

**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, 2022

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, The Woodlands, Texas
(Address of principal executive offices)

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 28, 2022, there were 23,290,286 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,	December 31,
	2022	2021
ASSETS		
Cash and cash equivalents	\$ 52,660	\$ 50,514
Accounts receivable	37,450	57,909
Real estate inventory	2,871,900	2,085,904
Pre-acquisition costs and deposits	32,109	40,702
Property and equipment, net	26,051	16,944
Other assets	72,976	81,676
Deferred tax assets, net	7,636	6,198
Goodwill	12,018	12,018
Total assets	<u>\$ 3,112,800</u>	<u>\$ 2,351,865</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 55,242	\$ 14,172
Accrued expenses and other liabilities	220,476	136,609
Notes payable	1,230,101	805,236
Total liabilities	<u>1,505,819</u>	<u>956,017</u>
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, par value \$0.01, 250,000,000 shares authorized, 27,229,758 shares issued and 23,290,286 shares outstanding as of September 30, 2022 and 26,963,915 shares issued and 23,917,359 shares outstanding as of December 31, 2021	272	269
Additional paid-in capital	305,357	291,577
Retained earnings	1,656,374	1,363,922
Treasury stock, at cost, 3,939,472 shares and 3,046,556 shares, respectively	<u>(355,022)</u>	<u>(259,920)</u>
Total equity	<u>1,606,981</u>	<u>1,395,848</u>
Total liabilities and equity	<u>\$ 3,112,800</u>	<u>\$ 2,351,865</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,	
	2022	2021	2022	2021
Home sales revenues	\$ 547,074	\$ 751,608	\$ 1,816,193	\$ 2,249,073
Cost of sales	391,275	549,319	1,270,628	1,642,756
Selling expenses	33,938	39,871	111,605	127,450
General and administrative	27,284	24,480	84,657	72,479
Operating income	94,577	137,938	349,303	406,388
Loss on extinguishment of debt	—	13,314	—	13,976
Other income, net	(14,124)	(2,370)	(21,960)	(6,979)
Net income before income taxes	108,701	126,994	371,263	399,391
Income tax provision	18,311	26,444	78,811	81,049
Net income	\$ 90,390	\$ 100,550	\$ 292,452	\$ 318,342
Earnings per share:				
Basic	\$ 3.88	\$ 4.10	\$ 12.42	\$ 12.85
Diluted	\$ 3.85	\$ 4.05	\$ 12.29	\$ 12.72
Weighted average shares outstanding:				
Basic	23,272,811	24,508,134	23,552,211	24,766,260
Diluted	23,488,325	24,824,320	23,805,086	25,030,161

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, 2021	26,963,915	\$ 269	\$ 291,577	\$ 1,363,922	\$ (259,920)	\$ 1,395,848
Net income	—	—	—	78,686	—	78,686
Restricted stock units granted for accrued annual bonuses	—	—	294	—	—	294
Stock repurchase	—	—	—	—	(57,659)	(57,659)
Compensation expense for equity awards	—	—	3,570	—	—	3,570
Stock issued under employee incentive plans	223,980	2	2,010	—	—	2,012
BALANCE— March 31, 2022	27,187,895	\$ 271	\$ 297,451	\$ 1,442,608	\$ (317,579)	\$ 1,422,751
Net income	—	—	—	123,376	—	123,376
Stock repurchase	—	—	—	—	(37,443)	(37,443)
Compensation expense for equity awards	—	—	3,545	—	—	3,545
Stock issued under employee incentive plans	24,213	—	1,692	—	—	1,692
BALANCE— June 30, 2022	27,212,108	\$ 271	\$ 302,688	\$ 1,565,984	\$ (355,022)	\$ 1,513,921
Net income	—	—	—	90,390	—	90,390
Compensation expense for equity awards	—	—	1,516	—	—	1,516
Stock issued under employee incentive plans	17,650	1	1,153	—	—	1,154
BALANCE— September 30, 2022	27,229,758	\$ 272	\$ 305,357	\$ 1,656,374	\$ (355,022)	\$ 1,606,981

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 CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 292,452	\$ 318,342
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in income of unconsolidated entities	(3,990)	—
Distributions of earnings from unconsolidated entities	3,202	—
Depreciation and amortization	1,134	832
Loss on extinguishment of debt	—	13,976
Gain on sale of interest rate cap	(7,055)	—
Gain on disposal of assets	(2,206)	(880)
Compensation expense for equity awards	8,631	10,169
Deferred income taxes	(1,439)	(627)
Changes in assets and liabilities:		
Accounts receivable	20,459	66,768
Real estate inventory	(791,682)	(286,619)
Pre-acquisition costs and deposits	8,592	(6,328)
Other assets	27,456	(10,702)
Accounts payable	41,070	20,556
Accrued expenses and other liabilities	43,824	(24,400)
Net cash provided by (used in) operating activities	(359,552)	101,087
Cash flows from investing activities:		
Purchases of property and equipment	(1,057)	(1,641)
Investment in unconsolidated entities	(1,284)	(3,984)
Return of capital from unconsolidated entities	235	2,660
Payment for business acquisition	—	(66,864)
Net cash used in investing activities	(2,106)	(69,829)
Cash flows from financing activities:		
Proceeds from notes payable	534,876	1,076,419
Payments on notes payable	(110,000)	(944,000)
Proceeds from financing arrangements	35,858	—
Payments on financing arrangements	(4,119)	—
Redemption premium	—	(10,314)
Loan issuance costs	(2,567)	(10,572)
Proceeds from sale of stock, net of offering expenses	4,858	5,670
Stock repurchase	(95,102)	(137,686)
Net cash provided by (used in) financing activities	363,804	(20,483)
Net increase in cash and cash equivalents	2,146	10,775
Cash and cash equivalents, beginning of period	50,514	35,942
Cash and cash equivalents, end of period	\$ 52,660	\$ 46,717

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, Pennsylvania and Maryland.

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, 2021. 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, 2022, and for the three and nine months ended September 30, 2022 and 2021, 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.

Recent Accounting Pronouncements

Effective April 28, 2022, we adopted the Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) No. 2020-04, “*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*” (“ASU 2020-04”), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”) or by another reference rate expected to be discontinued because of reference rate reform. Effective April 28, 2022, we adopted FASB ASU No. 2021-01, “*Reference Rate Reform (Topic 848): Scope*” (“ASU 2021-01”), which clarified the scope and application of the original guidance. The adoption of both ASU 2020-04 and ASU 2021-01 replaced LIBOR as the benchmark interest rate with the Secured Overnight Financing Rate (“SOFR”) and did not have a material effect on our consolidated financial statements or related disclosures.

2. REAL ESTATE INVENTORY

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

	September 30, 2022	December 31, 2021
Land, land under development and finished lots	\$ 1,882,335	\$ 1,499,761
Information centers	33,417	28,665
Homes in progress	542,741	449,742
Completed homes	377,549	107,736
Total owned inventory	2,836,042	2,085,904
Real estate not owned	35,858	—
Total real estate inventory	\$ 2,871,900	\$ 2,085,904

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. 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. Inventory costs for completed homes are expensed to cost of sales as homes are closed.

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 4](#), are capitalized to qualifying real estate projects under development and homes under construction.

