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 2.0 years.

Performance-Based Restricted Stock Units

The Compensation Committee of the Board has granted awards of performance-based RSUs (“PSUs”) under the Amended and Restated LGI Homes, Inc. 2013 Equity Incentive Plan to certain members of senior management based on three-year performance cycles. The PSUs provide for shares of our common stock to be issued based on the attainment of certain performance metrics over the applicable three-year periods. The number of shares of our common stock that may be issued to the recipients for the PSUs range from 0% to 200% of the target amount depending on actual results as compared to the target performance metrics. The terms of the PSUs provide that the payouts will be capped at 100% of the target number of PSUs granted if absolute total stockholder return is negative during the performance period, regardless of EPS performance; this market condition applies for amounts recorded above target. The compensation expense associated with the PSU grants is determined using the derived grant date fair value, based on a third-party valuation analysis, and expensed over the applicable period. The PSUs vest upon the determination date for the actual results at the end of the three-year period and require that the recipients continue to be employed by us through the determination date. The PSUs can only be settled in shares of our common stock.

The following table summarizes the activity of our PSUs for the nine months ended September 30, 2021:

Period Granted	Performance Period	Target PSUs Outstanding at December 31, 2020	Target PSUs Granted	Target PSUs Vested	Target PSUs Forfeited	Target PSUs Outstanding at September 30, 2021	Weighted Average Grant Date Fair Value
2018	2018 - 2020	60,040	—	(60,040)	—	—	\$ 64.60
2019	2019 - 2021	81,242	—	—	—	81,242	\$ 56.49
2020	2020 - 2022	88,538	—	—	—	88,538	\$ 59.81
2021	2021 - 2023	—	46,027	—	—	46,027	\$ 141.00
Total		229,820	46,027	(60,040)	—	215,807	

At September 30, 2021, management estimates that the recipients will receive approximately 185%, 200% and 200% of the 2021, 2020 and 2019 target number of PSUs, respectively, at the end of the applicable three-year performance cycle based on projected performance compared to the target performance metrics. We recognized \$2.3 million and \$1.3 million of total stock-based compensation expense related to outstanding PSUs for the three months ended September 30, 2021 and 2020, respectively. We recognized \$6.7 million and \$3.7 million of total stock-based compensation expense related to outstanding PSUs for the nine months ended September 30, 2021 and 2020, respectively. The 2018 - 2020 performance period PSUs vested

and issued on March 15, 2021 at 200% of the target number. At September 30, 2021, we had unrecognized compensation cost of \$13.8 million, based on the probable amount, related to unvested PSUs, which is expected to be recognized over a weighted average period of 2.0 years.

10. FAIR VALUE DISCLOSURES

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

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

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

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

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

We utilize fair value measurements to account for certain items and account balances within our consolidated financial statements. Fair value measurements may also be utilized on a nonrecurring basis, such as for the impairment of long-lived assets. The fair value of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and certain accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments. As of September 30, 2021, the Credit Agreement’s carrying value approximates market value since it has a floating interest rate, which increases or decreases with market interest rates and our leverage ratio.

In order to determine the fair value of the 2029 Senior Notes and the 2026 Senior Notes, the future contractual cash flows are discounted at our estimate of current market rates of interest, which were determined based upon the average interest rates of similar senior notes within the homebuilding industry (Level 2 measurement).

The following table below shows the level and measurement of liabilities at September 30, 2021 and December 31, 2020 (in thousands):

	Fair Value Hierarchy	September 30, 2021		December 31, 2020	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2029 Senior Notes ⁽¹⁾	Level 2	\$ 300,000	\$ 300,920	\$ —	\$ —
2026 Senior Notes ⁽²⁾	Level 2	\$ —	\$ —	\$ 300,000	\$ 340,388

(1) On June 28, 2021, we completed an offering of \$300.0 million aggregate principal amount of the 2029 Senior Notes. See [Note 5](#) for more details regarding this offering.

(2) On July 15, 2021, we redeemed all of the outstanding 2026 Senior Notes. See [Note 5](#) for more details regarding the redemption.

11. RELATED PARTY TRANSACTIONS

Land Purchases from Affiliates

We did not complete any land purchase contracts with affiliates during the three months ended September 30, 2021. During the nine months ended September 30, 2021, we completed a land purchase contract to purchase a total of 110 finished lots in Pasco County, Florida from an affiliate of one of our directors for a total base purchase price of approximately \$4.0 million. The lots were purchased in takedowns, subject to a maximum price escalation of 6% per annum, and may provide for additional payments to the seller at the time of sale to the homebuyer. In August 2019, we purchased our first takedown of 58 lots under the Pasco County contract for a base purchase price of approximately \$2.1 million. In April 2021, we purchased the remaining land in a takedown of 52 lots under the Pasco County contract for a base purchase price of approximately \$1.9 million.

During the nine months ended September 30, 2021, we completed a land purchase contract to purchase a total of 25 finished lots in Burnet County, Texas from an affiliate of a family member of our chief executive officer for a total base purchase price of approximately \$2.5 million.

12. COMMITMENTS AND CONTINGENCIES

Contingencies

In the ordinary course of doing business, we are subject to claims or proceedings from time to time relating to the purchase, development and sale of real estate and homes and other aspects of our homebuilding operations. Management believes that these claims include usual obligations incurred by real estate developers and residential home builders in the normal course of business. In the opinion of management, these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

We have provided unsecured environmental indemnities to certain lenders and other counterparties. In each case, we have performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate us to reimburse the guaranteed parties for damages related to environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, we may have recourse against other previous owners. In the ordinary course of doing business, we are subject to regulatory proceedings from time to time related to environmental and other matters. In the opinion of management, these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

Land Deposits

We have land purchase contracts, generally through cash deposits, for the right to purchase land or lots at a future point in time with predetermined terms. We do not have title to the property, and obligations with respect to the land purchase contracts are generally limited to the forfeiture of the related nonrefundable cash deposits. The following is a summary of our land purchase deposits included in pre-acquisition costs and deposits (in thousands, except for lot count):

	September 30, 2021	December 31, 2020
Land deposits and option payments	\$ 46,324	\$ 34,097
Commitments under the land purchase contracts if the purchases are consummated	\$ 1,047,124	\$ 663,006
Lots under land purchase contracts	43,338	26,236

As of September 30, 2021 and December 31, 2020, approximately \$25.1 million and \$24.0 million, respectively, of the land deposits are related to purchase contracts to deliver finished lots that are refundable under certain circumstances, such as feasibility or specific performance, and secured by mortgages or letters of credit or guaranteed by the seller or its affiliates.

Lease Obligations

We recognize lease obligations and associated right-of-use (“ROU”) assets for our existing non-cancelable leases. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. We have non-cancelable operating leases primarily associated with our corporate and regional office facilities. Operating lease expense is recognized on a straight-line basis over the lease term, subject to any changes in the lease or expectations regarding the terms. Variable lease costs such as common area costs and property taxes are expensed as incurred. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The lease term may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets, as included in other assets on the consolidated balance sheets, were \$4.6 million and \$4.9 million at September 30, 2021 and December 31, 2020, respectively. Lease obligations, as included in accrued expenses and other liabilities on the consolidated balance sheets, were \$4.8 million and \$5.3 million at September 30, 2021 and December 31, 2020, respectively.

Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$0.5 million and \$0.4 million for the three months ended September 30, 2021 and 2020, respectively. Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$1.3 million and \$1.2 million for the nine months ended September 30, 2021 and 2020, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating leases during the nine months ended September 30, 2021 and 2020 was \$1.2 million and \$0.7 million, respectively. As of September 30, 2021, the weighted-average discount rate was 5.20% and our weighted-average remaining life was 4.3 years. We do not have any significant lease contracts that have not yet commenced at September 30, 2021.

The table below shows the future minimum payments under non-cancelable operating leases at September 30, 2021 (in thousands):

Year Ending December 31,	Operating leases	
2021	\$	346
2022		1,218
2023		1,061
2024		818
2025		698
Thereafter		1,664
Total		5,805
Lease amount representing interest		(961)
Present value of lease liabilities	\$	4,844

Bonding and Letters of Credit

We have outstanding letters of credit and performance and surety bonds totaling \$199.7 million (including \$8.3 million of letters of credit issued under the Credit Agreement) and \$143.8 million at September 30, 2021 and December 31, 2020, respectively, related to our obligations for site improvements at various projects. Management does not believe that draws upon the letters of credit, surety bonds or financial guarantees if any, will have a material effect on our consolidated financial position, results of operations or cash flows.