During the three months ended September 30, 2022, we have entered into several land banking financing arrangements with a third-party land banker to repurchase land that we sold to the land banker as a method of acquiring finished lots in staged takedowns, while limiting risk and minimizing the use of funds from our available cash or other financing sources. In consideration for this repurchase option, we paid a non-refundable commitment fee. Based on our right to control the ultimate economic outcome of these finished lots, these assets will continue to be held within our inventory and a corresponding obligation was established within our accrued liabilities as more fully discussed in [Note 3](#) to recognize this relationship. While we are not legally obligated to purchase the balance of the lots, we will be subject to certain performance obligations, financial and other penalties if the lots are not purchased. We do not have any ownership interest or title to the assets of the land banker and do not guarantee their liabilities.

3. ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30, 2022	December 31, 2021
Real estate inventory development and construction payable	\$ 68,881	\$ 48,656
Land banking financing arrangements	35,858	—
Accrued compensation, bonuses and benefits	11,792	24,914
Taxes payable	35,490	11,604
Contract deposits	12,012	12,182
Inventory related obligations	13,283	8,803
Warranty reserve	10,050	7,850
Accrued interest	6,924	7,431
Lease liability	5,402	5,333
Other	20,784	9,836
Total accrued expenses and other liabilities	<u>\$ 220,476</u>	<u>\$ 136,609</u>

Land Banking Financing Arrangements

We have entered into several land banking financing arrangements with a third-party land banker to repurchase land that we sold to the land banker as a method of acquiring finished lots in staged takedowns. Principal payments on these financing arrangements will generally coincide with the repurchase of lot takedowns from the land banker. We expect to complete the repurchase of all lots via takedowns associated with these transactions over the course of approximately two years.

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. The obligations assumed by the homebuyer 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,	
	2022	2021	2022	2021
Warranty reserves, beginning of period	\$ 9,350	\$ 6,550	\$ 7,850	\$ 5,350
Warranty provision	2,985	2,424	8,092	8,409
Warranty expenditures	(2,285)	(1,824)	(5,892)	(6,609)
Warranty reserves, end of period	<u>\$ 10,050</u>	<u>\$ 7,150</u>	<u>\$ 10,050</u>	<u>\$ 7,150</u>

4. NOTES PAYABLE

Revolving Credit Agreement

On April 29, 2022, we entered into that certain Lender Addition and Acknowledgement Agreement and Second Amendment to Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Second Amendment" and, as so amended, "the Credit Agreement"), which amended that certain Fifth Amended and Restated Credit Agreement, dated as of April 28, 2021, with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "2021 Credit Agreement"). The Second Amendment, among other things, (a) increased the commitments under the 2021 Credit Agreement by an additional \$250.0 million, bringing the total commitments under the Credit Agreement to \$1.1 billion, and (b) replaced LIBOR as the benchmark interest rate with SOFR.

Borrowings under the Credit Agreement bear interest, payable monthly in arrears, at the Company's option, at either (1) term SOFR (based on 1, 3 or 6 month interest periods, as selected by the Company) plus a 10, 15 or 25 basis point adjustment, respectively, which rate is subject to a 50 basis point floor, plus an applicable margin (ranging from 145 basis points to 210 basis points (the "Applicable Margin")) based on the Company's leverage ratio as determined in accordance with a pricing grid, and (2) term SOFR based on a 1 month interest period plus a 10 basis point adjustment, subject to a 50 basis point floor, plus the Applicable Margin.

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, among others, 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. The borrowing base primarily consists of a percentage of commercial land, land held for development, lots under development and finished lots held by the Company and its subsidiaries that guarantee the obligations under the Credit Agreement. As of September 30, 2022, the borrowing base under the Credit Agreement was \$1.4 billion, of which borrowings, including the 2029 Senior Notes, of \$1.2 billion were outstanding, \$29.8 million of letters of credit were outstanding and \$127.3 million was available to borrow under the Credit Agreement.

Interest is paid monthly on borrowings under the Credit Agreement at SOFR plus 1.85%. The Credit Agreement applicable margin for SOFR loans ranges from 1.45% to 2.10% based on our leverage ratio. At September 30, 2022, SOFR was 3.03%, subject to the 0.50% SOFR floor as included in the Credit Agreement.

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, 2022, we were in compliance with all of the covenants contained in the Credit Agreement.

Senior Notes Offering

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 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 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. The 2029 Senior Notes mature on July 15, 2029. The 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.

Notes payable consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Notes payable under the Credit Agreement (\$1.1 billion revolving credit facility at September 30, 2022) maturing on April 28, 2025; interest paid monthly at SOFR plus 1.85%.	\$ 942,316	\$ 517,439
4.000% Senior Notes due July 15, 2029; interest paid semi-annually at 4.000%.	300,000	300,000
Net debt issuance costs	(12,215)	(12,203)
Total notes payable	\$ 1,230,101	\$ 805,236

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,	
	2022	2021	2022	2021
Interest incurred	\$ 14,583	\$ 6,091	\$ 31,048	\$ 21,863
Less: Amounts capitalized	(14,583)	(6,091)	(31,048)	(21,863)
Interest expense	\$ —	\$ —	\$ —	\$ —
Cash paid for interest	\$ 14,874	\$ 11,772	\$ 29,080	\$ 26,264

Included in interest incurred was amortization of deferred financing costs and discounts for notes payable of \$0.9 million and \$0.8 million for the three months ended September 30, 2022 and 2021, respectively, and \$2.5 million and \$2.2 million for the nine months ended September 30, 2022 and 2021, respectively.

5. 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 months ended September 30, 2022, our effective tax rate of 16.8% is lower than the Federal statutory rate primarily as a result of the retroactive extension of the 45L tax credit and the deductions in excess of compensation cost for share-based payments, offset by an increase in the rate for the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, and for state income taxes, net of the federal benefit.

For the nine months ended September 30, 2022, our effective rate of 21.2% is slightly higher than the Federal statutory rate primarily as a result of an increase in the rate for the state income taxes, net of the federal benefit, and the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, offset by the retroactive extension of the 45L tax credit and the deductions in excess of compensation cost for share-based payments.

Income taxes paid were \$3.8 million and \$36.0 million for the three months ended September 30, 2022 and 2021, respectively. Income taxes paid were \$56.2 million and \$99.7 million for the nine months ended September 30, 2022 and 2021, respectively.

6. EQUITY**Stock Repurchase Program**

In February 2022, our Board of Directors (the "Board") approved a \$200.0 million increase to our previously authorized stock repurchase program, pursuant to which we may purchase up to \$550.0 million of shares of our common stock through open market transactions, privately negotiated transactions or otherwise in accordance with applicable laws. During the three months ended September 30, 2022, we did not repurchase any shares of our common stock. During the nine months ended September 30, 2022, we repurchased 892,916 shares of our common stock for \$95.1 million to be held as treasury stock. 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 2,939,472 shares of our common stock has been repurchased since our stock repurchase program commenced. As of September 30, 2022, we may purchase up to \$211.5 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.