Investment in Unconsolidated Entities

In 2019, we became a limited partner in a real estate investment fund with a maximum \$30.0 million commitment. The term of the commitment is eight years and includes renewals of up to two additional years. Additionally, during the nine months ended September 30, 2021, we entered into a joint venture with a mortgage lender. As of September 30, 2021 and December 31, 2020, we have a total of \$5.3 million and \$3.9 million, respectively, within other assets on the balance sheet relating to our investment in this real estate investment fund and this mortgage joint venture. Contributions into the unconsolidated entities are for the use of investing in certain real estate transactions and residential mortgage services, respectively.

13. SEGMENT INFORMATION

We operate one principal homebuilding business that is organized and reports by division. We have seven operating segments (our Central, Midwest, Southeast, Mid-Atlantic, Northwest, West, and Florida divisions) that we aggregate into five qualifying reportable segments at September 30, 2021: our Central, Southeast, Northwest, West, and Florida divisions. These segments reflect the way the Company evaluates its business performance and manages its operations. The Central division is our largest division and comprised approximately 41.1% and 35.4% of total home sales revenues for the nine months ended September 30, 2021 and 2020, respectively.

In accordance with ASC 280, *Segment Reporting*, operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-makers (“CODMs”) in deciding how to allocate resources and in assessing performance. The CODMs primarily evaluate performance based on the number of homes closed, gross margin and average sales price per home closed.

In determining the most appropriate reportable segments, we consider operating segments’ economic and other characteristics, including home floor plans, average selling prices, gross margin percentage, geographical proximity, production construction processes, suppliers, subcontractors, regulatory environments, customer type and underlying demand and supply. Each operating segment follows the same accounting policies and is managed by our management team. We have no inter-segment sales, as all sales are to external customers. Operating results for each segment may not be indicative of the results for such segment had it been an independent, stand-alone entity for the periods presented.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues:				
Central	\$ 287,878	\$ 186,909	\$ 924,591	\$ 520,608
Southeast	146,166	130,131	442,431	347,155
Northwest	148,515	91,138	372,903	249,455
West	90,592	62,935	252,553	182,012
Florida	78,457	63,089	256,595	171,301
Total home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531
Net income (loss) before income taxes:				
Central	\$ 55,793	\$ 32,845	\$ 180,467	\$ 86,694
Southeast	27,142	17,280	77,644	42,063
Northwest	34,124	15,940	83,773	40,945
West	13,279	6,883	38,598	19,101
Florida	11,937	6,608	37,518	17,001
Corporate ⁽¹⁾	(15,281)	(1,741)	(18,609)	(4,503)
Total net income before income taxes	\$ 126,994	\$ 77,815	\$ 399,391	\$ 201,301

- (1) The Corporate balance consists primarily of general and administration unallocated costs for various shared service functions, as well as our warranty reserve and loss on extinguishment of debt. Actual warranty expenses are reflected within the reportable segments.

	September 30, 2021	December 31, 2020
Assets:		
Central	\$ 808,278	\$ 708,087
Southeast	410,024	401,725
Northwest	317,866	252,098
West	335,046	228,186
Florida	193,009	157,169
Corporate ⁽¹⁾	89,334	78,822
Total assets	\$ 2,153,557	\$ 1,826,087

- (1) The Corporate balance consists primarily of cash, prepaid insurance, ROU assets, prepaid expenses and income tax receivables related to the federal energy efficient homes tax credit.

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

For purposes of this Management’s Discussion and Analysis of Financial Condition and Results of Operation, references to “we,” “our,” “us” or similar terms refer to LGI Homes, Inc. and its subsidiaries.

Business Overview

We are engaged in the design, construction and sale of new homes in the following markets:

West	Northwest	Central	Midwest	Florida	Southeast	Mid-Atlantic
Phoenix, AZ	Seattle, WA	Houston, TX	Minneapolis, MN	Tampa, FL	Atlanta, GA	Washington, D.C.
Tucson, AZ	Portland, OR	Dallas Ft. Worth, TX		Orlando, FL	Charlotte, NC	Norfolk, VA
Albuquerque, NM	Denver, CO	San Antonio, TX		Fort Myers, FL	Raleigh, NC	Richmond, VA
Las Vegas, NV		Austin, TX		Jacksonville, FL	Wilmington, NC	Baltimore, MD
Northern CA		Oklahoma City, OK		Fort Pierce, FL	Winston-Salem, NC	
Southern CA				Daytona Beach, FL	Columbia, SC	
				Sarasota, FL	Greenville, SC	
					Birmingham, AL	
					Nashville, TN	

Our management team has been in the residential land development business since the mid-1990s. Since commencing home building operations in 2003, we have constructed and closed over 50,000 homes. During the nine months ended September 30, 2021, we had 7,916 home closings, compared to 5,931 home closings during the nine months ended September 30, 2020.

We sell homes under the LGI Homes and Terrata Homes brands. Our 103 active communities at September 30, 2021 included three Terrata Homes communities.

During the three months ended September 30, 2021, we recorded \$101.6 million in wholesale revenues as a result of 433 home closings, representing 17.3% of the total homes closed during the three months ended September 30, 2021. During the three months ended September 30, 2020, we recorded \$19.0 million in wholesale revenues as a result of 92 home closings, representing 4.4% of the total homes closed during the three months ended September 30, 2020. During the nine months ended September 30, 2021, we recorded \$258.6 million in wholesale revenues as a result of 1,146 home closings, representing 14.5% of the total homes closed during the nine months ended September 30, 2021. During the nine months ended September 30, 2020, we recorded \$101.4 million in wholesale revenues as a result of 490 home closings, representing 8.3% of the total homes closed during the nine months ended September 30, 2020. We believe our wholesale home closings provide opportunities for us to leverage our systems and processes to meet the needs of companies looking to acquire multiple homes for rental purposes, primarily through bulk sales agreements.

COVID-19 and COVID-19 Variants

Demand for our homes is dependent on a variety of macroeconomic factors, such as employment levels, interest rates, changes in stock market valuations, consumer confidence, housing demand, availability of financing for home buyers, availability and prices of new homes compared to existing inventory, and demographic trends. These factors, and in particular consumer confidence, can be significantly adversely affected by a variety of factors beyond our control. The spread of COVID-19 and COVID-19 variants (hereinafter collectively referred to as “COVID-19”) has caused significant volatility in U.S. and international debt and equity markets, which can negatively impact consumer confidence.

In response to COVID-19, we continue to take steps to prioritize the health and safety of our employees, customers, subcontractors and suppliers, including expanded safety policies and practices based on Center for Disease Control guidelines to reduce the spread of COVID-19.

We cannot predict the full impact that the significant disruption and volatility currently being experienced in the markets will have on our business, cash flows, liquidity, financial condition and results of operations at this time, due to numerous uncertainties. For additional discussion regarding our operations and COVID-19, see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II our Annual Report on Form 10-K for the fiscal year ended

December 31, 2020. The ultimate impacts of COVID-19 and related mitigation efforts will depend on future developments, including, but not limited to, the duration and geographic spread of COVID-19, the emergence of more infectious strains of the virus, the impact of government actions designed to prevent the spread of COVID-19 or the decrease in such actions and resulting increased business and social activities, the availability and timely distribution of, and willingness to accept, effective treatments and vaccines, vaccine hesitancy, actions taken by customers, subcontractors, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume. For additional discussion regarding risks associated with the COVID-19 pandemic, see Item 1A. Risk Factors in Part I our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Additionally, during the three months ended September 30, 2021, significant supply chain disruptions extended construction cycles across our markets. While we have carefully managed our supply chain to limit impacts to our business and customers, we believe these global shortages are directly related to COVID-19 and will continue to impact our operations as long as the pandemic persists. Although we expect COVID-19 to continue to influence our future results, we believe that the desire for single-family homes outside of densely populated urban areas combined with historically low mortgage rates and low availability of existing homes is driving an increase in demand for new homes.

Key Results

Key financial results as of and for the three months ended September 30, 2021, as compared to the three months ended September 30, 2020, were as follows:

- Home sales revenues increased 40.7% to \$751.6 million from \$534.2 million.
- Homes closed increased 19.5% to 2,499 homes from 2,091 homes.
- Average sales price per home closed increased 17.7% to \$300,764 from \$255,477.
- Gross margin as a percentage of home sales revenues increased to 26.9% from 25.3%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues increased to 28.2% from 27.3%.
- Net income before income taxes increased 63.2% to \$127.0 million from \$77.8 million.
- Net income increased 13.0% to \$100.6 million from \$89.0 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues increased to 18.1% from 16.3%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues increased to 19.7% from 16.5%.

For reconciliations of the non-GAAP financial measures of adjusted gross margin, EBITDA and adjusted EBITDA to the most directly comparable GAAP financial measures, please see “[—Non-GAAP Measures.](#)”

Key financial results as of and for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020, were as follows:

- Home sales revenues increased 52.9% to \$2.2 billion from \$1.5 billion.
- Homes closed increased 33.5% to 7,916 homes from 5,931 homes.
- Average sales price per home closed increased 14.6% to \$284,117 from \$247,940.
- Gross margin as a percentage of home sales revenues increased to 27.0% from 24.5%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues increased to 28.4% from 26.5%.
- Net income before income taxes increased 98.4% to \$399.4 million from \$201.3 million.
- Net income increased 69.8% to \$318.3 million from \$187.5 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues increased to 19.1% from 15.5%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues increased to 19.6% from 15.6%.