7. 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, 2022 and 2021:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Numerator (in thousands):				
Net income (Numerator for basic and dilutive earnings per share)	\$ 90,390	\$ 100,550	\$ 292,452	\$ 318,342
Denominator:				
Basic weighted average shares outstanding	23,272,811	24,508,134	23,552,211	24,766,260
Effect of dilutive securities:				
Stock-based compensation units	215,514	316,186	252,875	263,901
Diluted weighted average shares outstanding	<u>23,488,325</u>	<u>24,824,320</u>	<u>23,805,086</u>	<u>25,030,161</u>
Basic earnings per share	\$ 3.88	\$ 4.10	\$ 12.42	\$ 12.85
Diluted earnings per share	\$ 3.85	\$ 4.05	\$ 12.29	\$ 12.72
Antidilutive non-vested restricted stock units excluded from calculation of diluted earnings per share	2,396	553	10,797	3,629

8. 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,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Beginning balance	113,782	\$ 101.42	142,738	\$ 62.54
Granted	1,664	\$ 84.39	25,124	\$ 141.96
Vested	(1,006)	\$ 79.84	(35,503)	\$ 63.23
Forfeited	(1,353)	\$ 92.64	(6,205)	\$ 73.62
Ending balance	113,087	\$ 101.47	126,154	\$ 77.61

We recognized \$0.9 million and \$0.8 million of stock-based compensation expense related to outstanding RSUs for the three months ended September 30, 2022 and 2021, respectively. We recognized \$2.8 million and \$2.5 million of stock-based compensation expense related to outstanding RSUs for the nine months ended September 30, 2022 and 2021, 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, 2022, we had unrecognized compensation cost of \$5.4 million related to unvested RSUs, which is expected to be recognized over a weighted average period of 1.9 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, 2022:

Period Granted	Performance Period	Target PSUs Outstanding at December 31, 2021	Target PSUs Granted	Target PSUs Forfeited	Target PSUs Vested	Target PSUs Outstanding at September 30, 2022	Weighted Average Grant Date Fair Value
2019	2019 - 2021	81,242	—	(767)	(80,475)	—	\$ 56.49
2020	2020 - 2022	88,538	—	(1,494)	—	87,044	\$ 59.81
2021	2021 - 2023	46,027	—	—	—	46,027	\$ 141.00
2022	2022 - 2024	—	66,909	—	—	66,909	\$ 118.80
Total		215,807	66,909	(2,261)	(80,475)	199,980	

At September 30, 2022, management estimates that the recipients will receive approximately 50%, 153% and 200% of the 2022, 2021 and 2020 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 \$0.4 million and \$2.3 million of total stock-based compensation expense related to outstanding PSUs for the three months ended September 30, 2022 and 2021, respectively. We recognized \$4.9 million and \$6.7 million of total stock-based compensation expense related to outstanding PSUs for the nine months ended September 30, 2022 and 2021, respectively. The 2019 - 2021 performance period PSUs vested and issued on March 15, 2022 at 200% of the target number. At September 30, 2022, we had unrecognized compensation cost

of \$9.0 million, based on the probable amount, related to unvested PSUs, which is expected to be recognized over a weighted average period of 1.7 years.

9. FAIR VALUE DISCLOSURES

Accounting Standards Codification (“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, 2022, 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, 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, 2022 and December 31, 2021 (in thousands):

	Fair Value Hierarchy	September 30, 2022		December 31, 2021	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2029 Senior Notes ⁽¹⁾	Level 2	\$ 300,000	\$ 226,420	\$ 300,000	\$ 299,302

(1) See [Note 4](#) for more details regarding the offering of the 2029 Senior Notes.

10. RELATED PARTY TRANSACTIONS

Land Purchases from Affiliates

We did not enter into or complete any land purchase contracts with affiliates during the nine months ended September 30, 2022.

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. Also 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.

11. 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, 2022	December 31, 2021
Land deposits and option payments ⁽¹⁾	\$ 32,266	\$ 37,499
Commitments under the land purchase contracts if the purchases are consummated ⁽¹⁾	\$ 433,934	\$ 921,345
Lots under land purchase contracts ⁽¹⁾	15,826	36,978

(1) Includes land banking financing arrangements, see [Notes 2](#) and [3](#) for more details regarding real estate not owned.

As of September 30, 2022 and December 31, 2021, approximately \$16.6 million and \$19.3 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 \$5.0 million and \$5.1 million at September 30, 2022 and December 31, 2021, respectively. Lease obligations, as included in accrued expenses and other liabilities on the consolidated balance sheets, were \$5.4 million and \$5.3 million at September 30, 2022 and December 31, 2021, respectively.

Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$0.5 million for each of the three months ended September 30, 2022 and 2021. Operating lease cost, as included in general and administrative expense in our consolidated statements of operations, was \$1.6 million and \$1.3 million for the nine months ended September 30, 2022 and 2021, respectively. Cash paid for amounts included in the measurement of lease liabilities for operating leases during the nine months ended September 30, 2022 and 2021 was \$1.3 million and \$1.2 million, respectively. As of September 30, 2022, the weighted-average discount rate was 5.3% and our weighted-average remaining life was 3.0 years. We do not have any significant lease contracts that have not yet commenced at September 30, 2022.

The table below shows the future minimum payments under non-cancelable operating leases at September 30, 2022 (in thousands):

Year Ending December 31,	Operating leases
2022	383
2023	1,438
2024	1,171
2025	936
2026	799
Thereafter	1,055
Total	5,782
Lease amount representing interest	(380)
Present value of lease liabilities	\$ 5,402

Bonding and Letters of Credit

We have outstanding letters of credit and performance and surety bonds totaling \$338.7 million (including \$29.8 million of letters of credit issued under the Credit Agreement) and \$206.8 million at September 30, 2022 and December 31, 2021, 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 entered as a limited partner into 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, in 2021, we entered into a joint venture with a mortgage lender. As of September 30, 2022 and December 31, 2021, we have a total of \$6.9 million and \$5.6 million, respectively, within other assets on the balance sheet relating to our investment in this real estate investment fund and the mortgage joint venture. Contributions into the unconsolidated entities are for the use of investing in certain real estate transactions and residential mortgage services, respectively. Income associated with our investment in unconsolidated entities during the three and nine months ended September 30, 2022, was \$2.2 million and \$4.0 million, respectively. We did not have any income recognized for our investment in unconsolidated entities during each of the three and nine months ended September 30, 2021.

12. REVENUES

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Retail home sales revenues	\$ 419,213	\$ 650,041	\$ 1,599,570	\$ 1,990,439
Wholesale home sales revenues	127,861	101,567	216,623	258,634
Total home sales revenues	\$ 547,074	\$ 751,608	\$ 1,816,193	\$ 2,249,073

Our home sales revenues are disaggregated by geography, based on our determined reportable segments. See [Note 13](#) for tabular presentation of this information.

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, 2022: our Central, Southeast, Northwest, West, and Florida divisions. These segments reflect the way the Company evaluates its business performance and manages its operations.

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,	
	2022	2021	2022	2021
Revenues:				
Central	\$ 228,448	\$ 287,878	\$ 807,400	\$ 924,591
Southeast	138,478	146,166	328,510	442,431
Northwest	46,774	148,515	220,440	372,903
West	65,064	90,592	244,603	252,553
Florida	68,310	78,457	215,240	256,595
Total home sales revenues	\$ 547,074	\$ 751,608	\$ 1,816,193	\$ 2,249,073
Net income (loss) before income taxes:				
Central	\$ 46,413	\$ 55,793	\$ 189,004	\$ 180,467
Southeast	31,593	27,142	70,358	77,644
Northwest	6,379	34,124	49,693	83,773
West	8,342	13,279	27,282	38,598
Florida	9,770	11,937	30,914	37,518
Corporate ⁽¹⁾	6,204	(15,281)	4,012	(18,609)
Total net income before income taxes	\$ 108,701	\$ 126,994	\$ 371,263	\$ 399,391

(1) The Corporate balance consists of general and administration unallocated costs for various shared service functions and non-strategic other income, as well as our warranty reserve. Actual warranty expenses are reflected within the reportable segments. Additionally, for the three and nine months ended September 30, 2022, the balance includes the \$7.1 million gain on the sale of the three-year interest rate cap of LIBOR prior to its expiration.