For reconciliations of the non-GAAP financial measures of adjusted gross margin, EBITDA and adjusted EBITDA to the most directly comparable GAAP financial measures, please see “[—Non-GAAP Measures.](#)”

We owned and controlled 87,512 lots at September 30, 2021 as compared to 75,910 lots at June 30, 2021 and 61,504 lots at December 31, 2020.

Results of Operations

The following table sets forth our results of operations for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(dollars in thousands, except per share data and average home sales price)				
Statement of Income Data:				
Home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531
Expenses:				
Cost of sales	549,319	398,971	1,642,756	1,110,763
Selling expenses	39,871	35,470	127,450	98,193
General and administrative	24,480	22,320	72,479	62,422
Operating income	137,938	77,441	406,388	199,153
Loss on extinguishment of debt	13,314	—	13,976	—
Other income, net	(2,370)	(374)	(6,979)	(2,148)
Net income before income taxes	126,994	77,815	399,391	201,301
Income tax provision	26,444	(11,189)	81,049	13,834
Net income	\$ 100,550	\$ 89,004	\$ 318,342	\$ 187,467
Basic earnings per share	\$ 4.10	\$ 3.55	\$ 12.85	\$ 7.45
Diluted earnings per share	\$ 4.05	\$ 3.52	\$ 12.72	\$ 7.40
Other Financial and Operating Data:				
Average community count	102.7	109.3	104.7	111.3
Community count at end of period	103	110	103	110
Home closings	2,499	2,091	7,916	5,931
Average sales price per home closed	\$ 300,764	\$ 255,477	\$ 284,117	\$ 247,940
Gross margin ⁽¹⁾	\$ 202,289	\$ 135,231	\$ 606,317	\$ 359,768
Gross margin % ⁽²⁾	26.9 %	25.3 %	27.0 %	24.5 %
Adjusted gross margin ⁽³⁾	\$ 211,844	\$ 145,791	\$ 639,245	\$ 389,817
Adjusted gross margin % ⁽²⁾⁽³⁾	28.2 %	27.3 %	28.4 %	26.5 %
EBITDA ⁽⁴⁾	\$ 135,892	\$ 87,171	\$ 429,941	\$ 228,588
EBITDA margin % ⁽²⁾⁽⁴⁾	18.1 %	16.3 %	19.1 %	15.5 %
Adjusted EBITDA ⁽⁴⁾	\$ 147,788	\$ 88,193	\$ 440,148	\$ 229,711
Adjusted EBITDA margin % ⁽²⁾⁽⁴⁾	19.7 %	16.5 %	19.6 %	15.6 %

(1) Gross margin is home sales revenues less cost of sales.

(2) Calculated as a percentage of home sales revenues.

(3) Adjusted gross margin is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted gross margin as gross margin less capitalized interest and adjustments resulting from the application of purchase accounting included in the cost of sales. Our management believes this information is useful because it isolates the impact that capitalized interest and purchase accounting adjustments have on gross margin. However, because adjusted gross margin information excludes capitalized interest and purchase accounting adjustments, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance. Please see “[—Non-GAAP Measures](#)” for a reconciliation of adjusted gross margin to gross margin, which is the GAAP financial measure that our management believes to be most directly comparable.

(4) EBITDA and adjusted EBITDA are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. We define EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and

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

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

Homes Sales. Our home sales revenues, home closings, average sales price per home closed (ASP), average community count, average monthly absorption rate and closing community count by reportable segment for the three months ended September 30, 2021 and 2020 were as follows (revenues in thousands):

	Three Months Ended September 30, 2021					As of September 30, 2021
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	Community Count at End of Period
Central	\$ 287,878	1,072	\$ 268,543	34.7	10.3	33
Southeast	146,166	551	265,274	24.0	7.7	26
Northwest	148,515	325	456,969	12.3	8.8	12
West	90,592	248	365,290	12.7	6.5	13
Florida	78,457	303	258,934	19.0	5.3	19
Total	\$ 751,608	2,499	\$ 300,764	102.7	8.1	103

	Three Months Ended September 30, 2020					As of September 30, 2020
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	Community Count at End of Period
Central	\$ 186,909	812	\$ 230,183	33.3	8.1	35
Southeast	130,131	550	236,602	33.7	5.4	31
Northwest	91,138	229	397,983	11.7	6.5	13
West	62,935	220	286,068	12.7	5.8	12
Florida	63,089	280	225,318	18.0	5.2	19
Total	\$ 534,202	2,091	\$ 255,477	109.3	6.4	110

Home sales revenues for the three months ended September 30, 2021 were \$751.6 million, an increase of \$217.4 million, or 40.7%, from \$534.2 million for the three months ended September 30, 2020. The increase in home sales revenues is primarily due to a 19.5% increase in homes closed and an increase in the average sales price per home closed during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020. The average sales price per home closed during the three months ended September 30, 2021 was \$300,764, an increase of \$45,287, or 17.7%, from the average sales price per home closed of \$255,477 for the three months ended September 30, 2020. This increase in the average sales price per home closed is primarily due to increased closings at higher price points in certain markets and a favorable pricing environment, partially offset by additional wholesale home closings. The overall increase in home closings was largely due to a strong demand environment leading to higher average monthly absorption rates within certain markets in all reportable segments during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020. Our community count at September 30, 2021 decreased to 103 from 110 at September 30, 2020. The decrease in community count is due to close out of or transition between certain active communities for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Home sales revenues in our Central reportable segment increased by \$101.0 million, or 54.0%, during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, primarily due to an 32.0% increase in the number of homes closed, increased average community count at a higher absorption rate and an increase in the average sales price per home closed. Home sales revenues in our Southeast reportable segment increased by \$16.0 million, or 12.3%, primarily due to higher average sales price per home closed, as well as continued expansion into certain Mid-Atlantic geographic markets, partially offset by the close out of active communities. Home sales revenues in our Northwest reportable segment increased by \$57.4 million, or 63.0%, primarily due to increased demand and an increase in the number of homes closed, increased average community count at a higher absorption rate and an increase in the average sales price per home closed for the three months ended September 30, 2021. Home sales revenues in our West reportable segment increased by \$27.7 million, or 43.9%, during the three months ended September 30, 2021 as compared to the three months ended September 30,

2020, primarily due to a 27.7% increase in average sales price per home closed, and the close out of or transition between, and to a lesser extent available inventory in, certain active communities for the three months ended September 30, 2021. Home sales revenues in our Florida reportable segment increased by \$15.4 million, or 24.4%, largely due to an increase in the number of homes closed resulting from an increase in the average sales price per home closed, increased average community count and a higher absorption rate for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the three months ended September 30, 2021 to \$549.3 million, an increase of \$150.3 million, or 37.7%, from \$399.0 million for the three months ended September 30, 2020, primarily due to the increase in homes closed and increased construction costs. Gross margin for the three months ended September 30, 2021 was \$202.3 million, an increase of \$67.1 million, or 49.6%, from \$135.2 million for the three months ended September 30, 2020. Gross margin as a percentage of home sales revenues was 26.9% for the three months ended September 30, 2021 and 25.3% for the three months ended September 30, 2020. This increase in gross margin as a percentage of home sales revenues was primarily due to raising prices higher than increases in input costs for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Selling Expenses. Selling expenses for the three months ended September 30, 2021 were \$39.9 million, an increase of \$4.4 million, or 12.4%, from \$35.5 million for the three months ended September 30, 2020. Sales commissions increased to \$28.0 million for the three months ended September 30, 2021 from \$20.7 million for the three months ended September 30, 2020, primarily due to a 40.7% increase in home sales revenues during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020. Selling expenses as a percentage of home sales revenues were 5.3% and 6.6% for the three months ended September 30, 2021 and 2020, respectively. The decrease in selling expenses as a percentage of home sales revenues reflects operating leverage realized from the increase in home sales revenues during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

General and Administrative. General and administrative expenses for the three months ended September 30, 2021 were \$24.5 million, an increase of \$2.2 million, or 9.7%, from \$22.3 million for the three months ended September 30, 2020. The increase in the amount of general and administrative expenses is primarily due to timing of personnel and related costs during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020. General and administrative expenses as a percentage of home sales revenues were 3.3% and 4.2% for the three months ended September 30, 2021 and 2020, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects operating leverage realized from the increase in home sales revenues during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Loss on Extinguishment of Debt. Loss on extinguishment of debt for the three months ended September 30, 2021 was \$13.3 million, due to the redemption premium associated with our 6.875% Senior Notes due 2026 (the "2026 Senior Notes"), as well as debt issuance costs and discount previously capitalized that were associated with our 2026 Senior Notes. There was no loss on extinguishment of debt for the three months ended September 30, 2020.

Other Income. Other income, net of other expenses was \$2.4 million for the three months ended September 30, 2021, an increase of \$2.0 million from \$0.4 million for the three months ended September 30, 2020. The increase in other income primarily reflects the gain realized from the sale of lots not directly associated with our core homebuilding operations.

Operating Income and Net Income before Income Taxes. Operating income for the three months ended September 30, 2021 was \$137.9 million, an increase of \$60.5 million, or 78.1%, from \$77.4 million for the three months ended September 30, 2020. Net income before income taxes for the three months ended September 30, 2021 was \$127.0 million, an increase of \$49.2 million, or 63.2%, from \$77.8 million for the three months ended September 30, 2020. All reportable segments contributed to net income before income taxes during the three months ended September 30, 2021 as follows: Central - \$55.8 million or 43.9%; Southeast - \$27.1 million or 21.4%; Northwest - \$34.1 million or 26.9%; West - \$13.3 million or 10.5%; and Florida - \$11.9 million or 9.4%. The increases in operating income and net income before income taxes are primarily attributed to higher gross margins, operating leverage realized from the increase in home sales revenues and higher average sales price per home closed during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Income Taxes. Income tax provision for the three months ended September 30, 2021 was \$26.4 million, an increase of \$37.6 million, or 336.3%, from income tax benefit of \$11.2 million for the three months ended September 30, 2020. The increase in the amount of income tax provision is primarily due to the retroactive federal energy efficient homes tax credits recognized during the three months ended September 30, 2020 and the 63.2% increase in net income before taxes, partially offset by tax benefits relating to the federal energy efficient homes tax credits we recognized during the three months ended September 30, 2021.

Net Income. Net income for the three months ended September 30, 2021 was \$100.6 million, an increase of \$11.5 million, or 13.0%, from \$89.0 million for the three months ended September 30, 2020. The increase in net income is primarily attributed to higher gross margins, operating leverage realized from the increase in home sales revenues and higher average sales price per

home closed recognized during the three months ended September 30, 2021 as compared to the three months ended September 30, 2020.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

Homes Sales. Our home sales revenues, home closings, average sales price per home closed (ASP), average community count and average monthly absorption rate by reportable segment for the nine months ended September 30, 2021 and 2020 were as follows (revenues in thousands):

Nine Months Ended September 30, 2021						
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	
Central	\$ 924,591	3,547	\$ 260,668	36.7	10.7	
Southeast	442,431	1,731	255,593	25.8	7.5	
Northwest	372,903	876	425,688	11.1	8.8	
West	252,553	729	346,438	11.3	7.1	
Florida	256,595	1,033	248,398	19.8	5.8	
Total	<u>\$ 2,249,073</u>	<u>7,916</u>	<u>\$ 284,117</u>	<u>104.7</u>	<u>8.4</u>	

Nine Months Ended September 30, 2020						
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	
Central	\$ 520,608	2,300	\$ 226,351	33.8	7.6	
Southeast	347,155	1,512	229,600	34.0	4.9	
Northwest	249,455	655	380,847	11.8	6.2	
West	182,012	692	263,023	14.2	5.4	
Florida	171,301	772	221,892	17.6	4.9	
Total	<u>\$ 1,470,531</u>	<u>5,931</u>	<u>\$ 247,940</u>	<u>111.3</u>	<u>5.9</u>	

Home sales revenues for the nine months ended September 30, 2021 were \$2.2 billion, an increase of \$778.5 million, or 52.9%, from \$1.5 billion for the nine months ended September 30, 2020. The increase in home sales revenues is primarily due to a 33.5% increase in homes closed and an increase in the average sales price per home closed during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. The average sales price per home closed during the nine months ended September 30, 2021 was \$284,117, an increase of \$36,177, or 14.6%, from the average sales price per home closed of \$247,940 for the nine months ended September 30, 2020. This increase in the average sales price per home closed was primarily due to higher price points in certain markets, partially offset by additional wholesale home closings. The overall increase in home closings was primarily driven by strong demand in all reportable segments during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. The overall decrease in average community count relates to timing associated with the opening, close out or transition between certain active communities during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Home sales revenues in our Central reportable segment increased by \$404.0 million, or 77.6%, during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to a 54.2% increase in the number of homes closed at a higher average sales price per home closed and increased average community count at a higher absorption rate in this reportable segment. Home sales revenues in our Southeast reportable segment increased by \$95.3 million, or 27.4%, during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to higher average sales price per home closed and improved absorption rate associated with increased closings in certain markets in North Carolina and South Carolina, partially offset by lower community count during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. Home sales revenues in our Northwest reportable segment increased by \$123.4 million, or 49.5%, during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to a 33.7% increase in the number of homes closed in this reportable segment, as a result of increased demand during the nine months ended September 30, 2021. Home sales revenues in our West reportable segment increased by \$70.5 million, or 38.8%, during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, primarily due to higher average sales price per home closed and improved absorption rate associated with increased demand in certain markets in this reportable segment, partially offset by lower average community count. Home sales revenues in our Florida reportable segment increased by \$85.3 million, or 49.8%, largely due to

an increase of 11.9% in the average sales price per home closed as a result of strong demand and complemented by increased average community count at an improved absorption rate during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales increased for the nine months ended September 30, 2021 to \$1.6 billion, an increase of \$532.0 million, or 47.9%, from \$1.1 billion for the nine months ended September 30, 2020. This overall increase is primarily due to a 33.5% increase in homes closed, higher construction costs and product mix. As a percentage of home sales revenues, cost of sales decreased as a result of the increase in home sales revenues, lower capitalized interest and lower overhead, partially offset by higher lot costs during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. Gross margin for the nine months ended September 30, 2021 was \$606.3 million, an increase of \$246.5 million, or 68.5%, from \$359.8 million for the nine months ended September 30, 2020. Gross margin as a percentage of home sales revenues was 27.0% for the nine months ended September 30, 2021 and 24.5% for the nine months ended September 30, 2020. This increase in gross margin as a percentage of home sales revenues was primarily due to raising prices higher than increases in input costs for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Selling Expenses. Selling expenses for the nine months ended September 30, 2021 were \$127.5 million, an increase of \$29.3 million, or 29.8%, from \$98.2 million for the nine months ended September 30, 2020. Sales commissions increased to \$84.7 million for the nine months ended September 30, 2021 from \$55.2 million for the nine months ended September 30, 2020, partially due to a 52.9% increase in home sales revenues during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. Selling expenses as a percentage of home sales revenues were 5.7% and 6.7% for the nine months ended September 30, 2021 and 2020, respectively. The decrease in selling expenses as a percentage of home sales revenues was driven primarily by operating leverage obtained from the increase in home sales revenues and to a lesser extent lower advertising expenses during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

General and Administrative. General and administrative expenses for the nine months ended September 30, 2021 were \$72.5 million, an increase of \$10.1 million, or 16.1%, from \$62.4 million for the nine months ended September 30, 2020. The increase in the amount of general and administrative expenses is primarily due to timing of compensation during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. General and administrative expenses as a percentage of home sales revenues were 3.2% and 4.2% for the nine months ended September 30, 2021 and 2020, respectively. The decrease in general and administrative expenses as a percentage of home sales revenues reflects operating leverage realized from the increase in home sales revenues during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Loss on Extinguishment of Debt. Loss on extinguishment of debt for the nine months ended September 30, 2021 was \$14.0 million, primarily due to the redemption premium associated with our 2026 Senior Notes, as well as debt issuance costs and discount previously capitalized that were associated with our 2026 Senior Notes and debt issuance costs previously capitalized that were associated with our 2020 Credit Agreement. There was no loss on extinguishment of debt for the nine months ended September 30, 2020.

Other Income. Other income, net of other expenses was \$7.0 million for the nine months ended September 30, 2021, an increase of \$4.8 million from \$2.1 million for the nine months ended September 30, 2020. The increase in other income primarily reflects the gain realized from the sale of lots and land not directly associated with our core homebuilding operations.