	September 30, 2022	December 31, 2021
Assets:		
Central	\$ 1,032,017	\$ 857,174
Southeast	632,586	438,423
Northwest	469,193	349,752
West	573,867	384,548
Florida	304,724	221,763
Corporate ⁽¹⁾	100,413	100,205
Total assets	\$ 3,112,800	\$ 2,351,865

(1) The Corporate balance consists primarily of cash, investments in unconsolidated entities and tax receivables.

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 three months ended September 30, 2022, we continued to adapt our business to respond to the slowdown in demand caused by the Federal Reserve’s ongoing actions to stem inflation. Mortgage rates during the three months ended September 30, 2022 were double what they were during the three months ended September 30, 2021, further impacting sentiment and affordability for potential buyers. As a result, many buyers have paused their home purchasing decisions. We expect that mortgage rates will remain elevated until inflation subsides. Additionally, challenges from ongoing supply chain disruptions and higher construction and development costs continued during the three months ended September 30, 2022.

We continue to combat the demand headwinds and drive continued sales through increased advertising spending to connect with more potential homebuyers. During the three months ended September 30, 2022, we began offering mortgage buy-down programs and other sales incentives to offset some of the affordability pressures resulting from higher mortgage rates. Additionally, we increased our allocation of inventory available for sale to our wholesale channel. At the same time, we are carefully evaluating our land position and we significantly reduced our owned and controlled lots during the three months ended September 30, 2022. Finally, given the current market conditions and our focus on future community count growth, during the three months ended September 30, 2022, we chose to allocate available capital to near-term land development, rather than repurchase shares of our common stock.

During the three months ended September 30, 2022, we had 1,547 home closings, compared to 2,499 home closings during the three months ended September 30, 2021. During the nine months ended September 30, 2022, we had 5,173 home closings, compared to 7,916 home closings during the nine months ended September 30, 2021. The decline in home closings for both the three and nine months ended September 30, 2022 was primarily due to our strong prior year comparable numbers, exacerbated by the momentum of higher mortgage rates experienced this year and lower average community count and absorption rates. Throughout 2022, our results were negatively impacted by longer lead times relating to materials, municipality and labor activities that increased our construction and development cycle times and slowed the timing of home closings. We expect continued cost inflation, building material shortages and longer municipality lead times to persist until global supply chain constraints ease.

At September 30, 2022, we had 93 active communities, including eleven Terrata Homes communities. At September 30, 2021, we had 103 active communities, including three Terrata Homes communities.

Demand for our homes is dependent on a variety of macroeconomic factors, such as employment levels, mortgage rates, financial market stability, 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. During the three months ended

September 30, 2022, we continued to experience significant supply chain disruptions, stemming from COVID-19 and variants thereof (collectively, “COVID-19”), that extended construction and development cycles and delayed home closings and the opening of new communities. While we endeavor to manage our supply chain to limit impacts to our business and customers, we believe these global shortages will continue to impact our operations as long as the dynamics surrounding the COVID-19 pandemic persist.

Despite the current demand environment headwinds, we believe the long-term outlook for new homes remains strong, driven by solid fundamentals, including a historically low inventory of new and existing homes for sale, an aging housing stock, rising rents, strong household formations and low unemployment. However, the housing market is currently in a state of transition and we expect affordability constraints and buyer reticence to continue to impact demand for the foreseeable future.

For additional discussion regarding our business and operations, see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. For additional discussion regarding risks associated with our business and operations, see [Item 1A. Risk Factors](#) in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and in [Item 1A. Risk Factors](#) in Part II of this Quarterly Report on Form 10-Q for the three months ended September 30, 2022.

Key Results

Key financial results as of and for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021, were as follows:

- Home sales revenues decreased 27.2% to \$547.1 million from \$751.6 million.
- Homes closed decreased 38.1% to 1,547 homes from 2,499 homes.
- Average sales price per home closed increased 17.6% to \$353,635 from \$300,764.
- Gross margin as a percentage of home sales revenues increased to 28.5% from 26.9%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues increased to 29.5% from 28.2%.
- Net income before income taxes decreased 14.4% to \$108.7 million from \$127.0 million.
- Net income decreased 10.1% to \$90.4 million from \$100.6 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues increased to 20.8% from 18.1%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues decreased to 18.4% from 19.7%.

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, 2022, as compared to the nine months ended September 30, 2021, were as follows:

- Home sales revenues decreased 19.2% to \$1.8 billion from \$2.2 billion.
- Homes closed decreased 34.7% to 5,173 homes from 7,916 homes.
- Average sales price per home closed increased 23.6% to \$351,091 from \$284,117.
- Gross margin as a percentage of home sales revenues increased to 30.0% from 27.0%.
- Adjusted gross margin (non-GAAP) as a percentage of home sales revenues increased to 31.2% from 28.4%.
- Net income before income taxes decreased 7.0% to \$371.3 million from \$399.4 million.
- Net income decreased 8.1% to \$292.5 million from \$318.3 million.
- EBITDA (non-GAAP) as a percentage of home sales revenues increased to 21.3% from 19.1%.
- Adjusted EBITDA (non-GAAP) as a percentage of home sales revenues increased to 20.4% from 19.6%.

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 76,453 lots at September 30, 2022 as compared to 89,984 lots at June 30, 2022 and 91,845 lots at December 31, 2021.

Results of Operations

The following table sets forth our results of operations for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(dollars in thousands, except per share data and average home sales price)				
Statement of Income Data:				
Home sales revenues	\$ 547,074	\$ 751,608	\$ 1,816,193	\$ 2,249,073
Expenses:				
Cost of sales	391,275	549,319	1,270,628	1,642,756
Selling expenses	33,938	39,871	111,605	127,450
General and administrative	27,284	24,480	84,657	72,479
Operating income	94,577	137,938	349,303	406,388
Loss on extinguishment of debt	—	13,314	—	13,976
Other income, net	(14,124)	(2,370)	(21,960)	(6,979)
Net income before income taxes	108,701	126,994	371,263	399,391
Income tax provision	18,311	26,444	78,811	81,049
Net income	\$ 90,390	\$ 100,550	\$ 292,452	\$ 318,342
Basic earnings per share	\$ 3.88	\$ 4.10	\$ 12.42	\$ 12.85
Diluted earnings per share	\$ 3.85	\$ 4.05	\$ 12.29	\$ 12.72
Other Financial and Operating Data:				
Average community count	93.0	102.7	91.1	104.7
Community count at end of period	93	103	93	103
Home closings	1,547	2,499	5,173	7,916
Average sales price per home closed	\$ 353,635	\$ 300,764	\$ 351,091	\$ 284,117
Gross margin ⁽¹⁾	\$ 155,799	\$ 202,289	\$ 545,565	\$ 606,317
Gross margin % ⁽²⁾	28.5 %	26.9 %	30.0 %	27.0 %
Adjusted gross margin ⁽³⁾	\$ 161,578	\$ 211,844	\$ 565,900	\$ 639,245
Adjusted gross margin % ⁽²⁾⁽³⁾	29.5 %	28.2 %	31.2 %	28.4 %
EBITDA ⁽⁴⁾	\$ 113,722	\$ 135,892	\$ 387,262	\$ 429,941
EBITDA margin % ⁽²⁾⁽⁴⁾	20.8 %	18.1 %	21.3 %	19.1 %
Adjusted EBITDA ⁽⁴⁾	\$ 100,760	\$ 147,788	\$ 370,772	\$ 440,148
Adjusted EBITDA margin % ⁽²⁾⁽⁴⁾	18.4 %	19.7 %	20.4 %	19.6 %