Operating Income and Net Income before Income Taxes. Operating income for the nine months ended September 30, 2021 was \$406.4 million, an increase of \$207.2 million, or 104.1%, from \$199.2 million for the nine months ended September 30, 2020. Net income before income taxes for the nine months ended September 30, 2021 was \$399.4 million, an increase of \$198.1 million, or 98.4%, from \$201.3 million for the nine months ended September 30, 2020. All reportable segments contributed to net income before income taxes during the nine months ended September 30, 2021 as follows: Central - \$180.5 million or 45.2%; Southeast - \$77.6 million or 19.4%; Northwest - \$83.8 million or 21.0%; West - \$38.6 million or 9.7%; and Florida - \$37.5 million or 9.4%. The increases in operating income and net income before income taxes are primarily attributed to operating leverage realized from the increase in home sales revenues and higher average sales price per home closed during the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Income Taxes. Income tax provision for the nine months ended September 30, 2021 was \$81.0 million, an increase of \$67.2 million, or 485.9%, from income tax provision of \$13.8 million for the nine months ended September 30, 2020. The increase in the amount of income tax provision is primarily due to the retroactive tax benefits relating to the federal energy efficient homes tax credits we recognized during the nine months ended September 30, 2020 and the 98.4% increase in net income before taxes, which resulted in an increase in our effective tax rate for the nine months ended September 30, 2021 to 20.3% from 6.9% for the nine months ended September 30, 2020.

Net Income. Net income for the nine months ended September 30, 2021 was \$318.3 million, an increase of \$130.9 million, or 69.8%, from \$187.5 million for the nine months ended September 30, 2020. The increase in net income is primarily attributed to operating leverage realized from the increase in home sales revenues and higher average sales price per home closed, partially offset by tax benefits relating to the federal energy efficient homes tax credits we recognized during the nine months ended September 30, 2020.

Non-GAAP Measures

In addition to the results reported in accordance with accounting principles generally accepted in the United States (“GAAP”), we have provided information in this Quarterly Report on Form 10-Q relating to adjusted gross margin, EBITDA and adjusted EBITDA, adjusted net income and adjusted earnings per share.

Adjusted Gross Margin

Adjusted gross margin is a non-GAAP financial measure used by management as a supplemental measure in evaluating operating performance. We define adjusted gross margin as gross margin less capitalized interest and adjustments resulting from the application of purchase accounting included in the cost of sales. Our management believes this information is useful because it isolates the impact that capitalized interest and purchase accounting adjustments have on gross margin. However, because adjusted gross margin information excludes capitalized interest and purchase accounting adjustments, which have real economic effects and could impact our results, the utility of adjusted gross margin information as a measure of our operating performance may be limited. In addition, other companies may not calculate adjusted gross margin information in the same manner that we do. Accordingly, adjusted gross margin information should be considered only as a supplement to gross margin information as a measure of our performance.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Home sales revenues	\$ 751,608	\$ 534,202	\$ 2,249,073	\$ 1,470,531
Cost of sales	549,319	398,971	1,642,756	1,110,763
Gross margin	202,289	135,231	606,317	359,768
Capitalized interest charged to cost of sales	8,603	9,164	29,718	26,778
Purchase accounting adjustments ⁽¹⁾	952	1,396	3,210	3,271
Adjusted gross margin	\$ 211,844	\$ 145,791	\$ 639,245	\$ 389,817
Gross margin % ⁽²⁾	26.9 %	25.3 %	27.0 %	24.5 %
Adjusted gross margin % ⁽²⁾	28.2 %	27.3 %	28.4 %	26.5 %

(1) Adjustments result from the application of purchase accounting for acquisitions and represent the amount of the fair value step-up adjustments included in cost of sales for real estate inventory sold after the acquisition dates.

(2) Calculated as a percentage of home sales revenues.

EBITDA and Adjusted EBITDA

EBITDA and adjusted EBITDA are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. We define EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization and (iv) capitalized interest charged to the cost of sales. We define adjusted EBITDA as net income before (i) interest expense, (ii) income taxes, (iii) depreciation and amortization, (iv) capitalized interest charged to the cost of sales, (v) loss on extinguishment of debt, (vi) other income, net and (vii) adjustments resulting from the application of purchase accounting included in cost of sales. Our management believes that the presentation of EBITDA and adjusted EBITDA provides useful information to investors regarding our results of operations because it assists both investors and management in analyzing and benchmarking the performance and value of our business. EBITDA and adjusted EBITDA provide indicators of general economic performance that are not affected by fluctuations in interest rates or effective tax rates, levels of depreciation or amortization and items considered to be unusual or non-recurring. Accordingly, our management believes that these measures are useful for comparing general operating performance from period to period. Other companies may define these measures differently and, as a result, our measures of EBITDA and adjusted EBITDA may not be directly comparable to the measures of other companies. Although we use EBITDA and adjusted EBITDA as financial measures to assess the performance of our business, the use of these measures is limited because they do not include certain material costs, such as interest and taxes, necessary to operate our business. EBITDA and adjusted EBITDA should be considered in addition

to, and not as a substitute for, net income in accordance with GAAP as a measure of performance. Our presentation of EBITDA and adjusted EBITDA should not be construed as an indication that our future results will be unaffected by unusual or non-recurring items. Our use of EBITDA and adjusted EBITDA is limited as an analytical tool, and you should not consider these measures in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- (i) they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments, including for purchase of land;
- (ii) they do not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- (iii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced or require improvements in the future, and EBITDA and adjusted EBITDA do not reflect any cash requirements for such replacements or improvements;
- (iv) they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- (v) they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations; and
- (vi) other companies in our industry may calculate them differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, our EBITDA and adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. We compensate for these limitations by using our EBITDA and adjusted EBITDA along with other comparative tools, together with GAAP measures, to assist in the evaluation of operating performance. These GAAP measures include operating income, net income and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments and other non-recurring charges, which are not reflected in our EBITDA or adjusted EBITDA. EBITDA and adjusted EBITDA are not intended as alternatives to net income as indicators of our operating performance, as alternatives to any other measure of performance in conformity with GAAP or as alternatives to cash flows as a measure of liquidity. You should therefore not place undue reliance on our EBITDA or adjusted EBITDA calculated using these measures.

The following table reconciles EBITDA and adjusted EBITDA to net income, which is the GAAP measure that our management believes to be most directly comparable (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 100,550	\$ 89,004	\$ 318,342	\$ 187,467
Income tax provision (benefit)	26,444	(11,189)	81,049	13,834
Depreciation and amortization	295	192	832	509
Capitalized interest charged to cost of sales	8,603	9,164	29,718	26,778
EBITDA	135,892	87,171	429,941	228,588
Purchase accounting adjustments ⁽¹⁾	952	1,396	3,210	3,271
Loss on extinguishment of debt	13,314	—	13,976	—
Other income, net	(2,370)	(374)	(6,979)	(2,148)
Adjusted EBITDA	<u>\$ 147,788</u>	<u>\$ 88,193</u>	<u>\$ 440,148</u>	<u>\$ 229,711</u>
EBITDA margin % ⁽²⁾	18.1 %	16.3 %	19.1 %	15.5 %
Adjusted EBITDA margin % ⁽²⁾	19.7 %	16.5 %	19.6 %	15.6 %

(1) Adjustments result from the application of purchase accounting for acquisitions and represent the amount of the fair value step-up adjustments included in cost of sales for real estate inventory sold after the acquisition dates.

(2) Calculated as a percentage of home sales revenues.

Adjusted Net Income and Adjusted Earnings per Share

Adjusted net income and adjusted earnings per share are non-GAAP financial measures used by management as supplemental measures in evaluating operating performance. We define adjusted net income as net income less the retroactive federal energy efficient homes tax credits. We define adjusted earnings per share as adjusted net income divided by weighted average shares outstanding. Our management believes that the presentation of adjusted net income and adjusted earnings per share provides useful information to investors because such measures isolate the impact that material retroactive tax

adjustments have on net income and earnings per share. However, because adjusted net income and adjusted earnings per share information excludes the retroactive federal energy efficient homes tax credits, which have real economic effects and could impact our results, the utility of adjusted net income and adjusted earnings per share as measures of our operating performance may be limited. In addition, other companies may not calculate adjusted net income and adjusted earnings per share in the same manner that we do. Accordingly, adjusted net income and adjusted earnings per share information should be considered only as a supplement to net income and earnings per share information as measures of our performance.

The following table reconciles adjusted net income and adjusted earnings per share to net income and earnings per share, respectively, which are the GAAP measures that our management believes to be most directly comparable (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Numerator (in thousands):				
Net income (Numerator for basic and diluted earnings per share)	\$ 100,550	\$ 89,004	\$ 318,342	\$ 187,467
Retroactive federal energy efficient homes tax credits	—	27,141	—	26,595
Adjusted net income (Numerator for adjusted basic and diluted earnings per share)	\$ 100,550	\$ 61,863	\$ 318,342	\$ 160,872
Denominator:				
Basic weighted average shares outstanding	24,508,134	25,089,424	24,766,260	25,162,162
Effect of dilutive securities:				
Stock-based compensation units	316,186	167,629	263,901	166,393
Diluted weighted average shares outstanding	24,824,320	25,257,053	25,030,161	25,328,555
Basic earnings per share	\$ 4.10	\$ 3.55	\$ 12.85	\$ 7.45
Diluted earnings per share	\$ 4.05	\$ 3.52	\$ 12.72	\$ 7.40
Adjusted basic earnings per share	\$ 4.10	\$ 2.47	\$ 12.85	\$ 6.39
Adjusted diluted earnings per share	\$ 4.05	\$ 2.45	\$ 12.72	\$ 6.35

Backlog

We sell our homes under standard purchase contracts, which generally require a homebuyer to pay a deposit at the time of signing the purchase contract. The amount of the required deposit is minimal (typically \$1,000 to \$5,000). We permit our retail homebuyers to cancel the purchase contract and obtain a refund of their deposit in the event mortgage financing cannot be obtained within a certain period of time, as specified in their purchase contract. Typically, our retail homebuyers provide documentation regarding their ability to obtain mortgage financing within 14 days after the purchase contract is signed. If we determine that the homebuyer is not qualified to obtain mortgage financing or is not otherwise financially able to purchase the home, we will terminate the purchase contract. If a purchase contract has not been cancelled or terminated within 14 days after the purchase contract has been signed, then the homebuyer has met the preliminary criteria to obtain mortgage financing. Only purchase contracts that are signed by homebuyers who have met the preliminary criteria to obtain mortgage financing are included in new (gross) orders.

Our “backlog” consists of homes that are under a purchase contract that has been signed by homebuyers who have met the preliminary criteria to obtain mortgage financing but have not yet closed and wholesale contracts for which vertical construction is generally set to occur within the next six to twelve months. Since our business model is generally based on building move-in ready homes before a purchase contract is signed, the majority of our homes in backlog are currently under construction or complete. Ending backlog represents the number of homes in backlog from the previous period plus the number of net orders (new orders for homes less cancellations) generated during the current period minus the number of homes closed during the current period. Our backlog at any given time will be affected by cancellations, the number of our active communities and the timing of home closings. Homes in backlog are generally closed within one to two months, although home

closings have been, and may continue to be, delayed during the COVID-19 pandemic. In addition, we may experience cancellations of purchase contracts at any time prior to closing. It is important to note that net orders, backlog and cancellation metrics are operational, rather than accounting data, and should be used only as a general gauge to evaluate performance. Backlog may be impacted by customer cancellations for various reasons that are beyond our control, and in light of our minimal required deposit, there is little negative impact to the potential homebuyer from the cancellation of the purchase contract.

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

Backlog Data	Nine Months Ended September 30,	
	2021 ⁽⁴⁾	2020 ⁽⁵⁾
Net orders ⁽¹⁾	8,044	8,278
Cancellation rate ⁽²⁾	18.8 %	20.6 %
Ending backlog – homes ⁽³⁾	3,090	3,580
Ending backlog – value ⁽³⁾	\$ 959,786	\$ 932,664

- (1) Net orders are new (gross) orders for the purchase of homes during the period, less cancellations of existing purchase contracts during the period.
- (2) Cancellation rate for a period is the total number of purchase contracts cancelled during the period divided by the total new (gross) orders for the purchase of homes during the period.
- (3) Ending backlog consists of retail homes at the end of the period that are under a purchase contract that has been signed by homebuyers who have met our preliminary financing criteria but have not yet closed and wholesale contracts for which vertical construction is generally set to occur within the next six to twelve months. Ending backlog is valued at the contract amount.
- (4) As of September 30, 2021, we had 563 units related to bulk sales agreements associated with our wholesale business.
- (5) As of September 30, 2020, we had 821 units related to bulk sales agreements associated with our wholesale business.

Land Acquisition Policies and Development

We had 103 and 116 active communities as of September 30, 2021 and December 31, 2020, respectively. The overall decrease in community count is seen as transitory, primarily due to the close out of active communities and to a lesser extent available finished lots in certain active markets. Generally, it takes us two to three years to turn raw or undeveloped land into an active community.

Our lot inventory increased to 87,512 owned or controlled lots as of September 30, 2021 from 61,504 owned or controlled lots as of December 31, 2020 due to an overall increased lot count within all reportable segments.

The table below shows (i) home closings by reportable segment for the nine months ended September 30, 2021 and (ii) our owned or controlled lots by reportable segment as of September 30, 2021.

Reportable Segment	Nine Months Ended September 30, 2021	As of September 30, 2021		
	Home Closings	Owned ⁽¹⁾	Controlled	Total
Central	3,547	19,034	17,506	36,540
Southeast	1,731	12,291	9,037	21,328
Northwest	876	4,055	5,626	9,681
West	729	5,634	5,958	11,592
Florida	1,033	3,160	5,211	8,371
Total	7,916	44,174	43,338	87,512

- (1) Of the 44,174 owned lots as of September 30, 2021, 32,250 were raw/under development lots and 11,924 were finished lots.

Homes in Inventory

When entering a new community, we build a sufficient number of move-in ready homes to meet our budgets. We base future home starts on home closings. As homes are closed, we start more homes to maintain our inventory. As of September 30, 2021, we had a total of 568 completed homes, including information centers, and 4,014 homes in progress.

Raw Materials and Labor

When constructing homes, we use various materials and components. We generally contract for our materials and labor at a fixed price for the anticipated construction period of our homes. This allows us to mitigate the risks associated with increases in building materials and labor costs between the time construction begins on a home and the time it is closed. Typically, the raw materials and most of the components used in our business are readily available in the United States. In addition, the majority of our raw materials is supplied to us by our subcontractors, and is included in the price of our contract with such subcontractors. Most of the raw materials necessary for our subcontractors are standard items carried by major suppliers. Substantially all of our construction work is done by third-party subcontractors, most of whom are non-unionized. We continue to monitor the supply markets to achieve the best prices available. Typically, the price changes that most significantly influence our operations are price increases in labor, commodities and lumber. We could see additional cost pressures associated with lumber in future quarters. Generally, we have been able to increase the sales prices of our homes to absorb these increased costs.

Seasonality

In all of our reportable segments, we have historically experienced similar variability in our results of operations and in capital requirements from quarter to quarter due to the seasonal nature of the homebuilding industry. We generally close more homes in our second, third and fourth quarters. Thus, our revenues may fluctuate on a quarterly basis and we may have higher capital requirements in our second, third and fourth quarters in order to maintain our inventory levels. Our revenues and capital requirements are generally similar across our second, third and fourth quarters.

As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular quarter, especially the first quarter, are not necessarily representative of the results we expect at year end. We expect this seasonal pattern to continue in the long term.

Liquidity and Capital Resources

Overview

As of September 30, 2021, we had \$46.7 million of cash and cash equivalents. Cash flows for each of our active communities depend on the status of the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, land development, plats, vertical development, construction of information centers, general landscaping and other amenities. Because these costs are a component of our inventory and are not recognized in our statement of operations until a home closes, we incur significant cash outflows prior to recognition of home sales revenues. In the later stages of an active community, cash inflows may exceed home sales revenues reported for financial statement purposes, as the costs associated with home and land construction were previously incurred.

Our principal uses of capital are operating expenses, land and lot purchases, lot development, home construction, interest costs on our indebtedness and the payment of various liabilities. In addition, we may purchase land, lots, homes under construction or other assets as part of an acquisition.

We generally rely on our ability to finance our operations by generating operating cash flows, borrowing under the Credit Agreement (as defined below) or the issuance and sale of shares of our common stock. As needed, we will consider accessing the debt and equity capital markets as part of our ongoing financing strategy. We also rely on our ability to obtain performance, payment and completion surety bonds as well as letters of credit to finance our projects.

As of the date of this Quarterly Report on Form 10-Q, we believe that we will be able to fund our current and foreseeable liquidity needs for at least the next twelve months with our cash on hand, cash generated from operations and cash expected to be available from the Credit Agreement or through accessing debt or equity capital, as needed. However, with the uncertainty surrounding COVID-19, our ability to engage in the transactions described above may be constrained by volatile or tight economic, capital, credit and financial market conditions, as well as moderated investor or lender interest or capacity and our liquidity, leverage and net worth, and we can provide no assurance as to successfully completing, the costs of, or the operational limitations arising from any one or series of such transactions.

Revolving Credit Facility

On April 28, 2021, we entered into that certain Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Credit Agreement"), which amends and

restates that certain Fourth Amended and Restated Credit Agreement, dated as of May 6, 2019 (as amended, the “2020 Credit Agreement”). The Credit Agreement (a) increases the commitments to \$850.0 million, (b) allows the Company to increase the commitments by up to \$100.0 million, subject to terms and conditions, (c) extends the maturity to April 28, 2025 for all lenders, (d) increases the sublimit for letters of credit to \$50.0 million, (e) adds unrestricted cash in excess of \$10.0 million as a component of the borrowing base and removes certain exclusions from the borrowing base, (f) reduces the applicable margin for LIBOR loans to a range of 1.45% to 2.10%, based on our leverage ratio, (g) reduces the LIBOR floor to 0.50%, (h) increases the minimum tangible net worth requirement to \$850.0 million plus 75% of the net proceeds of equity issuances after December 31, 2020 and 50% of consolidated earnings for each quarter ending after March 31, 2021 and (i) provides for a “hardwired” transition from LIBOR loan pricing that is intended to be economically neutral to the Company; otherwise, the Credit Agreement is on substantially the same terms as the 2020 Credit Agreement.