(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, 2022 Compared to Three Months Ended September 30, 2021

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, 2022 and 2021 were as follows (revenues in thousands):

	Three Months Ended September 30, 2022						As of September 30, 2022
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate	Community Count at End of Period	
Central	\$ 228,448	681	\$ 335,460	33.0	6.9	34	
Southeast	138,478	419	330,496	23.3	6.0	24	
Northwest	46,774	95	492,358	7.0	4.5	7	
West	65,064	155	419,768	11.0	4.7	11	
Florida	68,310	197	346,751	18.7	3.5	17	
Total	\$ 547,074	1,547	\$ 353,635	93.0	5.5	93	

	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	

Home sales revenues for the three months ended September 30, 2022 were \$547.1 million, a decrease of \$204.5 million, or 27.2%, from \$751.6 million for the three months ended September 30, 2021. The decrease in home sales revenues is primarily due to a 38.1% decrease in homes closed, partially offset by an increase in the average sales price per home closed during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. The average sales price per home closed during the three months ended September 30, 2022 was \$353,635, an increase of \$52,871, or 17.6%, from the average sales price per home closed of \$300,764 for the three months ended September 30, 2021. The increase in the average sales price per home closed in all reportable segments is primarily due to favorable pricing environments that allowed us to pass through cost increases associated with the construction of our homes. The overall decrease in home closings is a result of lower average community count and overall lower absorption pace during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. Our community count at September 30, 2022 decreased to 93 from 103 at September 30, 2021. The decrease in community count is due to the close out of or transition between certain active communities for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. The overall decrease in absorption primarily relates to the lower demand environment as a result of higher mortgage rates and increased cycle times resulting from pandemic related production disruptions.

Included within our home sales revenues for the three months ended September 30, 2022 is \$127.9 million in wholesale revenues as a result of 443 home closings, representing 28.6% of the 1,547 total homes closed during the three months ended September 30, 2022. Included within our home sales revenues for the three months ended September 30, 2021 is \$101.6 million in wholesale revenues as a result of 433 home closings, representing 17.3% of the 2,499 total homes closed during the three months ended September 30, 2021. The increase in home closings as a percentage of revenues through our wholesale channel was primarily related to allocating more inventory available for sale to the wholesale channel during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, when we limited the writing of wholesale contracts due to higher retail demand and supply chain uncertainty.

Home sales revenues in our Central reportable segment decreased by \$59.4 million, or 20.6%, during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily due to a 36.5% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Southeast reportable segment decreased by \$7.7 million, or 5.3%, during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily due to a 24.0% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Northwest reportable segment decreased by \$101.7 million, or 68.5%, during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily due to a 70.8% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our West reportable segment decreased by \$25.5 million, or 28.2%, during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, primarily due to a 37.5% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Florida reportable segment decreased by \$10.1 million, or 12.9%, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021, primarily due to a 35.0% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales decreased for the three months ended September 30, 2022 to \$391.3 million, a decrease of \$158.0 million, or 28.8%, from \$549.3 million for the three months ended September 30, 2021, primarily due to a 38.1% decrease in homes closed, offset by higher average construction costs per home closed. Gross margin for the three months ended September 30, 2022 was \$155.8 million, a decrease of \$46.5 million, or 23.0%, from \$202.3 million for the three months ended September 30, 2021. Gross margin as a percentage of home sales revenues was 28.5% for the three months ended September 30, 2022 and 26.9% for the three months ended September 30, 2021. This increase in gross margin as a percentage of home sales revenues was primarily due to raising prices higher than increases in input costs during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Selling Expenses. Selling expenses for the three months ended September 30, 2022 were \$33.9 million, a decrease of \$5.9 million, or 14.9%, from \$39.9 million for the three months ended September 30, 2021. Sales commissions decreased to \$17.9 million for the three months ended September 30, 2022 from \$28.0 million for the three months ended September 30, 2021, primarily due to a 27.2% decrease in home sales revenues during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. Selling expenses as a percentage of home sales revenues were 6.2% and 5.3% for the three months ended September 30, 2022 and 2021, respectively. The increase in selling expenses as a percentage of home sales revenues was primarily due to higher advertising and other expenses incurred during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

General and Administrative. General and administrative expenses for the three months ended September 30, 2022 were \$27.3 million, an increase of \$2.8 million, or 11.5%, from \$24.5 million for the three months ended September 30, 2021. The increase in the amount of general and administrative expenses is primarily due to costs related to the termination of land purchase agreements incurred during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. General and administrative expenses as a percentage of home sales revenues were 5.0% and 3.3% for the three months ended September 30, 2022 and 2021, respectively. The increase in general and administrative expenses as a percentage of home sales revenues is primarily due to the 27.2% decrease in homes sales revenue, increased personnel costs and terminated land purchase agreements, partially offset by reductions in other personnel associated costs, including performance based compensation, incurred during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Loss on Extinguishment of Debt. There was no loss on extinguishment of debt for the three months ended September 30, 2022. 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 for the three months ended September 30, 2021.

Other Income. Other income, net of other expenses was \$14.1 million for the three months ended September 30, 2022, an increase of \$11.8 million from \$2.4 million for the three months ended September 30, 2021. Other income, net of other expenses, primarily reflects the sale in July 2022 of the three-year interest rate cap of LIBOR prior to its expiration that resulted in \$7.1 million in other income, income associated with our investment in unconsolidated entities and gains realized from the sale of land and 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, 2022 was \$94.6 million, a decrease of \$43.4 million, or 31.4%, from \$137.9 million for the three months ended September 30, 2021. Net income before income taxes for the three months ended September 30, 2022 was \$108.7 million, a decrease of \$18.3 million, or 14.4%, from \$127.0 million for the three months ended September 30, 2021. All reportable segments contributed to net income before income taxes during the three months ended September 30, 2022 as follows: Central - \$46.4 million or 42.7%; Southeast - \$31.6 million or 29.1%; Northwest - \$6.4 million or 5.9%; West - \$8.3 million or 7.7%; and Florida - \$9.8 million or 9.0%. The overall decreases in operating income and net income before income taxes are primarily attributed to lower home closings across all reportable segments and lower average community count at a lower absorption pace, partially offset by higher gross margins and higher average sales price per home closed during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Income Taxes. Income tax provision for the three months ended September 30, 2022 was \$18.3 million, a decrease of \$8.1 million, or 30.8%, from income tax provision of \$26.4 million for the three months ended September 30, 2021. The decrease in our effective tax rate to 16.8% from 20.8% for the three months ended September 30, 2021 results from the retroactive extension of the 45L tax credit and the deductions in excess of compensation cost for share-based payments, offset by an increase in the rate for the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, and for state income taxes, net of the federal benefit.