The Credit Agreement matures on April 28, 2025. Before each anniversary of the Credit Agreement, we may request a one-year extension of its maturity date. The Credit Agreement is guaranteed by each of our subsidiaries that have gross assets of at least \$0.5 million. The borrowings and letters of credit outstanding under the Credit Agreement, together with the outstanding principal balance of our 4.000% Senior Notes due 2029 (the “2029 Senior Notes”), may not exceed the borrowing base under the Credit Agreement. As of September 30, 2021, the borrowing base under the Credit Agreement was \$1.1 billion, of which borrowings, including the 2029 Senior Notes, of \$679.0 million were outstanding, \$8.3 million of letters of credit were outstanding and \$459.6 million was available to borrow under the Credit Agreement.

Interest is paid monthly on borrowings at LIBOR plus 1.45%. The Credit Agreement applicable margin for LIBOR loans ranges from 1.45% to 2.10% based on our leverage ratio. At September 30, 2021, LIBOR was 0.08%; however, the Credit Agreement has a 0.50% LIBOR floor.

The Credit Agreement requires us to maintain (i) a tangible net worth of not less than \$850.0 million plus 75% of the net proceeds of all equity issuances after December 31, 2020 plus 50.0% of the amount of our positive net income in each fiscal quarter ending after March 31, 2021, (ii) a leverage ratio of not greater than 60.0%, (iii) liquidity of at least \$50.0 million and (iv) a ratio of EBITDA to interest expense for the most recent four quarters of at least 1.75 to 1.00. The Credit Agreement contains various covenants that, among other restrictions, limit the amount of our additional debt and our ability to make certain investments. At September 30, 2021, we were in compliance with all of the covenants contained in the Credit Agreement.

Senior Notes Offerings

On June 28, 2021, we issued \$300.0 million aggregate principal amount of the 2029 Senior Notes in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A (“Rule 144A”) under the Securities Act of 1933, as amended (the “Securities Act”), and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S (“Regulation S”) under the Securities Act. Interest on the 2029 Senior Notes accrues at a rate of 4.000% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2022, and the 2029 Senior Notes mature on July 15, 2029. Terms of the 2029 Senior Notes are governed by an Indenture, dated as of July 6, 2018, and Third Supplemental Indenture thereto, dated as of June 28, 2021, as may be supplemented from time to time, among us, our subsidiaries that guarantee our obligations under the Credit Agreement and Wilmington Trust, National Association, as trustee.

On July 6, 2018, we issued \$300.0 million aggregate principal amount of the 2026 Senior Notes in an offering to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A and to certain non-U.S. persons in transactions outside the United States pursuant to Regulation S. On July 15, 2021, we redeemed all of the outstanding 2026 Senior Notes, which resulted in the principal payment of \$300.0 million and a redemption premium of \$10.3 million. Additionally, we expensed \$3.0 million of deferred financing costs and discounts that were being previously amortized in association with the 2026 Senior Notes. We financed the redemption of the 2026 Senior Notes with a portion of the net proceeds from the offering of the 2029 Senior Notes, together with cash on hand.

Letters of Credit, Surety Bonds and Financial Guarantees

We are often required to provide letters of credit and surety bonds to secure our performance under construction contracts, development agreements and other arrangements. The amount of such obligations outstanding at any time varies in accordance with our pending development activities. In the event any such bonds or letters of credit are drawn upon, we would be obligated to reimburse the issuer of such bonds or letters of credit.

Under these letters of credit, surety bonds and financial guarantees, we are committed to perform certain development and construction activities and provide certain guarantees in the normal course of business. Outstanding letters of credit, surety bonds and financial guarantees under these arrangements, totaled \$199.7 million as of September 30, 2021. Although significant development and construction activities have been completed related to the improvements at these sites, the letters of credit and surety bonds are not generally released until all development and construction activities are completed. We do not

believe that it is probable that any outstanding letters of credit, surety bonds or financial guarantees as of September 30, 2021 will be drawn upon.

Stock Repurchase Program

In November 2018, we announced that our Board of Directors (the “Board”) authorized a stock repurchase program, pursuant to which we may purchase up to \$50.0 million of shares of our common stock through open market transactions, privately negotiated transactions or otherwise in accordance with applicable laws. In October 2020, the Board approved an increase in our stock repurchase program by an additional \$300.0 million. During the three months ended September 30, 2021, we repurchased 358,817 shares of our common stock for \$56.1 million to be held as treasury stock. During the nine months ended September 30, 2021, we repurchased 910,038 shares of our common stock for \$137.7 million to be held as treasury stock. A total of 1,668,031 shares of our common stock has been repurchased since our stock repurchase program commenced. As of September 30, 2021, we may purchase up to \$162.7 million of shares of our common stock under our stock repurchase program. The timing, amount and other terms and conditions of any repurchases of shares of our common stock under our stock repurchase program will be determined by our management at its discretion based on a variety of factors, including the market price of our common stock, corporate considerations, general market and economic conditions and legal requirements. Our stock repurchase program may be modified, discontinued or suspended at any time.

Cash Flows

Operating Activities

Net cash provided by operating activities was \$101.1 million for the nine months ended September 30, 2021. The primary drivers of operating cash flows are typically cash earnings and changes in inventory levels, including land acquisition and development. Net cash provided by operating activities during the nine months ended September 30, 2021 was primarily driven by net income of \$318.3 million, and included cash outflow from the \$286.6 million increase in the net change in real estate inventory, which was primarily related to our homes under construction and land acquisitions and development level of activity and increases of \$66.8 million and \$20.6 million in the net change in accounts receivable and accounts payable, respectively.

Net cash provided by operating activities was \$113.0 million for the nine months ended September 30, 2020. The primary drivers of operating cash flows are typically cash earnings and changes in inventory levels, including land acquisition and development. Net cash provided by operating activities during the nine months ended September 30, 2020 was primarily driven by net income of \$187.5 million, and included cash outflow from the \$48.8 million increase in the net change in real estate inventory, which was primarily related to our homes under construction and land acquisitions and development level of activity in addition to changes in non-inventory balances of \$25.7 million.

Investing Activities

Net cash used in investing activities was \$69.8 million for the nine months ended September 30, 2021, primarily due to the payment for business acquisitions, additional investment in unconsolidated entities and purchase of property and equipment.

Net cash used in investing activities was \$2.3 million for the nine months ended September 30, 2020, primarily due to the additional investment in an unconsolidated entity and purchase of property and equipment.

Financing Activities

Net cash used in financing activities was \$20.5 million for the nine months ended September 30, 2021, primarily driven by \$944.0 million of payments on the 2026 Senior Notes, the 2020 Credit Agreement and the Credit Agreement and by the \$137.7 million payment for shares of our common stock repurchased under our stock repurchase program to be held as treasury stock, offset by \$1.1 billion related to the proceeds received for the 2029 Senior Notes, and borrowings under the 2020 Credit Agreement and the Credit Agreement.

Net cash used in financing activities was \$102.7 million for the nine months ended September 30, 2020, primarily driven by \$275.0 million of payments on the 2020 Credit Agreement and by the \$31.3 million payment for shares of our common stock repurchased under our stock repurchase program to be held as treasury stock, offset by borrowings of \$203.1 million under the 2020 Credit Agreement.

Off-Balance Sheet Arrangements

In the ordinary course of business, we enter into land purchase contracts in order to procure land and lots for the construction of our homes. We are subject to customary obligations associated with entering into contracts for the purchase of land and improved lots. These contracts typically require cash deposits and the purchase of properties under these contracts is generally contingent upon satisfaction of certain requirements by the sellers, which may include obtaining applicable property and development entitlements or the completion of development activities and the delivery of finished lots. We also utilize contracts with land sellers as a method of acquiring lots and land in staged takedowns, which helps us manage the financial and

market risk associated with land holdings and minimize the use of funds from our corporate financing sources. Such contracts generally require a non-refundable deposit for the right to acquire land or lots over a specified period of time at pre-determined prices. We generally have the right at our discretion to terminate our obligations under purchase contracts during the initial feasibility period and receive a refund of our deposit, or we may terminate the contracts after the end of the feasibility period by forfeiting our cash deposit with no further financial obligations to the land seller. In addition, our deposit may also be refundable if the land seller does not satisfy all conditions precedent in the respective contract. As of September 30, 2021, we had \$46.3 million of cash deposits pertaining to land purchase contracts for 43,338 lots with an aggregate purchase price of \$1.0 billion. Approximately \$25.1 million of the cash deposits as of September 30, 2021 are secured by third-party guarantees or indemnity mortgages on the related property.

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

Inflation

Our business can be adversely impacted by inflation, primarily from higher land, financing, labor, material and construction costs. In addition, inflation can lead to higher mortgage rates, which can significantly affect the affordability of mortgage financing to homebuyers. During the nine months ended September 30, 2021, we have experienced a significant increase in land, labor, materials and construction costs, which we currently expect to continue for the fourth quarter of 2021 and into 2022. Generally, we have been able to increase the sales prices of our homes to absorb such increased costs.

Contractual Obligations

As of September 30, 2021, there have been no material changes to our contractual obligations appearing in the “Contractual Obligations” section of *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2020.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. On an ongoing basis, management evaluates such estimates and judgments and makes adjustments as deemed necessary. Actual results could differ from these estimates using different estimates and assumptions, or if conditions are significantly different in the future.

We believe that there have been no significant changes to our critical accounting policies during the nine months ended September 30, 2021 as compared to those disclosed in *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2020.

Cautionary Statement about Forward-Looking Statements

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “objective,” “plan,” “potential,” “predict,” “projection,” “should,” “will” or other similar words.

We have based our forward-looking statements on our management’s beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may, and often do, vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- the impact of the COVID-19 pandemic and its effect on us, our business, customers, subcontractors and suppliers, and the markets in which we operate, U.S. and world financial markets, mortgage availability, potential regulatory actions, changes in customer and stakeholder behaviors and impacts on and modifications to our operations, business and financial condition relating to COVID-19;
- adverse economic changes either nationally or in the markets in which we operate, including, among other things, potential impacts from political uncertainty, civil unrest, increases in unemployment, volatility of mortgage interest rates and inflation and decreases in housing prices;
- a slowdown in the homebuilding industry or changes in population growth rates in our markets;
- volatility and uncertainty in the credit markets and broader financial markets;
- disruption in the terms or availability of mortgage financing or increase in the number of foreclosures in our markets;
- the cyclical and seasonal nature of our business;
- our future operating results and financial condition;
- our business operations;
- changes in our business and investment strategy;
- the success of our operations in recently opened new markets and our ability to expand into additional new markets;
- our ability to successfully extend our business model to building homes with higher price points, developing larger communities and producing and selling multi-unit products, townhouses, wholesale products, and acreage home sites;
- our ability to develop our projects successfully or within expected timeframes;
- our ability to identify potential acquisition targets, close such acquisitions and realize the benefits of such acquisitions;
- our ability to successfully integrate any acquisitions with our existing operations;
- availability of land to acquire and our ability to acquire such land on favorable terms or at all;
- availability, terms and deployment of capital and ability to meet our ongoing liquidity needs;
- decisions of the Credit Agreement lender group;
- decline in the market value of our land portfolio;
- shortages of or increased prices for labor, land, or raw materials used in land development and housing construction, including due to changes in trade policies;
- delays in land development or home construction resulting from natural disasters, adverse weather conditions or other events outside our control;
- uninsured losses in excess of insurance limits;
- the cost and availability of insurance and surety bonds;
- changes in (including as a result of the change in the U.S. presidential administration), liabilities under, or the failure or inability to comply with, governmental laws and regulations, including environmental laws and regulations;
- the timing of receipt of regulatory approvals and the opening of projects;
- the degree and nature of our competition;
- increases in taxes or government fees;
- our continued ability to qualify for additional federal energy efficient homes tax credits and the extension of the availability of such tax credits beyond December 31, 2021;
- negative publicity or poor relations with the residents of our projects;
- existing and future litigation, arbitration or other claims;
- availability of qualified personnel and third-party contractors and subcontractors;
- information system failures, cyber incidents or breaches in security;
- our ability to retain our key personnel;
- our leverage and future debt service obligations;
- the impact on our business of any future government shutdown;
- other risks and uncertainties inherent in our business;
- other factors we discuss under the section entitled "[Management's Discussion and Analysis of Financial Condition and Results of Operations](#)"; and

- the risk factors set forth in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2020.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. We expressly disclaim any intent, obligation or undertaking to update or revise any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our operations are interest rate sensitive. As overall housing demand is adversely affected by increases in interest rates, a significant increase in mortgage interest rates may negatively affect the ability of homebuyers to secure adequate financing. Higher interest rates could adversely affect our revenues, gross margin and net income.

Quantitative and Qualitative Disclosures About Interest Rate Risk

We utilize both fixed-rate debt (\$300.0 million aggregate principal amount of the 2029 Senior Notes and certain inventory related obligations) and variable-rate debt (our \$850.0 million Credit Agreement) as part of financing our operations. We do not have the obligation to prepay the 2029 Senior Notes or our fixed-rate inventory related obligations prior to maturity, and, as a result, interest rate risk and changes in fair market value should not have a significant impact on our fixed-rate debt.

We are exposed to market risks related to fluctuations in interest rates on our outstanding variable rate indebtedness. In November 2020, we entered into a three-year interest rate cap of LIBOR of 0.70% to hedge a portion of our Credit Agreement risk exposure and future variable cash flows associated with LIBOR interest rates. We have not entered into and currently do not hold derivatives for trading or speculative purposes, but we may do so in the future. Many of the statements contained in this section are forward looking and should be read in conjunction with our disclosures under the heading "[Cautionary Statement about Forward-Looking Statements](#)" above.

As of September 30, 2021, we had \$379.0 million of variable rate indebtedness outstanding under the Credit Agreement. All of the outstanding borrowings under the Credit Agreement are at variable rates based on LIBOR. The interest rate for our variable rate indebtedness as of September 30, 2021 was LIBOR plus 1.45%. At September 30, 2021, LIBOR was 0.08%, subject to the 0.50% LIBOR floor as included in the Credit Agreement. A hypothetical 100 basis point increase in the average interest rate above the LIBOR floor on our variable rate indebtedness would increase our annual interest cost by approximately \$3.8 million.

Based on the current interest rate management policies we have in place with respect to our outstanding indebtedness, we do not believe that the future interest rate risks related to our existing indebtedness will have a material adverse impact on our financial position, results of operations or liquidity.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure information is recorded, processed, summarized and reported within the periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management’s override of controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Controls

No change in our internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) occurred during the three months ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**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 fiscal year ended December 31, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the repurchase of shares of our common stock during the three months ended September 30, 2021.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (in thousands)
July 1-31, 2021	—	\$ —	—	\$ 218,809
August 1-31, 2021	194,948	\$ 156.89	194,948	\$ 188,223
September 1-30, 2021	163,869	\$ 155.59	163,869	\$ 162,726
	358,817	\$ 156.30	358,817	

- (1) In November 2018, our Board of Directors (the “Board”) authorized a stock repurchase program, pursuant to which we may purchase up to \$50.0 million of shares of our common stock through open market transactions, privately negotiated transactions or otherwise in accordance with applicable laws. On October 30, 2020, the Board approved an increase in our stock repurchase program by an additional \$300.0 million of shares of our common stock. The timing, amount and other terms and conditions of any repurchases of shares of our common stock under our stock repurchase program will be determined by our management at its discretion based on a variety of factors, including the market price of our common stock, corporate considerations, general market and economic conditions and legal requirements. Our stock repurchase program may be modified, discontinued or suspended at any time.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3.1**	Certificate of Incorporation of LGI Homes, Inc. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (File No. 33-190853) of LGI Homes, Inc. filed with the SEC on August 28, 2013).
3.2**	Bylaws of LGI Homes, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-190853) of LGI Homes, Inc. filed with the SEC on August 28, 2013).
31.1*	CEO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS†	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH†	Inline XBRL Taxonomy Extension Schema Document.
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104†	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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* Filed herewith.

** Previously filed.

† XBRL information is deemed not filed or a part of a registration statement or Annual Report for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under such sections.

SIGNATURES

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

LGI Homes, Inc.

Date: November 2, 2021

/s/ Eric Lipar

Eric Lipar

Chief Executive Officer and Chairman of the Board

November 2, 2021

/s/ Charles Merdian

Charles Merdian

Chief Financial Officer and Treasurer

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

I, Eric Lipar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LGI Homes, Inc. (the "Registrant");
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of 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.

By:

/s/ Eric Lipar

Eric Lipar

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

Date: November 2, 2021

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

I, Charles Merdian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LGI Homes, Inc. (the "Registrant");
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of 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.

By:

/s/ Charles Merdian

Charles Merdian

Chief Financial Officer and Treasurer

LGI Homes, Inc.

Date: November 2, 2021

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LGI Homes, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Lipar, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 2, 2021

/s/ Eric Lipar

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

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LGI Homes, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Merdian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 2, 2021

/s/ Charles Merdian

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