Net Income. Net income for the three months ended September 30, 2022 was \$90.4 million, a decrease of \$10.2 million, or 10.1%, from \$100.6 million for the three months ended September 30, 2021. The decrease in net income is primarily attributed to higher gross margins and higher average sales price per home closed recognized during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

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, 2022 and 2021 were as follows (revenues in thousands):

Nine Months Ended September 30, 2022					
	Revenues	Home Closings	ASP	Average Community Count	Average Monthly Absorption Rate
Central	\$ 807,400	2,460	\$ 328,211	31.3	8.7
Southeast	328,510	1,018	322,701	21.0	5.4
Northwest	220,440	429	513,846	8.6	5.5
West	244,603	598	409,035	11.2	5.9
Florida	215,240	668	322,216	19.0	3.9
Total	\$ 1,816,193	5,173	\$ 351,091	91.1	6.3

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	\$ 2,249,073	7,916	\$ 284,117	104.7	8.4

Home sales revenues for the nine months ended September 30, 2022 were \$1.8 billion, a decrease of \$0.4 billion, or 19.2%, from \$2.2 billion for the nine months ended September 30, 2021. The decrease in home sales revenues is primarily due to a 34.7% decrease in homes closed, partially offset by an increase in the average sales price per home closed during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The average sales price per home closed during the nine months ended September 30, 2022 was \$351,091, an increase of \$66,974, or 23.6%, from the average sales price per home closed of \$284,117 for the nine months ended September 30, 2021. The increase in the average sales price per home closed in all reportable segments is primarily due to favorable pricing environments that allowed us to pass through cost increases associated with the construction of our homes. The overall decrease in home closings is a result of lower average community count and overall lower absorption pace during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. 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, 2022 as compared to the nine months ended September 30, 2021. The overall decrease in absorption relates to the normalization of demand, increased mortgage rates and increased cycle times stemming from pandemic-related production disruptions. These disruptions have caused varying degrees of supply chain constraints in the markets we serve.

Included within our home sales revenues for the nine months ended September 30, 2022 is \$216.6 million in wholesale revenues as a result of 802 home closings, representing 15.5% of the 5,173 total homes closed during the nine months ended September 30, 2022. Included within our home sales revenues for the nine months ended September 30, 2021 is \$258.6 million in wholesale revenues as a result of 1,146 home closings, representing 14.5% of the 7,916 total homes closed during the nine months ended September 30, 2021. The increase in home closings as a percentage of revenues through our wholesale channel was primarily related to allocating more inventory available for sale to the wholesale channel during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Home sales revenues in our Central reportable segment decreased by \$117.2 million, or 12.7%, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily due to a 30.6% decrease in the number of homes closed driven by a decrease in average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Southeast reportable segment decreased by \$113.9 million, or 25.7%, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily due to a 41.2% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Northwest reportable segment decreased by \$152.5 million, or 40.9%, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily due to a 51.0% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our West reportable segment decreased by \$8.0 million, or 3.1%, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, primarily due to an 18.0% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed. Home sales revenues in our Florida reportable segment decreased by \$41.4 million, or 16.1%, during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021, primarily due to a 35.3% decrease in the number of homes closed driven by a decrease in the average community count at a lower absorption rate, partially offset by an increase in the average sales price per home closed.

Cost of Sales and Gross Margin (home sales revenues less cost of sales). Cost of sales decreased for the nine months ended September 30, 2022 to \$1.3 billion, a decrease of \$0.4 billion, or 22.7%, from \$1.6 billion for the nine months ended September 30, 2021. This overall decrease is primarily due to a 34.7% decrease in homes closed, offset by increased construction costs. Gross margin for the nine months ended September 30, 2022 was \$545.6 million, a decrease of \$60.8 million, or 10.0%, from \$606.3 million for the nine months ended September 30, 2021. Gross margin as a percentage of home sales revenues was 30.0% for the nine months ended September 30, 2022 and 27.0% for the nine months ended September 30, 2021. The increase in gross margin as a percentage of home sales revenues during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily due to raising prices higher than increases in input costs.

Selling Expenses. Selling expenses for the nine months ended September 30, 2022 were \$111.6 million, a decrease of \$15.8 million, or 12.4%, from \$127.5 million for the nine months ended September 30, 2021. Sales commissions decreased to \$68.5 million for the nine months ended September 30, 2022 from \$84.7 million for the nine months ended September 30, 2021, partially due to a 19.2% decrease in home sales revenues during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. Selling expenses as a percentage of home sales revenues were 6.1% and 5.7% for the nine months ended September 30, 2022 and 2021, respectively. The slight increase in selling expenses as a percentage of home sales revenues was driven primarily by higher advertising and other expenses incurred during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

General and Administrative. General and administrative expenses for the nine months ended September 30, 2022 were \$84.7 million, an increase of \$12.2 million, or 16.8%, from \$72.5 million for the nine months ended September 30, 2021. The increase in the amount of general and administrative expenses is primarily due to increased personnel and associated costs, as well as professional fees and terminated land purchase agreements incurred during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. General and administrative expenses as a percentage of home sales revenues were 4.7% and 3.2% for the nine months ended September 30, 2022 and 2021, respectively. The increase in general and administrative expenses as a percentage of home sales revenues is primarily due to increased personnel and associated costs, as well as professional fees and terminated land purchase agreements incurred during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Loss on Extinguishment of Debt. There was no loss on extinguishment of debt for the nine months ended September 30, 2022. 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 credit agreement then in effect for the nine months ended September 30, 2021.

Other Income. Other income, net of other expenses was \$22.0 million for the nine months ended September 30, 2022, an increase of \$15.0 million from \$7.0 million for the nine months ended September 30, 2021. The increase in other income primarily reflects the sale in July 2022 of the three-year interest rate cap of LIBOR prior to its expiration that resulted in \$7.1 million in other income, income associated with our investment in unconsolidated entities and gains realized from the sale of land and lots 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, 2022 was \$349.3 million, a decrease of \$57.1 million, or 14.0%, from \$406.4 million for the nine months ended September 30,

2021. Net income before income taxes for the nine months ended September 30, 2022 was \$371.3 million, a decrease of \$28.1 million, or 7.0%, from \$399.4 million for the nine months ended September 30, 2021. The following reportable segments contributed to net income before income taxes during the nine months ended September 30, 2022 as follows: Central - \$189.0 million or 50.9%; Southeast - \$70.4 million or 19.0%; Northwest - \$49.7 million or 13.4%; West - \$27.3 million or 7.3%; and Florida - \$30.9 million or 8.3%. The decreases in operating income and net income before income taxes are primarily attributed to the decrease in home sales revenues, partially offset by higher average sales price per home closed at higher gross margins on a per home basis, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Income Taxes. Income tax provision for the nine months ended September 30, 2022 was \$78.8 million, a decrease of \$2.2 million, or 2.8%, from income tax provision of \$81.0 million for the nine months ended September 30, 2021. The decrease in the amount of income tax provision is primarily due to the tax benefits relating to the federal energy efficient homes tax credits that previously expired in 2021 and were subsequently extended for 2022. The increase in our effective tax rate to 21.2% from 20.3% results from an increase in the rate due to an increase in the rate for the state income taxes, net of the federal benefit, and the compensation limitation under Section 162(m) of the Internal Revenue Code, as amended, offset by the retroactive extension of the 45L tax credit and the deductions in excess of compensation cost for share-based payments for the nine months ended September 30, 2022.

Net Income. Net income for the nine months ended September 30, 2022 was \$292.5 million, a decrease of \$25.9 million, or 8.1%, from \$318.3 million for the nine months ended September 30, 2021. The decrease in net income is primarily attributed to overall lower homes closed across all reportable segments, offset by higher average sales price per home closed at higher gross margins on a per home basis, during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

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 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,	
	2022	2021	2022	2021
Home sales revenues	\$ 547,074	\$ 751,608	\$ 1,816,193	\$ 2,249,073
Cost of sales	391,275	549,319	1,270,628	1,642,756
Gross margin	155,799	202,289	545,565	606,317
Capitalized interest charged to cost of sales	4,617	8,603	14,865	29,718
Purchase accounting adjustments ⁽¹⁾	1,162	952	5,470	3,210
Adjusted gross margin	\$ 161,578	\$ 211,844	\$ 565,900	\$ 639,245
Gross margin % ⁽²⁾	28.5 %	26.9 %	30.0 %	27.0 %
Adjusted gross margin % ⁽²⁾	29.5 %	28.2 %	31.2 %	28.4 %

(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,	
	2022	2021	2022	2021
Net income	\$ 90,390	\$ 100,550	\$ 292,452	\$ 318,342
Income tax provision (benefit)	18,311	26,444	78,811	81,049
Depreciation and amortization	404	295	1,134	832
Capitalized interest charged to cost of sales	4,617	8,603	14,865	29,718
EBITDA	113,722	135,892	387,262	429,941
Purchase accounting adjustments ⁽¹⁾	1,162	952	5,470	3,210
Loss on extinguishment of debt	—	13,314	—	13,976
Other income, net	(14,124)	(2,370)	(21,960)	(6,979)
Adjusted EBITDA	\$ 100,760	\$ 147,788	\$ 370,772	\$ 440,148
EBITDA margin % ⁽²⁾	20.8 %	18.1 %	21.3 %	19.1 %
Adjusted EBITDA margin % ⁽²⁾	18.4 %	19.7 %	20.4 %	19.6 %

(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.

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.

Our net orders decreased for the nine month period ended September 30, 2022 compared to the same period last year primarily due to the strength of the prior year comp, our decision to write contracts later in the construction process, the availability of finished lots, longer construction cycle times and, to a lesser extent, rising mortgage rates for our homebuyers that impacted levels of demand for our homes starting in the third quarter of 2022.

The number of homes in our backlog at September 30, 2022 decreased 59.4% compared to September 30, 2021. The increase in cancellation rates generally corresponds with the rapid increase in mortgage rates for our homebuyers in the second and third quarters of 2022. We believe that, over time, our inventory levels and sales pace will return to our pre-pandemic levels as demand normalizes and mortgage rates decrease from current levels.

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,	
	2022 ⁽⁴⁾	2021 ⁽⁵⁾
Net orders ⁽¹⁾	4,373	8,044
Cancellation rate ⁽²⁾	21.0 %	18.8 %
Ending backlog – homes ⁽³⁾	1,255	3,090
Ending backlog – value ⁽³⁾	\$ 428,293	\$ 959,786

- (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, 2022, we had 591 units related to bulk sales agreements associated with our wholesale business.
- (5) As of September 30, 2021, we had 563 units related to bulk sales agreements associated with our wholesale business.

Land Acquisition Policies and Development

We had 93 and 101 active communities as of September 30, 2022 and December 31, 2021, 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. To mitigate our exposure to real estate inventory risks, we utilize, on a limited and strategic basis, land banking financing arrangements.

Our lot inventory decreased to 76,453 owned or controlled lots as of September 30, 2022 from 91,845 owned or controlled lots as of December 31, 2021, primarily related to controlled lots that were terminated during the second and third quarters of 2022 to manage our overall inventory. Additionally, throughout 2022 we have experienced intermittent delays that have lowered the lot counts and have been compounded by nationwide inflationary headwinds.

During the three months ended September 30, 2022, we have entered into several land banking financing arrangements with a third-party land banker to repurchase land that we sold to the land banker as a method of acquiring finished lots in staged takedowns, while limiting risk and minimizing the use of funds from our available cash or other financing sources. In consideration for this repurchase option, we paid a non-refundable commitment fee. Based on our right to control the ultimate economic outcome of these finished lots, these assets will continue to be held within our inventory and a corresponding obligation was established within our accrued liabilities to recognize this relationship. While we are not legally obligated to purchase the balance of the lots, we will be subject to certain performance obligations, financial and other penalties if the lots are not purchased. We do not have any ownership interest or title to the assets and do not guarantee their liabilities.

The table below shows (i) home closings by reportable segment for the nine months ended September 30, 2022 and (ii) our owned or controlled lots by reportable segment as of September 30, 2022.

Reportable Segment	Nine Months Ended September 30, 2022	As of September 30, 2022		
	Home Closings	Owned ⁽¹⁾	Controlled ⁽²⁾	Total
Central	2,460	23,326	4,512	27,838
Southeast	1,018	15,687	4,035	19,722
Northwest	429	6,814	2,162	8,976
West	598	9,698	1,960	11,658
Florida	668	5,102	3,157	8,259
Total	5,173	60,627	15,826	76,453

- (1) Of the 60,627 owned lots as of September 30, 2022, 48,516 were raw/under development lots and 12,111 were finished lots.
- (2) Of the 15,826 controlled lots as of September 30, 2022, 716 were associated with land banking financing arrangements.

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, 2022, we had a total of 1,541 completed homes, including information centers, and 2,569 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 are supplied to us by our subcontractors, and are 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 possible. Typically, the price changes that most significantly influence our operations are price increases in labor, commodities and lumber. For the nine months ended September 30, 2022, we have experienced delays and cost increases, to varying degrees, in our building materials and other construction costs. We could see additional cost pressures associated with lumber and other materials 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, 2022, we had \$52.7 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.

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 and repurchase shares of our common stock. 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.

Short-term Liquidity and Capital Resources

We generally rely on our ability to finance our operations by generating operating cash flows and borrowing under the Credit Agreement (as defined below) to adequately fund our short-term working capital obligations and to purchase land and other assets, develop lots and homes and repurchase 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 rely on our ability to obtain performance, payment and completion surety bonds as well as letters of credit to finance our projects. Furthermore, we utilize, on a limited and strategic basis, land banking financing arrangements to access short-term liquidity.

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.

Long-term Liquidity and Capital Resources

We believe that our long-term principal uses of liquidity and capital resources will be inventory related purchases concerning land, lot development, repurchase shares of our common stock, other capital expenditures, and principal and interest payments on our debt obligations maturing in 2025 and 2029. We believe that we will be able to fund our long-term liquidity needs with cash generated from operations and cash expected to be available to borrow under the Credit Agreement or through accessing debt or equity capital, as needed, although no assurance can be provided that such additional debt or equity capital will be available when needed or on terms that we find attractive. Additionally, we plan to further utilize, on a limited and strategic basis, land banking financing arrangements to maximize long-term liquidity for lot development projects where we have sufficient finished lot availability in certain markets. To the extent these sources of capital are insufficient to meet our needs, we may also conduct additional public or private offerings of our securities, refinance our indebtedness, or dispose of certain assets to fund our operating activities and capital needs.

Revolving Credit Facility

On April 29, 2022, we entered into that certain Lender Addition and Acknowledgement Agreement and Second Amendment to Fifth Amended and Restated Credit Agreement with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "Second Amendment" and, as so amended, "the Credit Agreement"), which amended that certain Fifth Amended and Restated Credit Agreement, dated as of April 28, 2021, with several financial institutions, and Wells Fargo Bank, National Association, as administrative agent (the "2021 Credit Agreement"). The Credit Agreement contains revolving commitments of \$1.1 billion, subject to a borrowing base primarily consisting of a percentage of commercial land, land held for development, lots under development and finished lots held by the Company and its subsidiaries that guarantee the obligations under the 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, among others, 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, 2022, the borrowing base under the Credit Agreement was \$1.4 billion, of which borrowings, including the 2029 Senior Notes, of \$1.2 billion were outstanding, \$29.8 million of letters of credit were outstanding and \$127.3 million was available to borrow under the Credit Agreement.

For a further description of the Credit Agreement, please refer to Note 4, "Notes Payable" to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Senior Notes Offering

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 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 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. The 2029 Senior Notes mature on July 15, 2029. The 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.

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 \$338.7 million as of September 30, 2022. 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, 2022 will be drawn upon.

Stock Repurchase Program

In February 2022, our Board of Directors (the “Board”) approved a \$200.0 million increase to our previously authorized stock repurchase program, pursuant to which we may purchase up to \$550.0 million of shares of our common stock through open market transactions, privately negotiated transactions or otherwise in accordance with applicable laws. During the three months ended September 30, 2022, we did not repurchase any shares of our common stock. During the nine months ended September 30, 2022, we repurchased 892,916 shares of our common stock for \$95.1 million to be held as treasury stock. A total of 2,939,472 shares of our common stock has been repurchased since our stock repurchase program commenced. As of September 30, 2022, we may purchase up to \$211.5 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 used in operating activities was \$359.6 million for the nine months ended September 30, 2022. The primary drivers of operating cash flows are typically cash earnings and changes in inventory levels, including land acquisition and development. Net cash used in operating activities during the nine months ended September 30, 2022 was primarily driven by cash outflow from the \$791.7 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 partially offset by net income of \$292.5 million, as well as the \$41.1 million and \$43.8 million increase in the net change in accounts payable, and accrued expenses and other liabilities, respectively.

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.

Investing Activities

Net cash used in investing activities was \$2.1 million for the nine months ended September 30, 2022, primarily due to the purchase of property and equipment and additional investment in unconsolidated entities.

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

Financing Activities

Net cash provided by financing activities was \$363.8 million for the nine months ended September 30, 2022, primarily driven by \$534.9 million of borrowings under the 2021 Credit Agreement and the Credit Agreement and \$35.9 million of proceeds related to a financing arrangement with a third-party land banker. These were partially offset by \$110.0 million of repayments on the Credit Agreement and by \$95.1 million in payments for shares of our common stock repurchased under our stock repurchase program to be held as treasury stock.

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 our credit agreement then in effect and the 2021 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 from the offering of the 2029 Senior Notes, and borrowings under our credit agreement then in effect and the 2021 Credit Agreement.

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, 2022, we have experienced a significant increase in land, labor, materials and construction costs, which we currently expect to continue for the foreseeable future. Generally, we have been able to increase the sales prices of our homes to absorb such increased costs. See “Industry and Economic Risks—Inflation could adversely affect our business and financial results” in Item 1A. Risk Factors in Part I of our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2021.

Material Cash Requirements

As of September 30, 2022, there have been no material changes to our known contractual and other obligations appearing in the “Material Cash Requirements” section of *Management’s Discussion and Analysis of Financial Condition and Results of Operations* included in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2021.

Critical Accounting Policies and 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 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 and estimates during the nine months ended September 30, 2022 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, 2021.

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:

- 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 rates, supply chain disruptions (including due to the conflict between Russia and Ukraine and the wide-ranging sanctions the United States and other countries have imposed or may further impose on Russian business sectors, financial organizations, individuals and raw materials), inflation, the possibility of recession and decreases in housing prices;
- the impact of the COVID-19 pandemic and its effect on us, our business, customers, subcontractors and suppliers (including associated supply chain disruptions), 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;
- 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, 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 2032;
- information system failures, cyber incidents or breaches in security;
- 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;
- 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](#)”;
- the risk factor set forth in [Item 1A. Risk Factors](#) in this Quarterly Report on Form 10-Q; and
- the risk factors set forth in our [Annual Report on Form 10-K](#) for the fiscal year ended December 31, 2021.

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 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 \$1.1 billion 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. In July 2022, we sold this three-year interest

rate cap prior to its expiration. 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, 2022, we had \$942.3 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 SOFR. The interest rate for our variable rate indebtedness as of September 30, 2022 was SOFR plus 1.85%. At September 30, 2022, SOFR was 3.03%, subject to the 0.50% SOFR floor as included in the Credit Agreement. A hypothetical 100 basis point increase in the average interest rate above the SOFR floor on our variable rate indebtedness would increase our annual interest cost by approximately \$9.4 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, 2022. 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, 2022 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

Except as set forth below, 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, 2021.

The housing market may continue its recent decline or decline further, and any such continuation or decline in our markets or for the homebuilding industry generally may materially and adversely affect our business and financial condition.

We cannot predict whether and to what extent the housing markets in the geographic areas in which we operate will grow, particularly if interest rates for mortgage loans, land costs, and construction costs continue to rise. The U.S. housing market remained strong throughout the COVID-19 pandemic, but began softening during the second quarter of 2022 and has

continued to decline in the third quarter of 2022 primarily due to inflationary pricing, rapidly rising interest rates for mortgage loans, and construction costs. Other factors that might impact the homebuilding industry include uncertainty in domestic and international financial, credit and consumer lending markets amid slow economic growth or recessionary conditions in various regions or industries around the world, including as a result of the COVID-19 pandemic, the conflict between Russia and Ukraine, tight lending standards and practices for mortgage loans that limit consumers' ability to qualify for mortgage financing to purchase a home, including increased minimum credit score requirements, credit risk/mortgage loan insurance premiums and/or other fees and required down payment amounts, higher home prices, more conservative appraisals, changing consumer preferences, higher loan-to-value ratios and extensive buyer income and asset documentation requirements, changes to mortgage regulations, slower rates of population growth or population decline in our markets, or Federal Reserve policy changes.

If there is limited economic growth, declines in employment and consumer income, changes in consumer behavior, including as a result of the COVID-19 pandemic, the conflict between Russia and Ukraine, and/or tightening of mortgage lending standards, practices and regulation in the geographic areas in which we operate, or if interest rates for mortgage loans or home prices continue to rise, there could likely be a corresponding adverse effect on our business, prospects, liquidity, financial condition and results of operations, including, but not limited to, the number of homes we sell, our average sales price per home closed, cancellations of home purchase contracts and the amount of revenues or profits we generate, and such effect may be material.

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).

* 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 1, 2022

/s/ Eric Lipar

Eric Lipar

Chief Executive Officer and Chairman of the Board

November 1, 2022

/s/ Charles Merdian

Charles Merdian

Chief Financial Officer and Treasurer

**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, 2022 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 1, 2022

/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, 2022 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 1, 2022

/s/ Charles Merdian

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